SB1 Markets



Macro Weekly

Week 43 2026

19/10/2026

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Last week – the economy, I

- **Global auto sales:** ***sliding down***
  - **Sales** have fallen in recent months due to a ***30% decline in*** **Chinese sales** – which are partly compensated by higher auto exports to the rest of the world. Sales in China fell further in September. **US sales** fell as well (and the short-term trend is down too), while **EMU sales** rose. **Other DMs** were up to, while **EM ex. China** reported lower sales but the region is the only that is up from 2019. US is down 2%, the world 4%, China 12% and EMU 14%, as is Sweden. **Norway *is up 30%.*** *What a crisis!*
- **Norway**
  - **Housing starts** rose to 26,000 in September, and ***the trend is up***, at least measured in numbers of homes, according to SSB's stats. **Starts in the business sector** have recovered substantially recently, in fact ***back up to a normal level!*** Starts in the **public sector** remains somewhat below par, and heads down. ***In sum, not that bad***
- **USA:** ***high inflation, mixed real data***
  - **CPI inflation** was ***0.1 pp higher than expected***, the **PPI** was ***0.7 – 1.3 pp above forecasts***, and import prices rose faster. Oil prices rose further as well, though compensated by a substantial decline in refinery spreads. The **core CPI** was up more than 0.3% m/m, and underlying growth recent months accelerated. However, the share of CPI that grows faster has declined somewhat – but not sufficiently. Services are in the lead, partly due to the 2nd round impact of higher oil prices (like airfares).
  - **The services and goods PPI** is up 6.3% y/y, and the core PPI for personal consumption is up 4.6%. Not argument for expecting lower CPI inflation.
  - **Import prices** are soaring, also ex. petroleum, up 6% y/y. Luckly, the effective tariff rate has been reduced, and prices post tariffs are up less than 3% y/y. But even that is far higher than normal!
  - **Manufacturing production** rose 0.3% in September, as expected. Production has ***almost flattened in recent months***, but the underlying trend is up. Non-durable goods are flat, while the other sectors are heading slowly up (but auto production has fallen the past 3 months.
  - **Existing home sales** trend flattish at a low level, while the inventory is on the way up again (but it is still at a low level). Prices have stalled again, not strange given the surge in mortgage rates. The 30y rate is up 130 bps to 7.5% since the start of the year. Demand for **new mortgages** are plummeting.
  - **The Fed's Beige Book** was somewhat weaker than the previous report six weeks ago. Manufacturing is still going strong. Other sectors were weaker (which other surveys have not reported). The labour market is stable, and wage inflation moderate. However, cost inflation is still a challenge. The BB report did not push the FOMC towards a hike next week. Fed speakers, Warsh included, has not signalled intentions to hike either.

Last week: the economy, II

- **EMU:** ***weak manufacturing production***
  - **Manufacturing production** has fallen slightly the past 3 months, even if surveys have turned up. Germany is the laggard, down 14% from 2019. EMU is down 4%, if useless Irish data are excluded (-1% if included). **High tech sectors** are going strong in Europe too, while chemicals and metals are way down.
- **Sweden:** ***unemployment heads down***
  - **Both PES and LFS unemployment** fell in September. The LFS rate is still at a high level, 8.6%. **The employment rate** trends up, and the **participation rate** is record high (due to very high participation rate among foreign born, well above domestic born!). **Vacancies** are still at a low level, not a positive sign.
- **China:** ***better than expected in September/Q3***
  - **GDP** rose at a 4.9% pace in Q3, up from 3.6% in Q1, expected unchanged. The annual rate rose 0.2 pp to 4.5%, 0.1 pp above expectations.
  - **Industrial production** accelerated 0.3 pp to 5.5% y/y in September, as expected. Housing related industries are still weak, the others not.
  - **Retail sales** still just trend flat in volume terms but were up 1.1% y/y in nominal terms, 0.6 pp above expectations.
  - Investments rose marginally in September and were also a tad better than expected. Still, investments are down 11% y/y in volume terms. Housing and other constructions remain extremely weak, and housing prices are still falling but slower. In the largest Tier 1 cites, prices have turned up lately, indicating that a stabilisation of the housing market is underway.
  - **Exports and imports** are soaring, and both were well above expectations in September, up 36 and 31% y/y resp. In **volume terms**, just exports are up, we assume 12% y/y, while ***imports are down***! **The trade surplus** shot up to USD 133 bn, an ATH, by far. China is really imbalanced, ***domestic demand is far too weak***.
  - **Credit growth** is steadily slowing, as **household debt** is paid back! **Households' deposits** are soaring.
  - **CPI inflation** remains below 1%. However, the **PPI** is on the way up, now 5.0% y/y!

Week ahead: PMIs in focus

Time	Count.	Indicator	Period	Forecas	Prior
Monday 19 Oct					
16:00	US	NAHB Housing Market Index	Oct	31	32
Tuesday 20 Oct					
08:00	UK	Average Weekly Earnings 3M/YoY	Aug	3.8%	3.9%
08:00	UK	ILO Unemployment Rate 3Mths	Aug	4.9%	4.9%
08:00	UK	Payrolled Employees Monthly Cha	Sep	-8k	-26k
10:00	NO	New Home Sales, Boligprod.	Sep		
14:30	US	Housing Starts	Sep	1303k	1275k
14:30	US	Building Permits	Sep P	1385k	1403k
Wednesday 21 Oct					
08:00	UK	CPI YoY	Sep	3.4%	3.1%
08:00	UK	CPI Core YoY	Sep	2.8%	2.6%
Thursday 22 Oct					
08:00	**NO**	**Unemployment Rate Trend**	**Sep**		**4.5%**
08:00	NO	Payrolls, wages	Sep		
08:00	NO	Industrial Confidence, SSB	3Q	(3.0)	2.6
14:30	US	Initial Jobless Claims	17-Oct	200k	199k
16:00	EMU	Consumer Confidence	Oct P	-17	-16.5
16:00	US	Leading Index	Sep	-0.1%	-0.1%
Friday 23 Oct					
02:30	JN	Manufacturing PMI	Oct P		54.1
08:00	UK	Retail Sales MoM	Sep	-0.2%	0.5%
09:15	FR	Manufacturing PMI	Oct P	50.5	50.6
09:30	GE	Manufacturing PMI	Oct P	53.5	53.9
10:00	**EMU**	**Manufacturing PMI**	**Oct P**	**52.7**	**52.9**
10:00	**EMU**	**Services PMI**	**Oct P**	**52.5**	**53**
10:00	EMU	Composite PMI	Oct P	52.7	53.1
10:30	UK	Manufacturing PMI	Oct P	51.8	51.9
15:45	**US**	**Manufacturing PMI, S&P**	**Oct P**	**55.5**	**55.9**
15:45	**US**	**Services PMI, S&P**	**Oct P**	**58**	**58.8**
15:45	US	Composite PMI	Oct P	57.4	58.4
16:00	US	U. of Mich. Sentiment	Oct F	46.3	46.3

- **Flash October PMIs**
  - **Since the summer, PMIs have been on the rise globally and signalled a solid 4% growth rate in September**, the best in 5 years. Thus, even a significant decline would not be a definitive warning sign. **Any accidents in October?** Bond yields and oil prices rose amid political turbulence. Have businesses worldwide been hit? Very likely not. A small decline is expected both in Europe and in the US.

- **Norway**
  - **AKU and payrolls will show the latest state of the Norwegian labour market.** The AKU unemployment rate stood at 4.5% in August, and we don't expect major changes in September. Payrolls showed some signs of weakness last month but should be revised upwards, we believe. Overall, the Norwegian labour market remains in balance and is not the main worry for Norges Bank; inflation is.
  - **SSB Manufacturing Survey** has reported growth slightly below par for the past 5 quarters, while production has been on the way up, at least until recently. Oil-related sectors are the weak link in the chain now**.** This survey is normally quite closely correlated with mainland GDP.

- **USA**
  - Housing may become the weak link in the US economy if mortgage rates stay at the current level, close to 7.5% (30y fixed). So far, **building permits and housing starts** have trended flat, but homebuilders have reported lower activity and applications for new mortgages have fallen sharply.

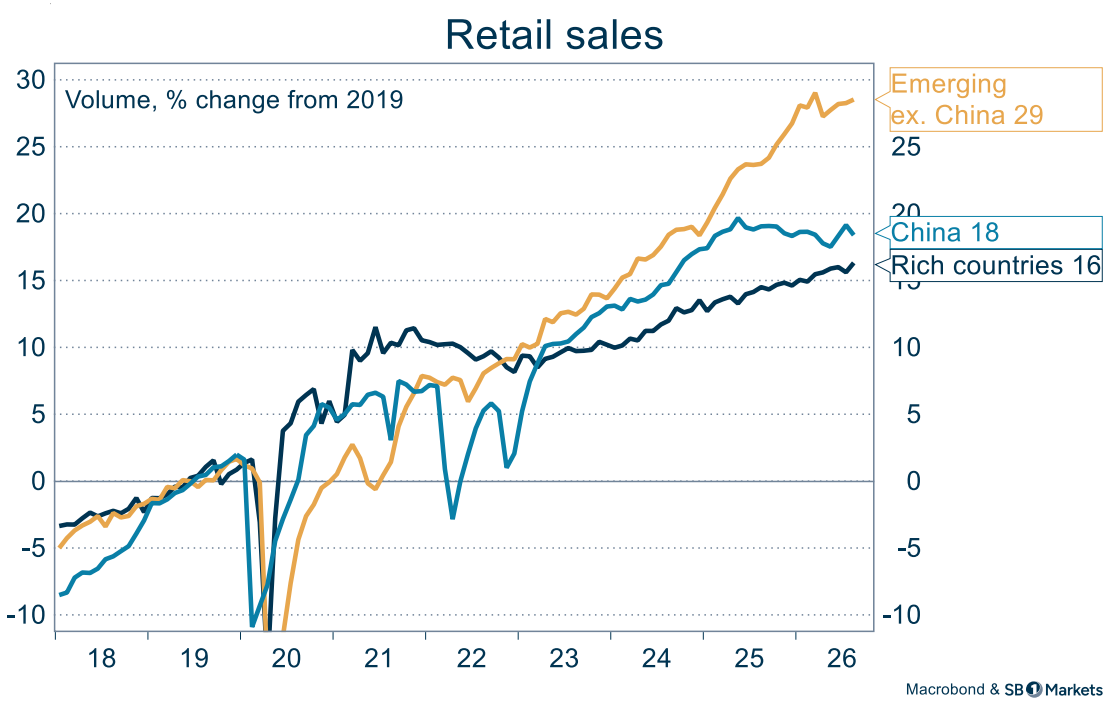
Agenda

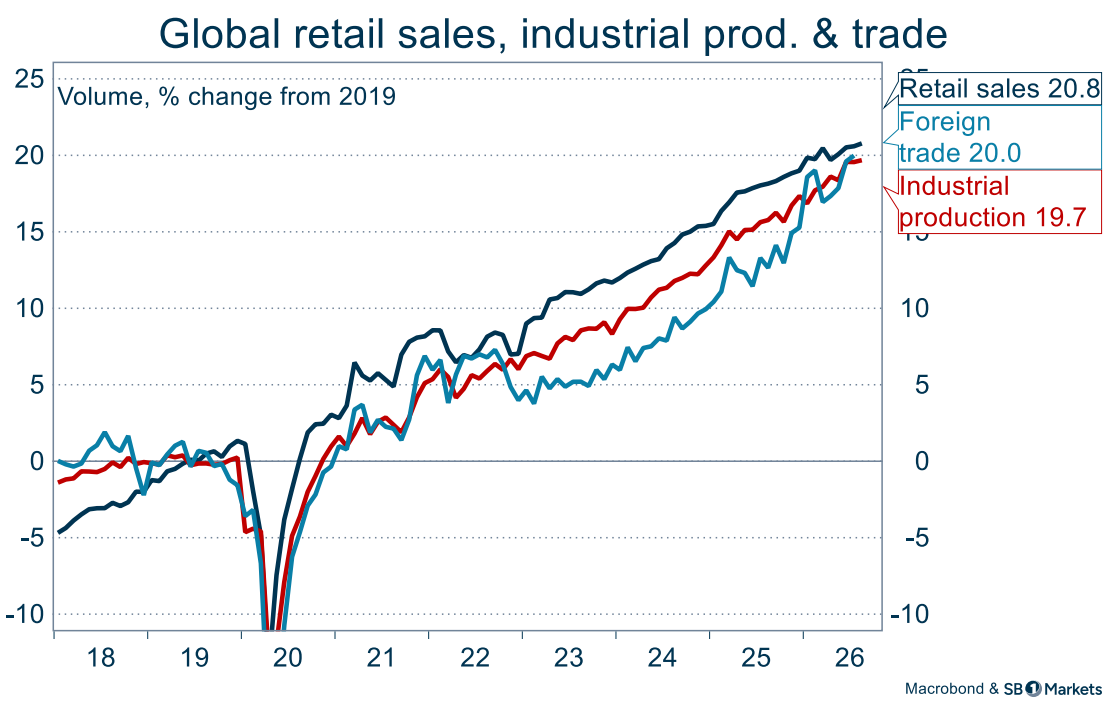
- Highlights
- The Norwegian economy
- Major economies
- Financial markets

SB1 Markets

Global Economy: Some weakness in EM retail trade, and global sales have slowed

Global industrial production is still going strong, and global foreign trade is surging.

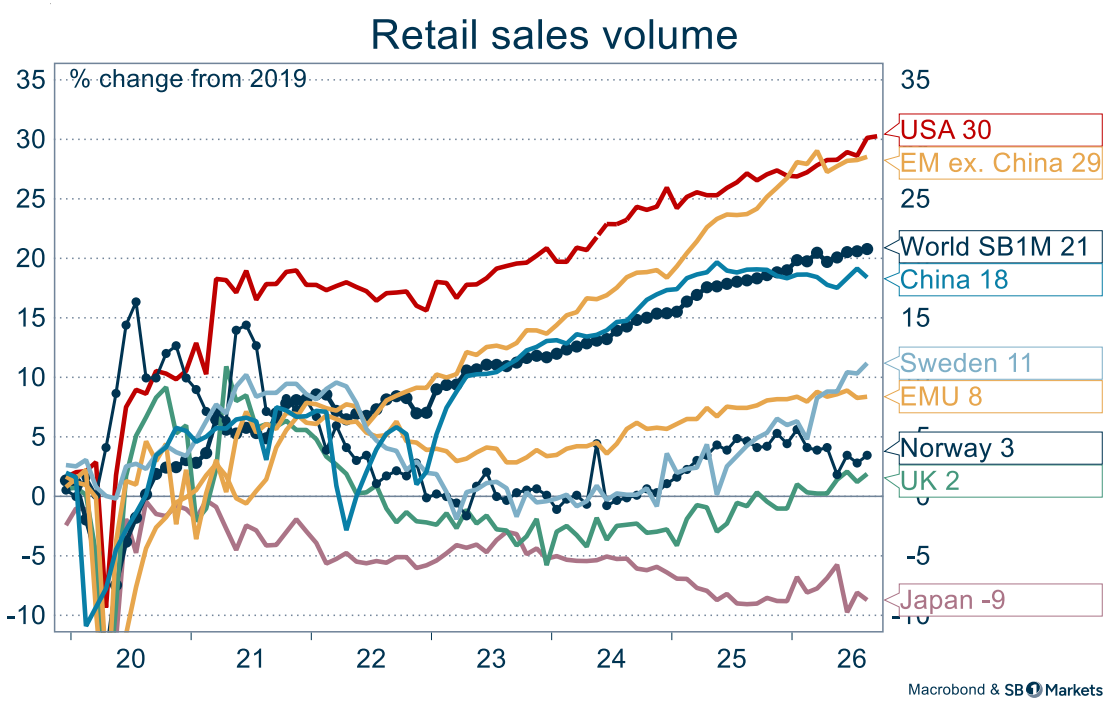


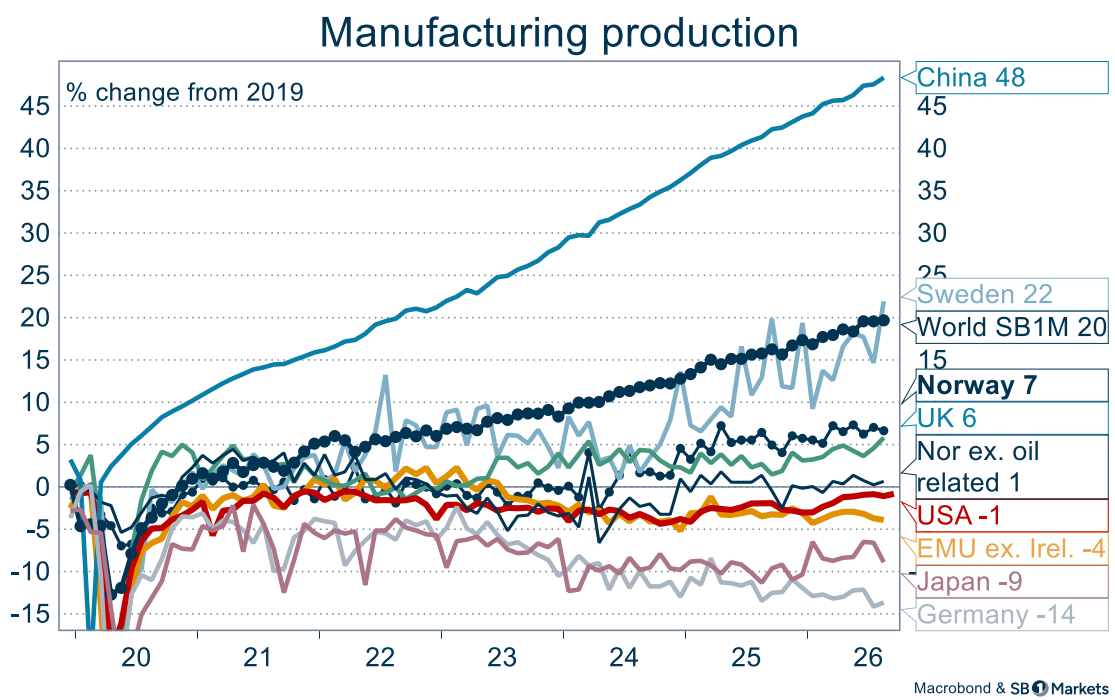


Extremely volatile retail sales data from Thailand have influenced the EM ex. China data series.

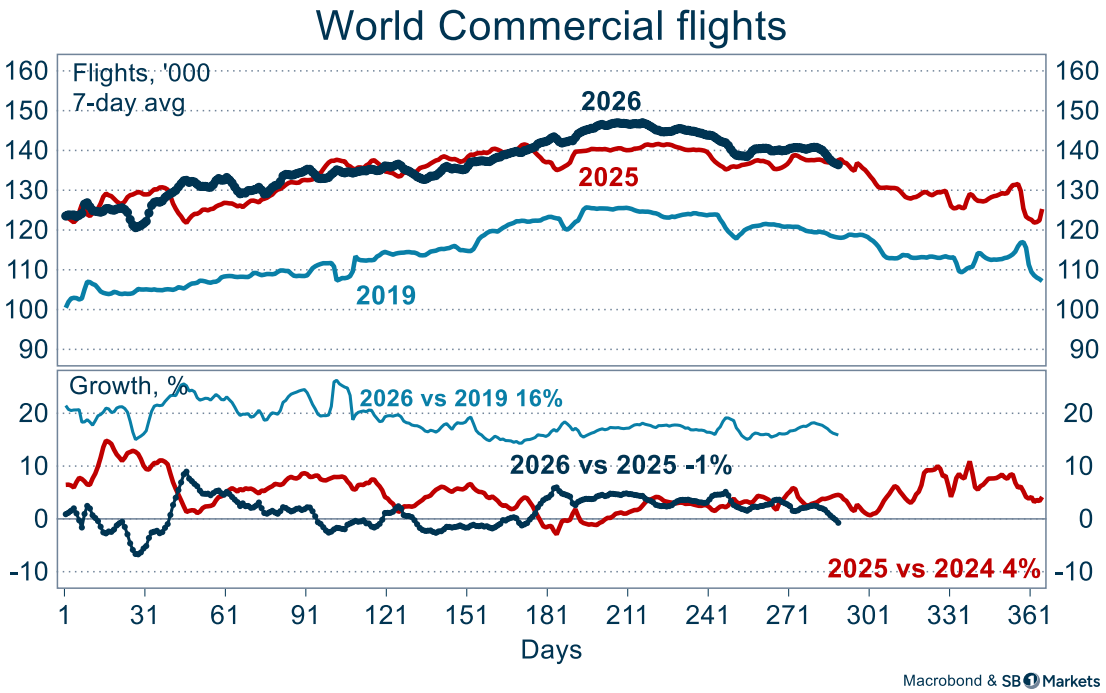
Huge gaps in retail sales and manufacturing production. China leads in manufacturing

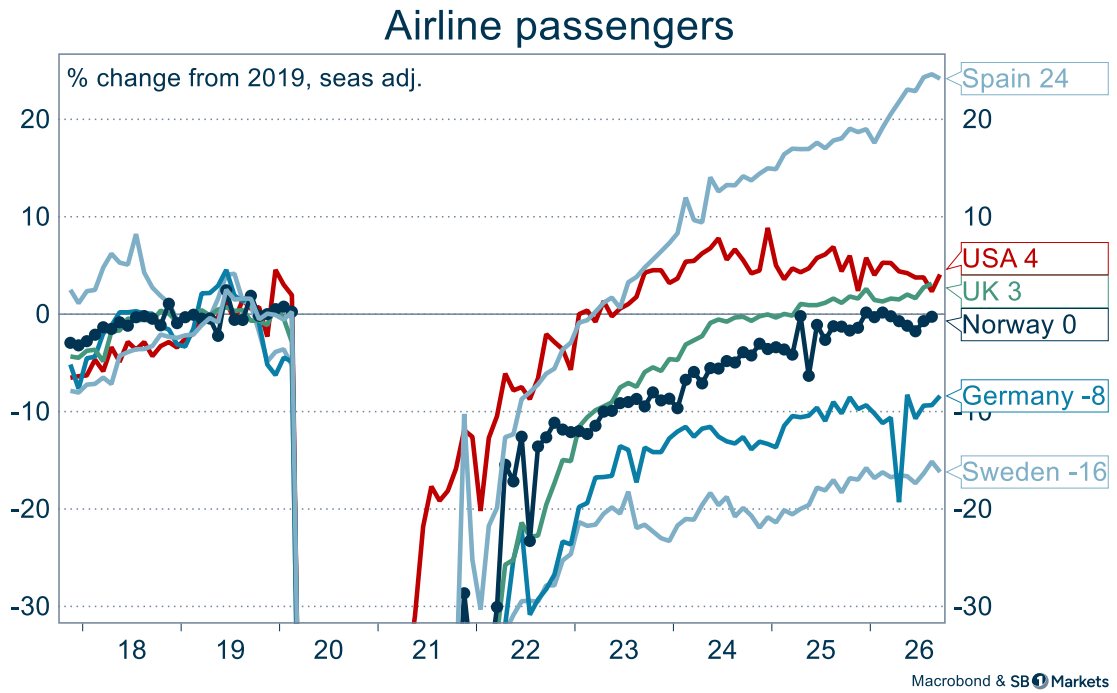
… but not in retail sales. The US is among the best in retail sales but not in industrial production (the gap is remarkable). EMU is in line with the US in production, but its retail sales are far weaker. Norway has been the retail trade loser in 2026.





Global airline traffic dropped last week – and is down y/y. Some Gulf problems?



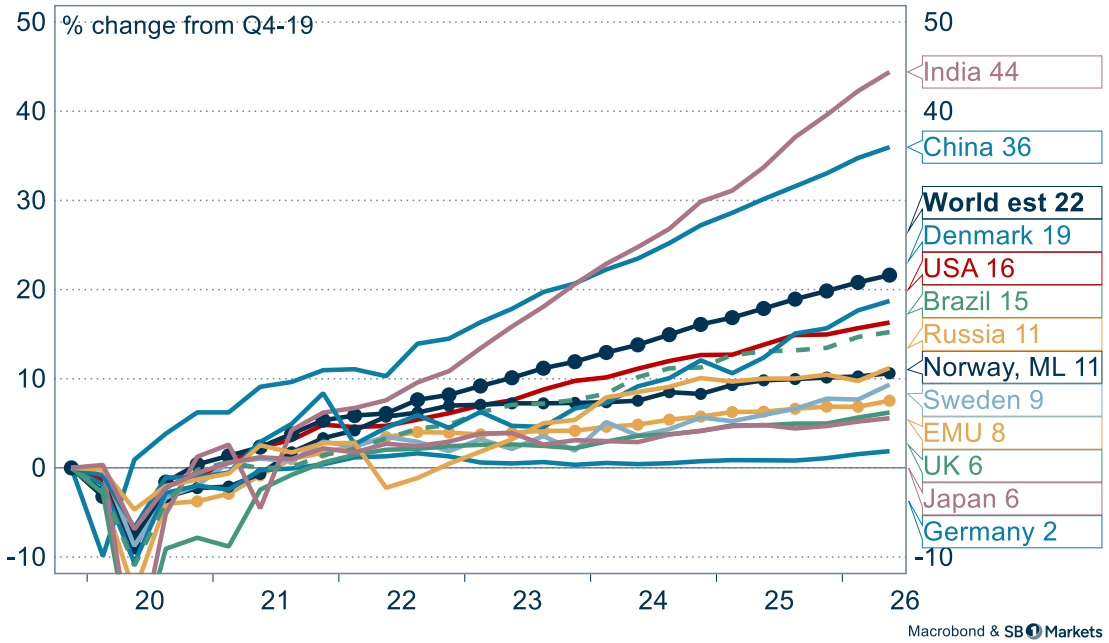


- **Passenger numbers** are recovering in most Western countries, except for the US, where traffic is declining from previously 'high' figures, almost back to the 2019 level. Sweden is well below the 2019 level, by 16%!
- Norway has returned to the 2019 level, but the trend is flat. Spain leads with a 24% increase.

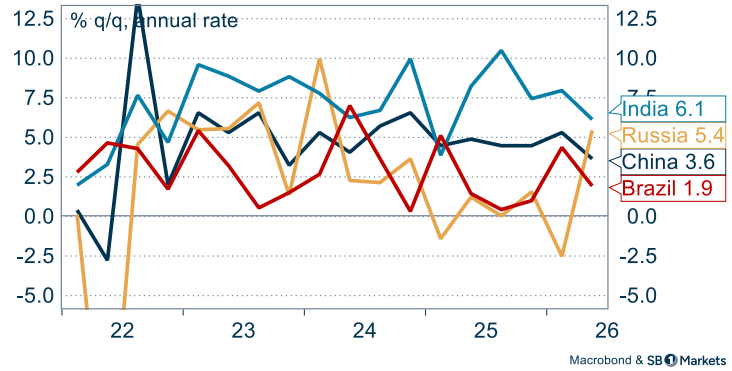
Q2 global GDP growth slowed to 2.7%, still up 3.2% y/y

No doubt, the Gulf war and the rise in energy prices lowered growth in Q2. Growth was higher in EMU than in the US (at least before adjusting for irrelevant Irish GDP data). Norway has fallen towards the bottom of the y/y growth ranking. Both Denmark and Sweden are close to the top.

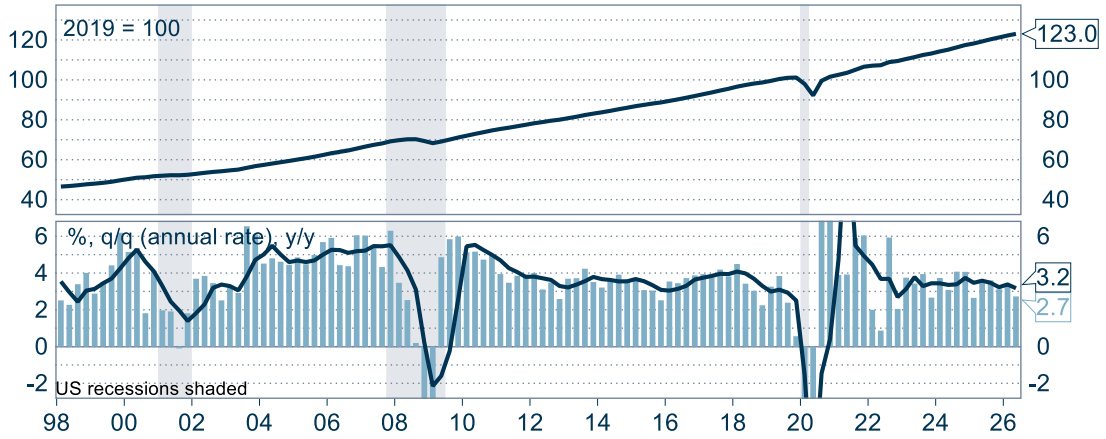
GDP



BRIC GDP



World GDP



World GDP is estimated by SB1M

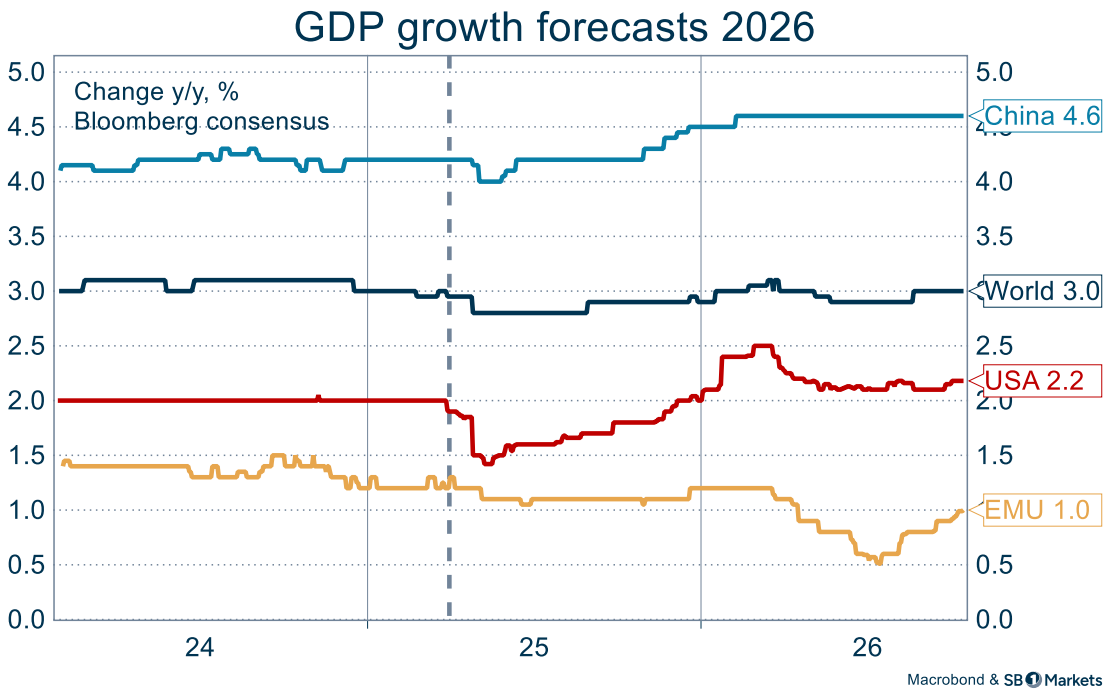
GDP growth

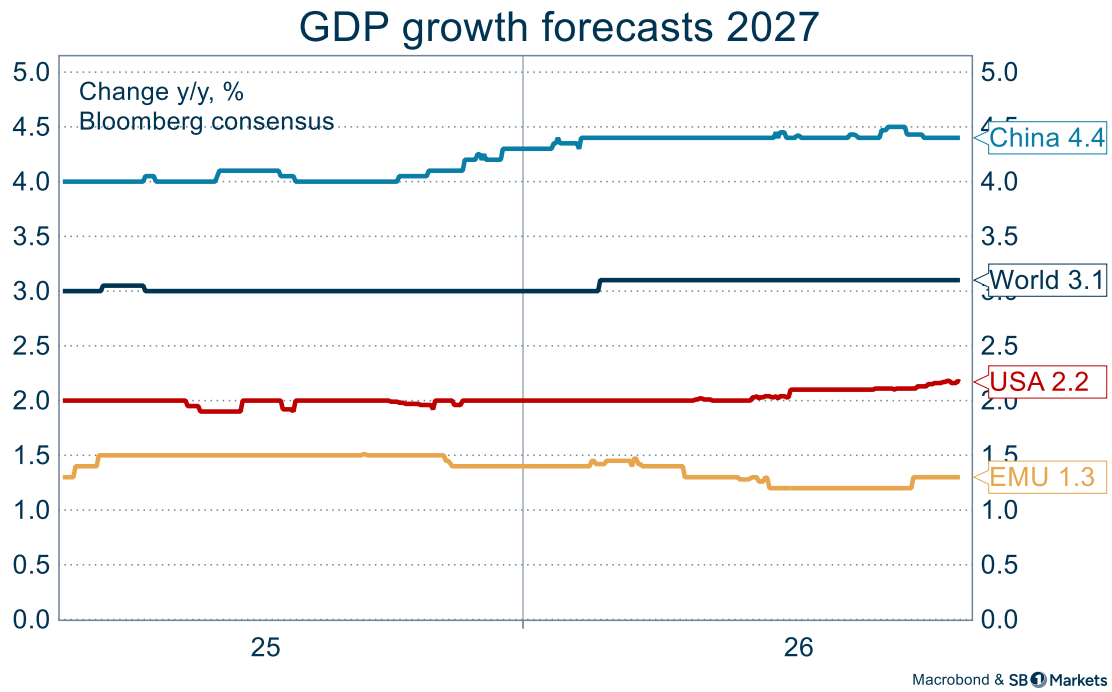
	q/q ann. rate	y/y
World, SB1M est	2.7	3.2
China (quart. data)	3.6	4.5
India	6.1	8.0
Brazil	1.9	1.9
USA	2.2	2.2
Japan	1.4	0.7
UK	2.1	1.4
EMU	2.6	1.2
Germany	1.3	1.0
France	0.1	0.5
Italy	0.6	1.0
Spain	2.8	2.6
Netherlands	2.6	1.8
Finland	1.2	1.4
Denmark	3.6	5.7
Sweden	6.4	3.2
Norway, ML	1.3	0.7

q/q y/y

EMU GDP growth expectations have recovered. US forecasts remain higher and drift upwards

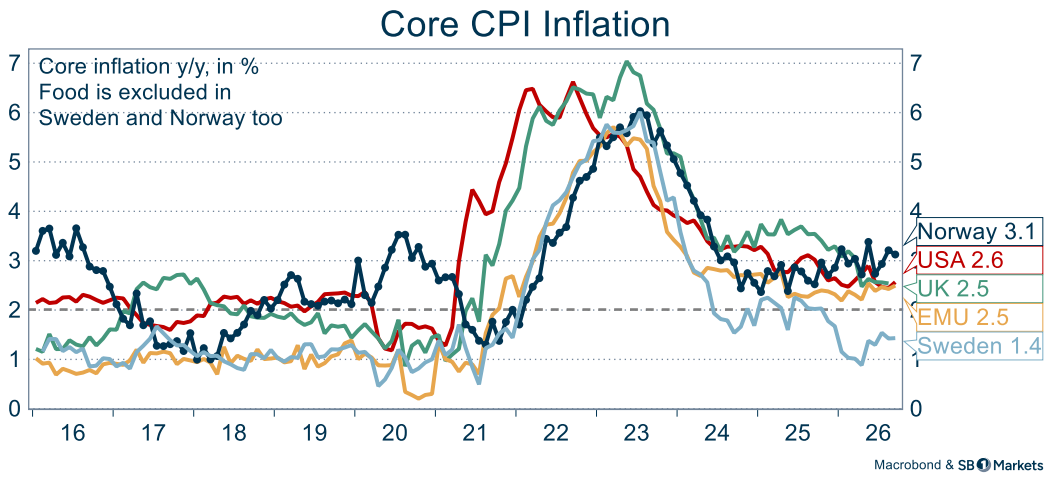
Bloomberg's consensus US 2026 GDP forecast is still down 0.3 pp from Feb., to 2.2%. EMU is up 0.2 pp, to 1.0% (from 0.5% in July). Boring (flattish) but decent 2027 f'casts, and the US forecast trends marginally upwards. Chinese forecasts are not influenced by weak short-term data.

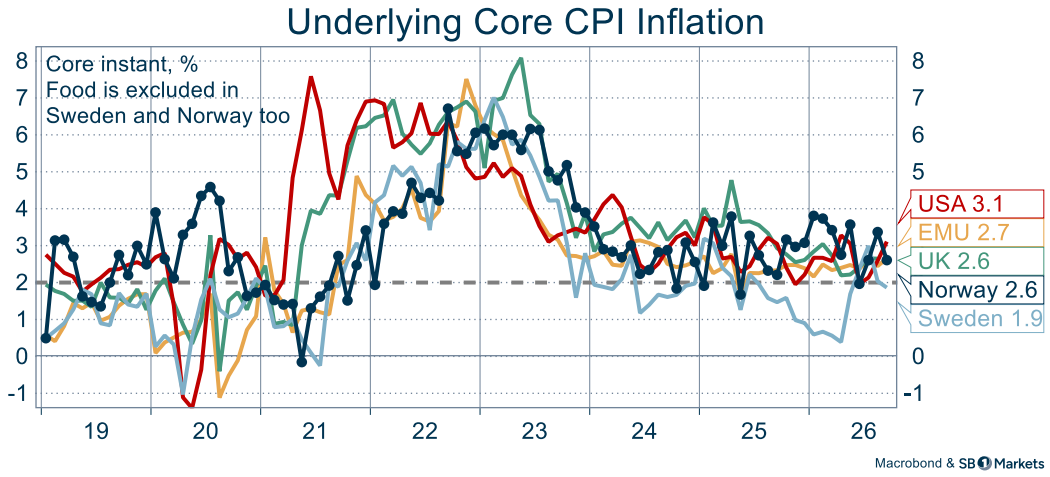


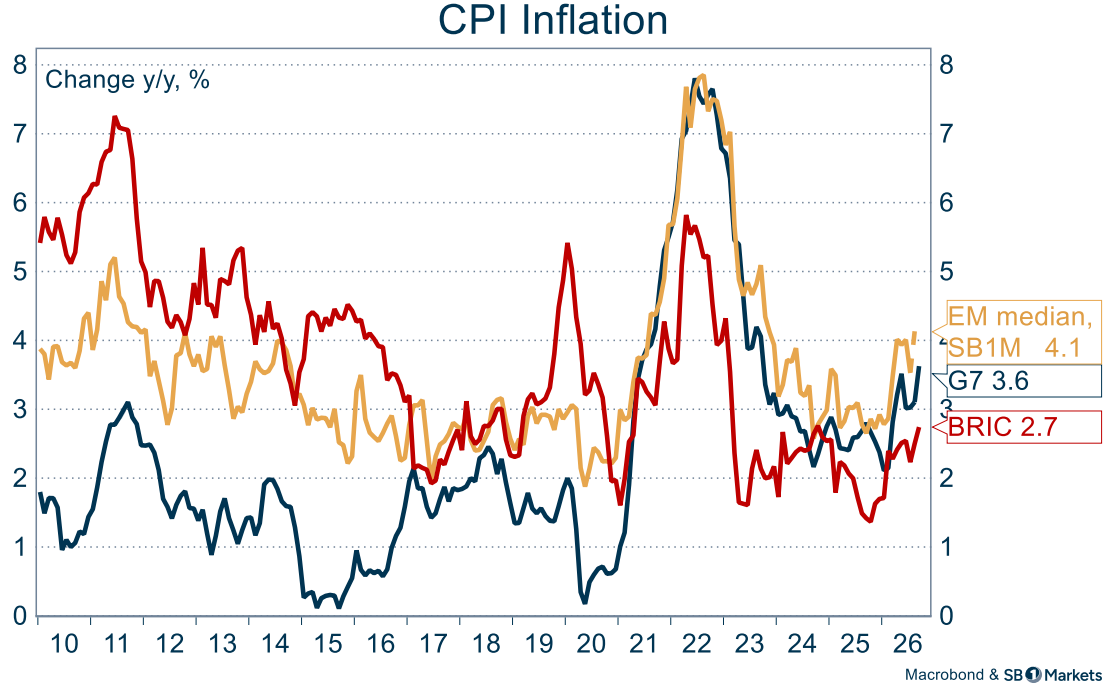


Inflation: underlying core in recent months: US up to above 3% again

The momentum in the Swedish core CPI is still below 3%, while Norway, the UK and EMU are between 2.5% and 3%.



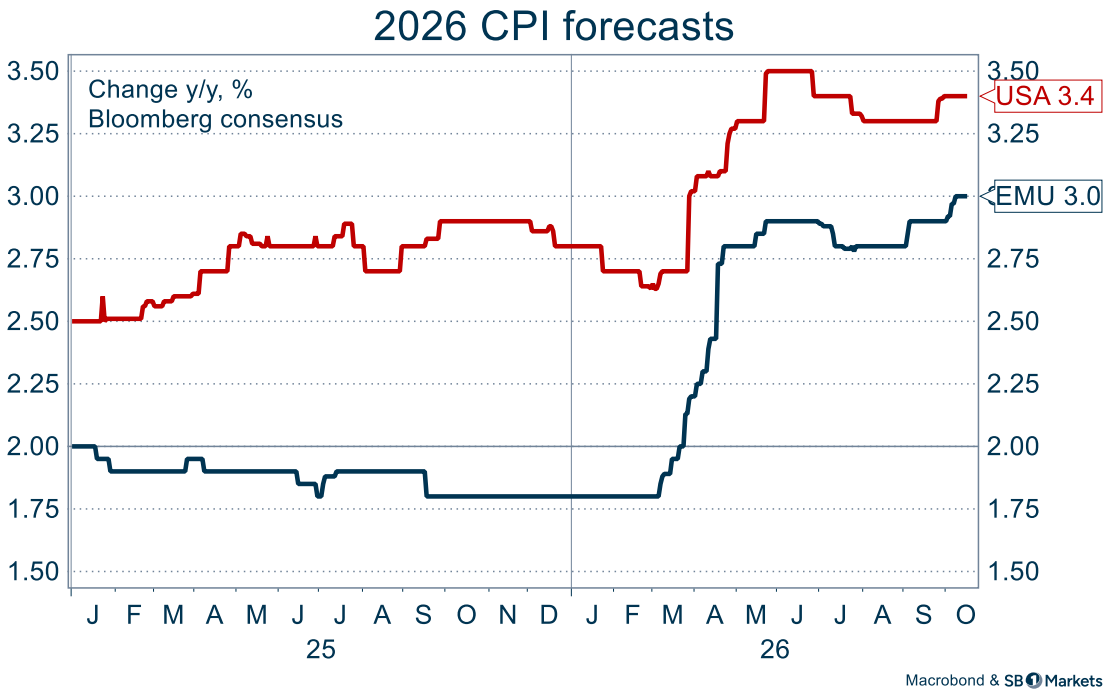


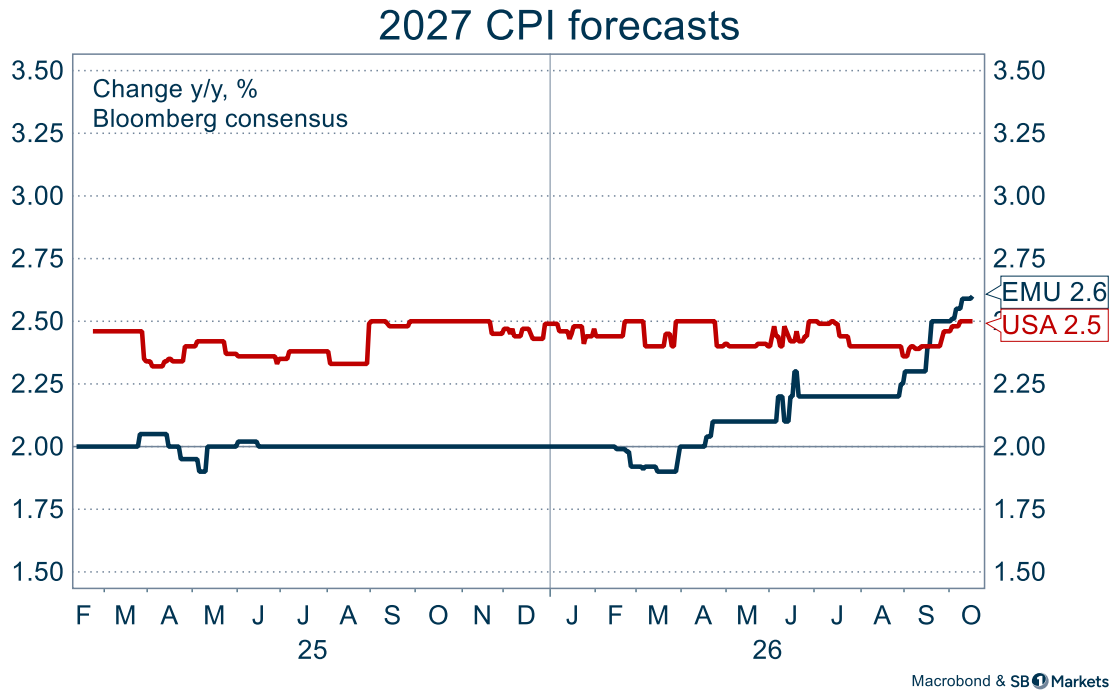


Food is removed from the Norwegian and Swedish 'official' core CPIs.

Inflation forecasts are drifting upwards, in both EMU and the US

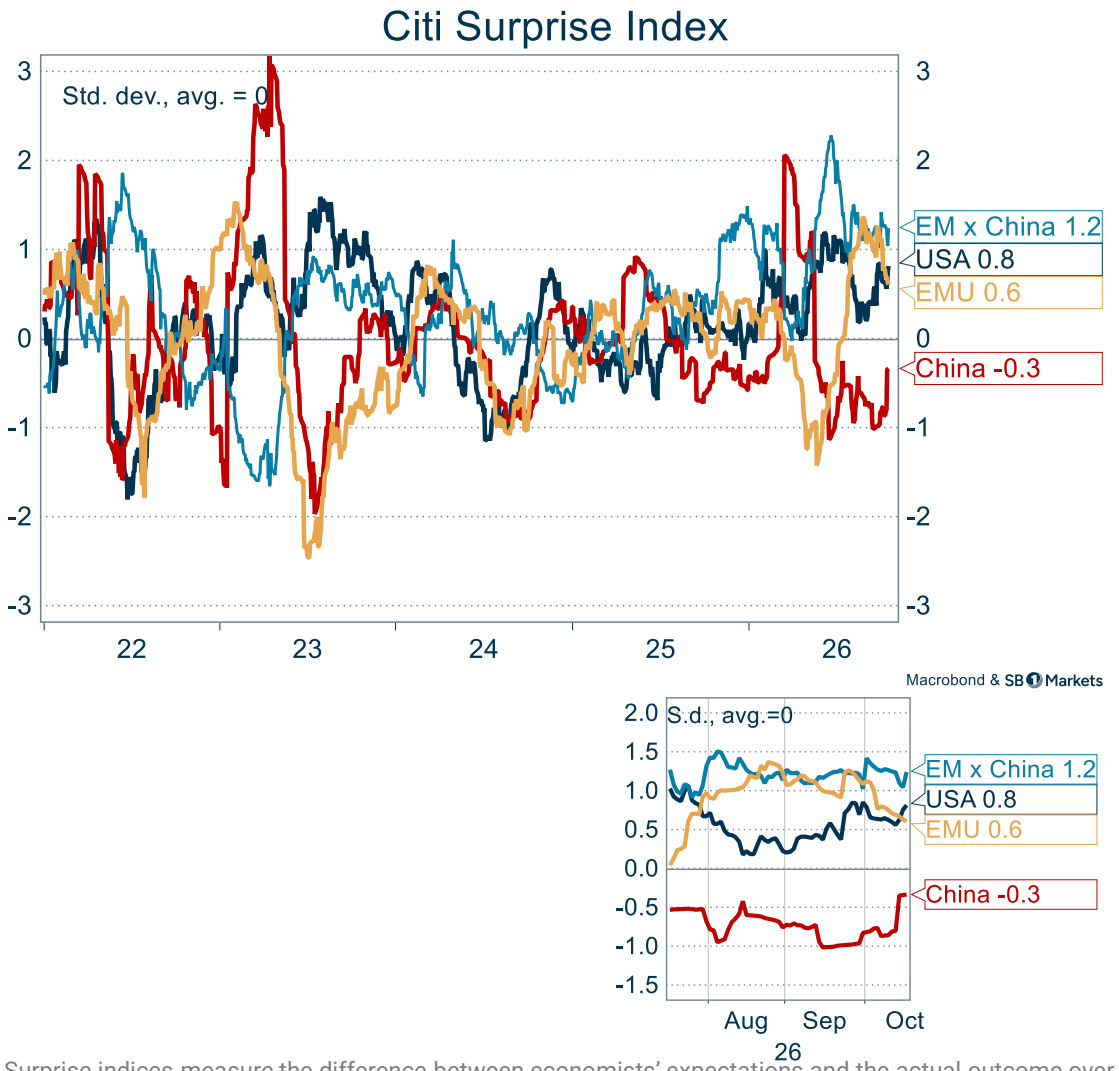
The EMU 2027 HICP forecast before the Gulf war: 1.9%. Now 2.6%. The US forecast is unchanged at 2.5% vs. before the war, but has inched upwards recently. Natural gas prices probably explain the difference between the US and EMU next year. But US inflation is at 3.4% in 2026, EMU at 'iust' 3%.

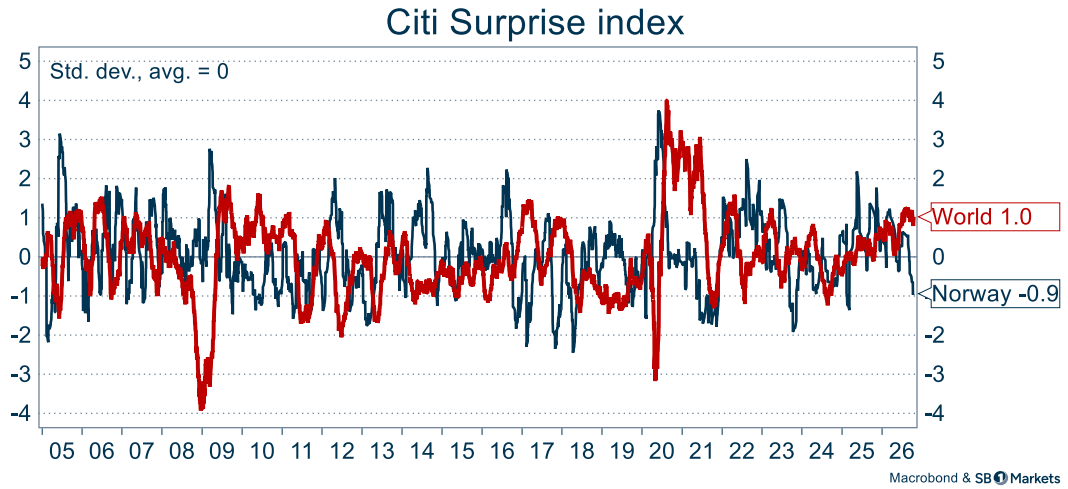


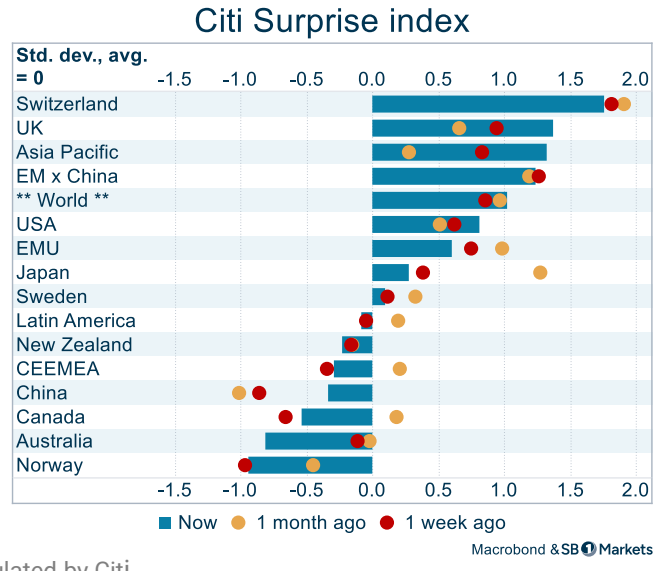


Surprise indices: global index edges down but stays strong. EMU falls below a rising US

Canada, Australia and Norway remain at the bottom of the list. EM ex. China, the UK and Switzerland remain at the top of the list.



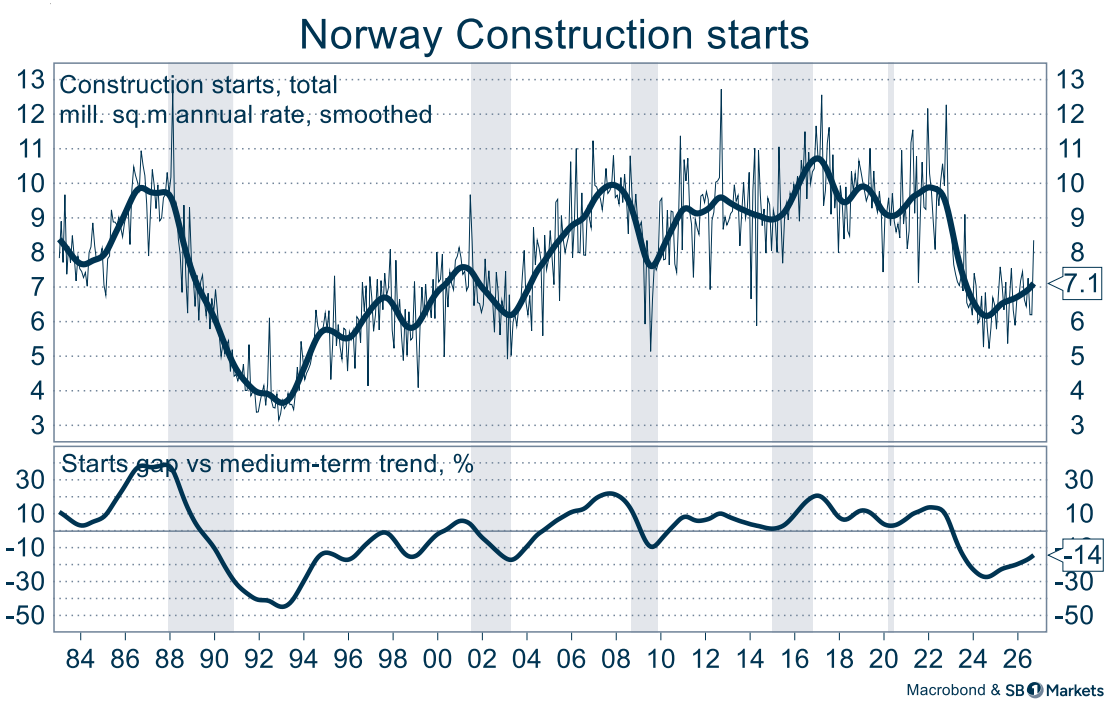


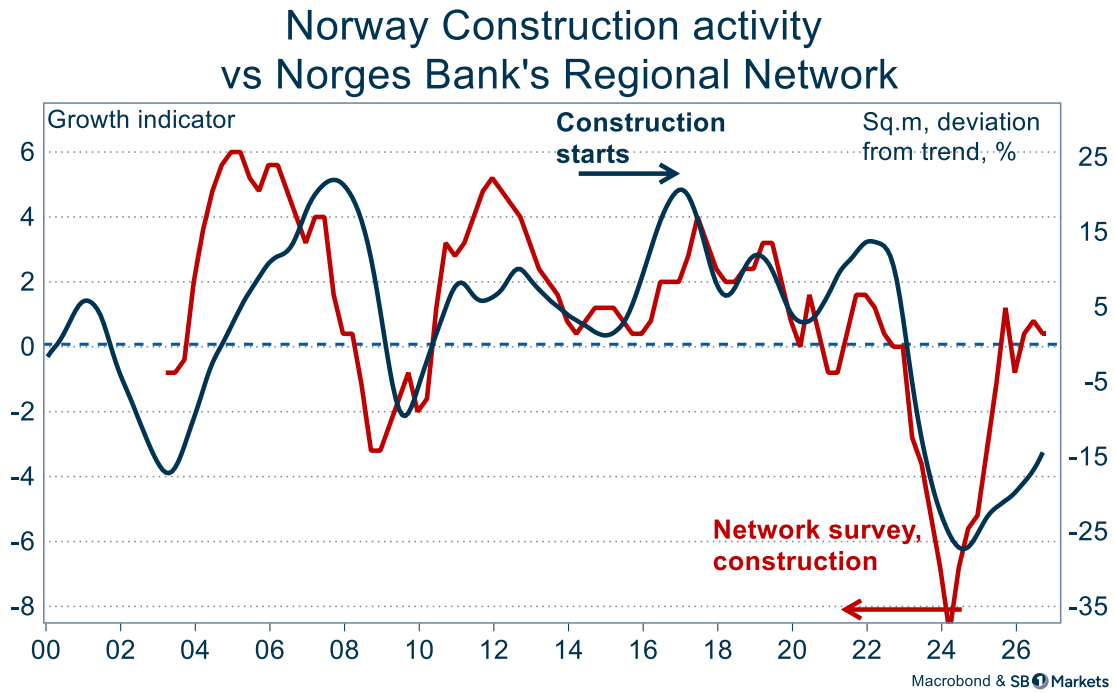


Surprise indices measure the difference between economists' expectations and the actual outcome over a 3-month rolling window, calculated by Citi

Construction starts have bottomed, and the construction sector reports growth

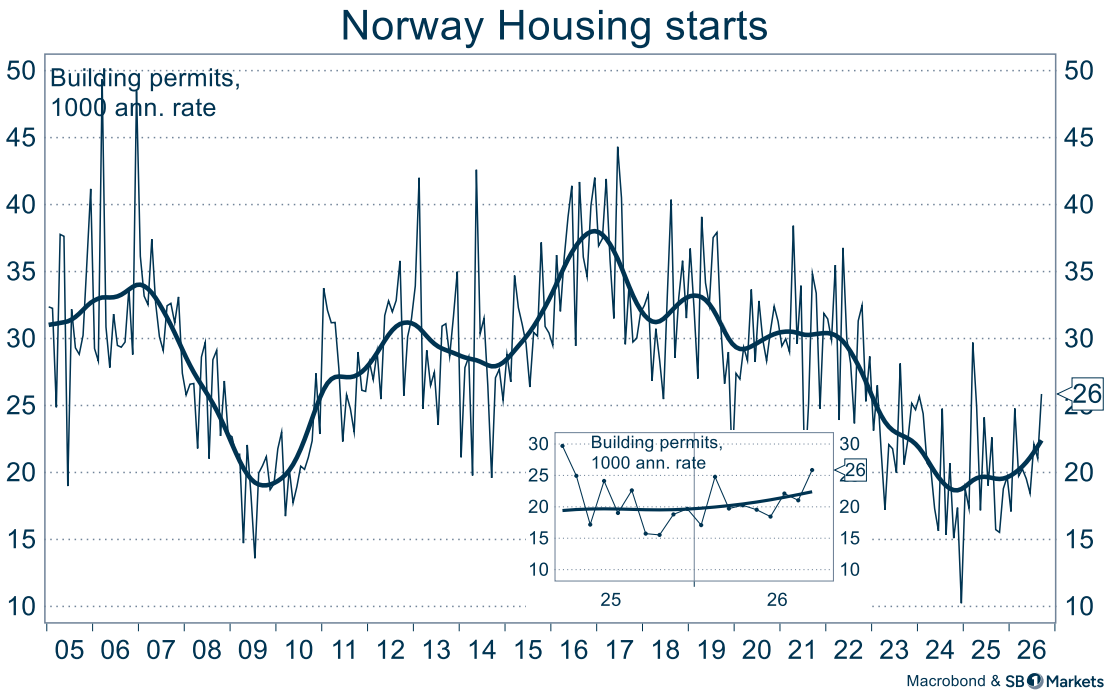
… albeit very modest growth. The level is still low, at least vs. construction activity in the 2006–2022 period.

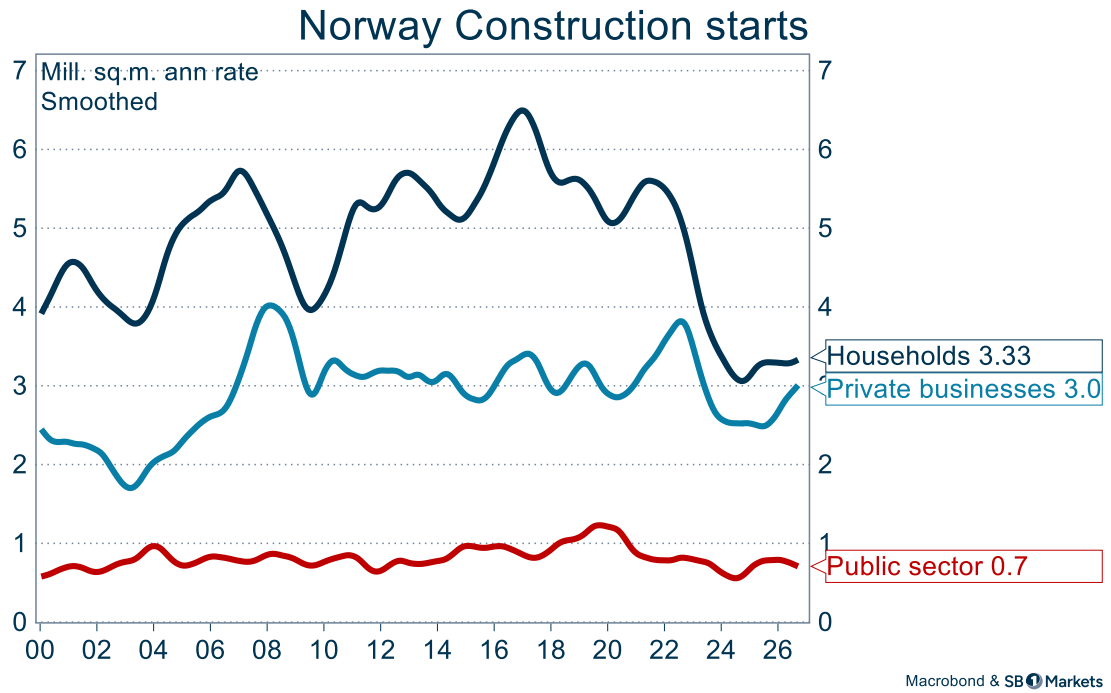




SSB reports a modest upward drift in housing starts – but the level is still low

Housing starts (building permits) trend marginally upwards. Construction starts in the business sectors have recovered lately, in fact back up to a normal level! Public sector starts are up from the 2024 trough but have once more slowed somewhat. The total is up.



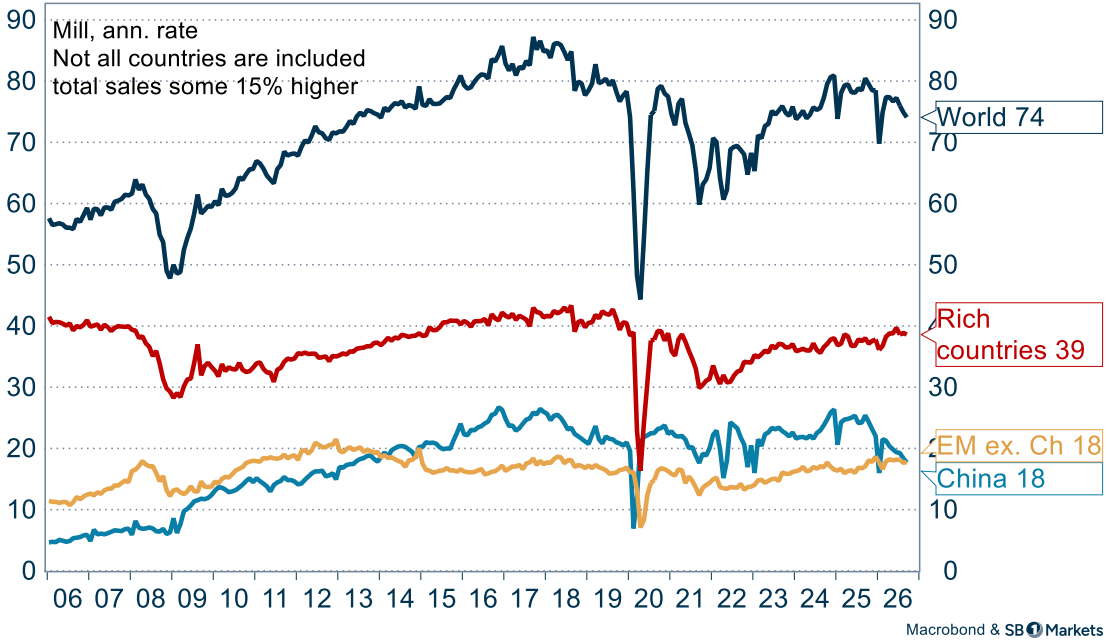


- **Residential building permits** (starts in the headline…) rose by 4,000 to 26’ in September (annualised). The average over the past 6 months is 21’. Measured in sq. m., starts have just flattened.
  - Construction of **second homes** is still heading down, from a low level (*check next page*).
- Private sector construction start**s** are even more volatile from month to month than housing starts, but so far in 2026, activity has picked up.
- Through 2024, starts in **public sector buildings** fell to the lowest level since the 1990s, but recovered in H1–25 (partly due to the new Oslo hospital and a large public office project). In recent months, starts have slowed again, as no new hospital buildings have been added.
  - Public sector construction starts equal some 20% of non-residential construction and have never contributed much to the large cycles in construction activity.

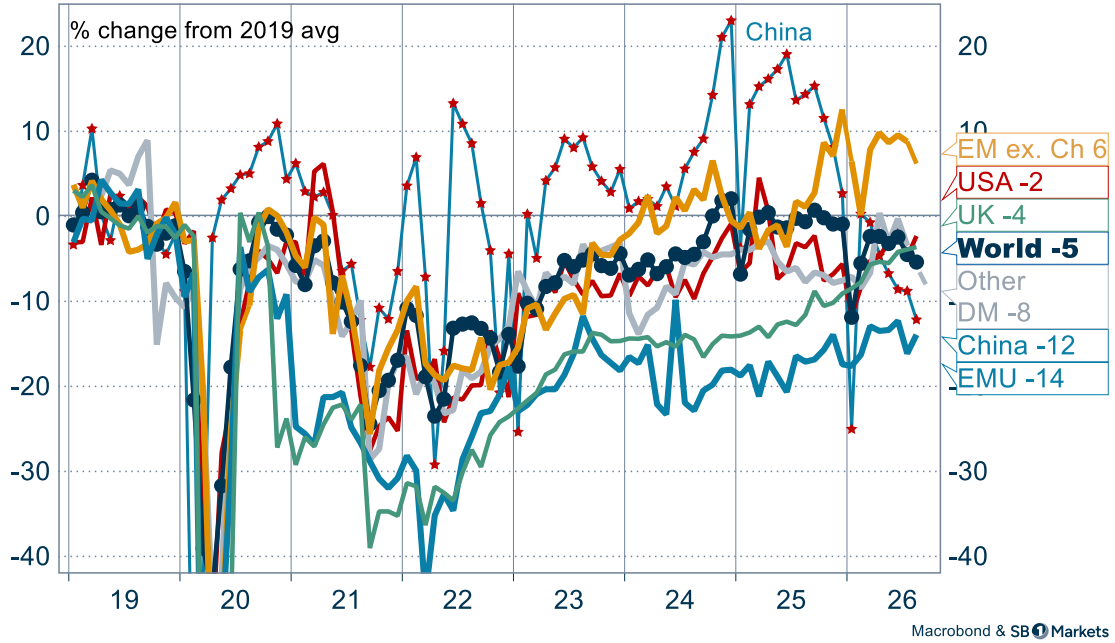
Global auto sales head down, mostly due to rapidly falling sales in China

Global sales fell 1% m/m, are trending down and are down 5% from 2019. Chinese sales are down 30% from the peak, and 12% from '19! US sales fell m/m but are down just 2% from 2019. EMU sales rose in Sep. but are down 14% from 2019. EM ex. China: down m/m, but +5% from '19.

Global auto sales

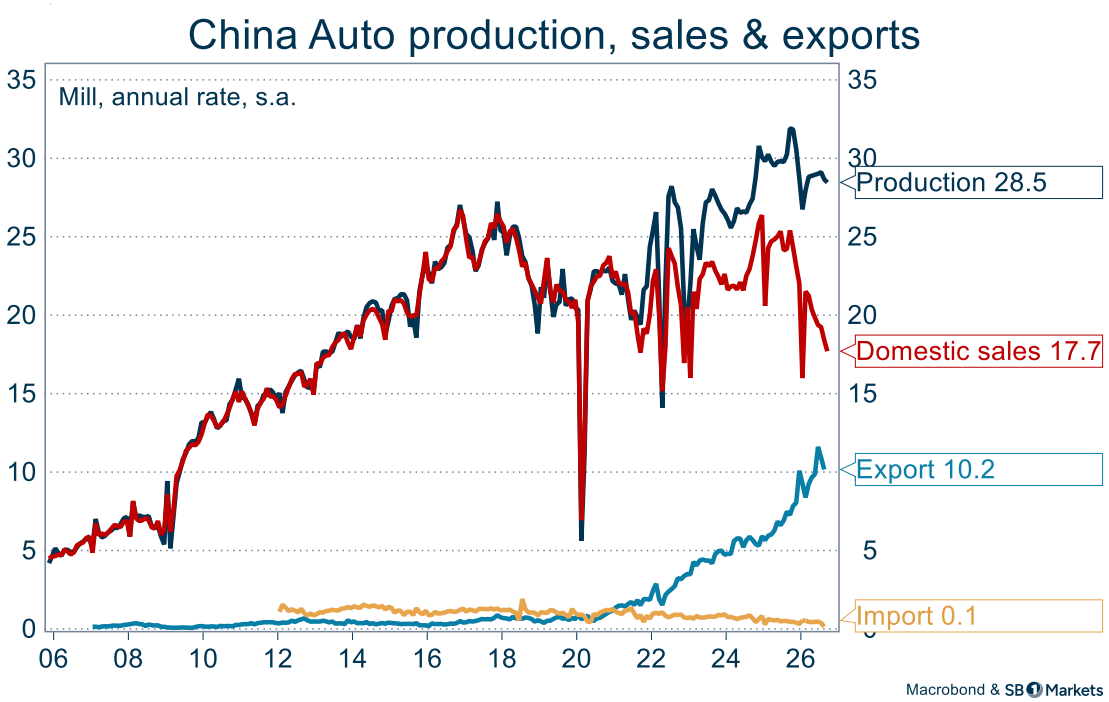


Global auto sales



How long will this model work?

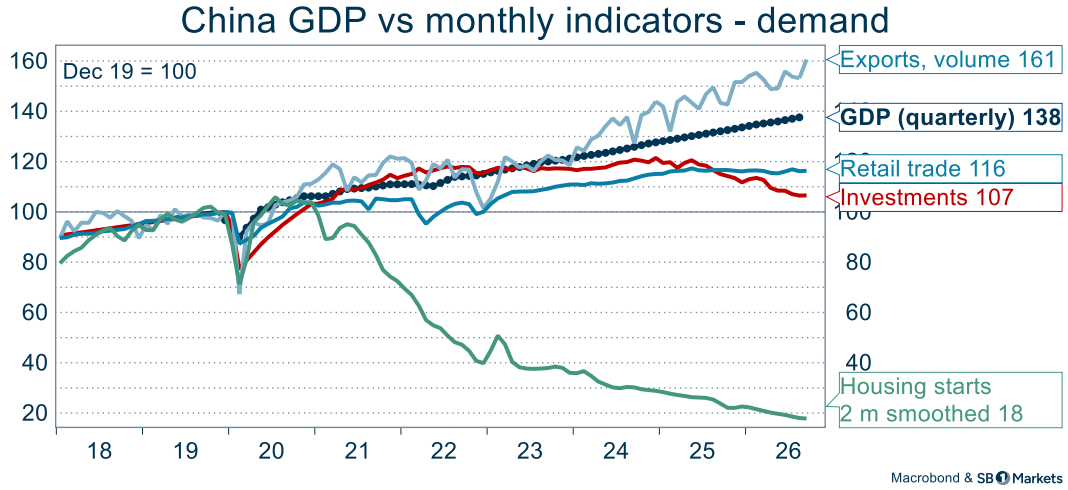
Chinese auto exports have been soaring, as domestic sales have fallen 30% while production has fallen far less. Chinese exports now equal more than 1/3 of Chinese production, and almost 1/7 of sales in the rest of the world, up from close to zero in 2020.

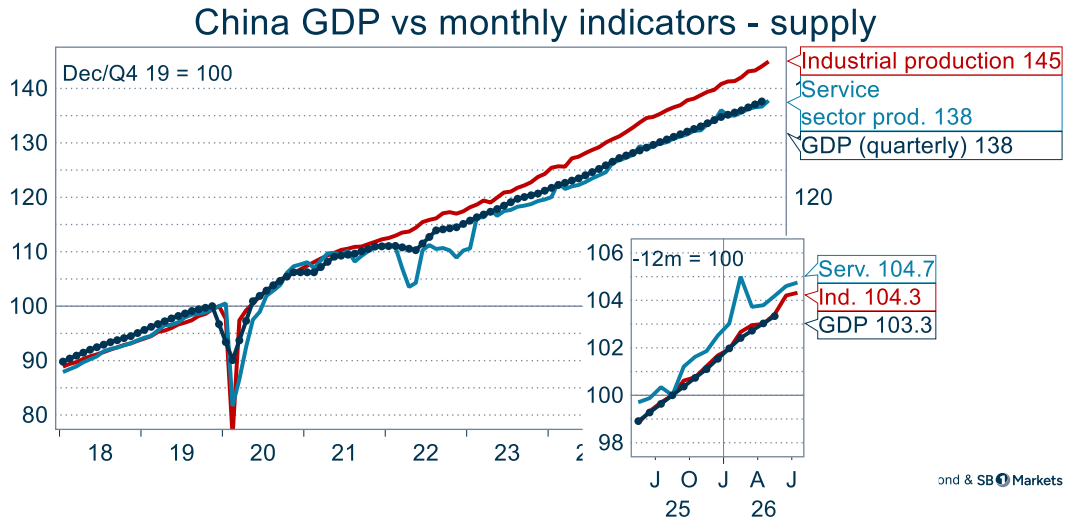


- Auto sales in China have fallen by close to 30%
- Auto imports into China? Close to zero.

China: September and Q3 better than expected across sectors, but still weak

GDP grew at a 4.9% pace in Q3, 1.3 pp above expectations. Industrial production is growing at a 5%+ pace, but retail sales are flat in volume terms. Investment levelled off m/m but is still down 11% y/y in real terms. House prices are falling more slowly. Are net exports the only real boost?

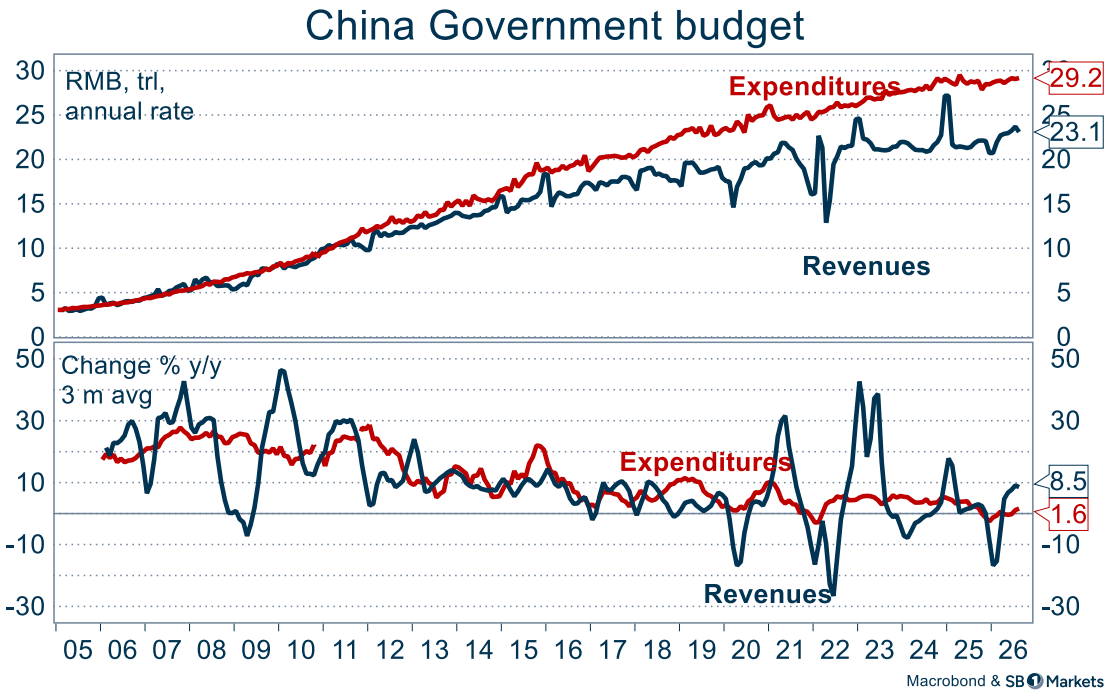


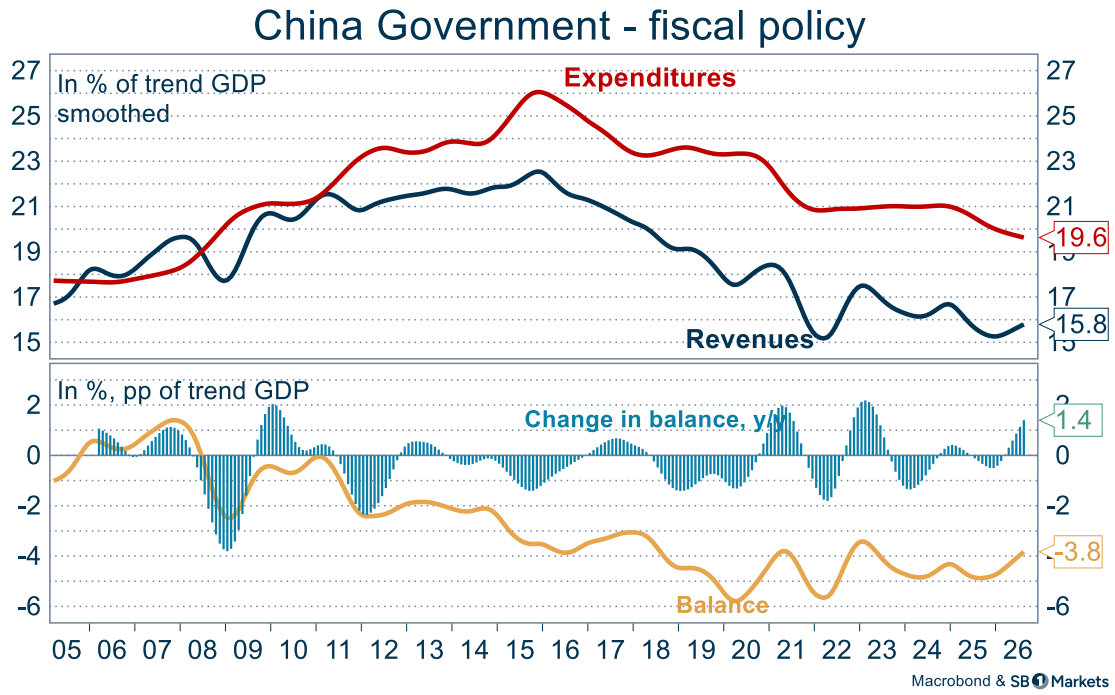


- **GDP** rose 1.3% q/q, not annualised, *0.2 pp above expectations*, and up from 1.1% in Q2. The annual rate accelerated by 0.2 pp to 4.5%, versus an expected 4.4%. Nominal GDP is up 6.0%**.**
- **Industrial production** rose 0.6% m/m in September, and the annual rate accelerated by 0.3 pp to 5.5%, *as expected*. While growth is still below 'normal', it has accelerated marginally lately, and the PMIs were upbeat in September. Housing-related sectors are still weak, while high-tech sectors are expanding rapidly.
- **Service sector production** was up 4.8% y/y in Sep., up *0.7 pp* from 4.1% in Aug.
- **Retail sales rose marginally in September but the trend remains flat in real terms.** Nominal sales were up 1.1% y/y, *0.6 pp above expectations*. Sales are more than 20% below the pre-pandemic trend.
- **Investment** rose marginally in September. YTD growth was *0.1 pp above expectations*. In volume terms, investment is still down 11% y/y (our estimate), but the pace of decline is slowing. Both **new home sales and starts** are still heading down at a rapid pace from very low levels (-80%+ from the peak). **Housing prices declined further.** However, in recent months, prices have turned up in the largest Tier 1 cities, which may signal an end to the five-year downturn. Real prices are back to the 2004 level.
- **Credit growth** *is slowing* but is still higher than nominal GDP growth. Household debt is down 2.0% y/y, while businesses are borrowing at a normal pace, almost +8% y/y. Shadow banking credit has accelerated somewhat (excluding local governments).
- **Exports and imports** are both up more than 30% y/y, far exceeding expectations, but only export volumes are up. The **trade surplus** was at a *record high in September*.
- **CPI inflation** has fallen *below 1% again*. **The PPI** is up *5.0% y/y*, though.
- **Fiscal policy** is slightly contractionary, but a *substantial stimulus plan* was recently announced, especially regarding investments in the high-tech sector.
- No **monetary measures** have been announced since Q1 last year.
- **In sum: Domestic demand remains weak. Net trade is surging, but this model is not sustainable for the rest of the world. *Something will have to give.***

Central government budget deficit narrows but new measures have now been announced

XX The fiscal deficit has fallen substantially, to 3.8% of GDP, according to Chinese data (IMF and OECD say 8%, including local governments). The authorities have announced a 6-point plan to strengthen the economy, as detailed below.

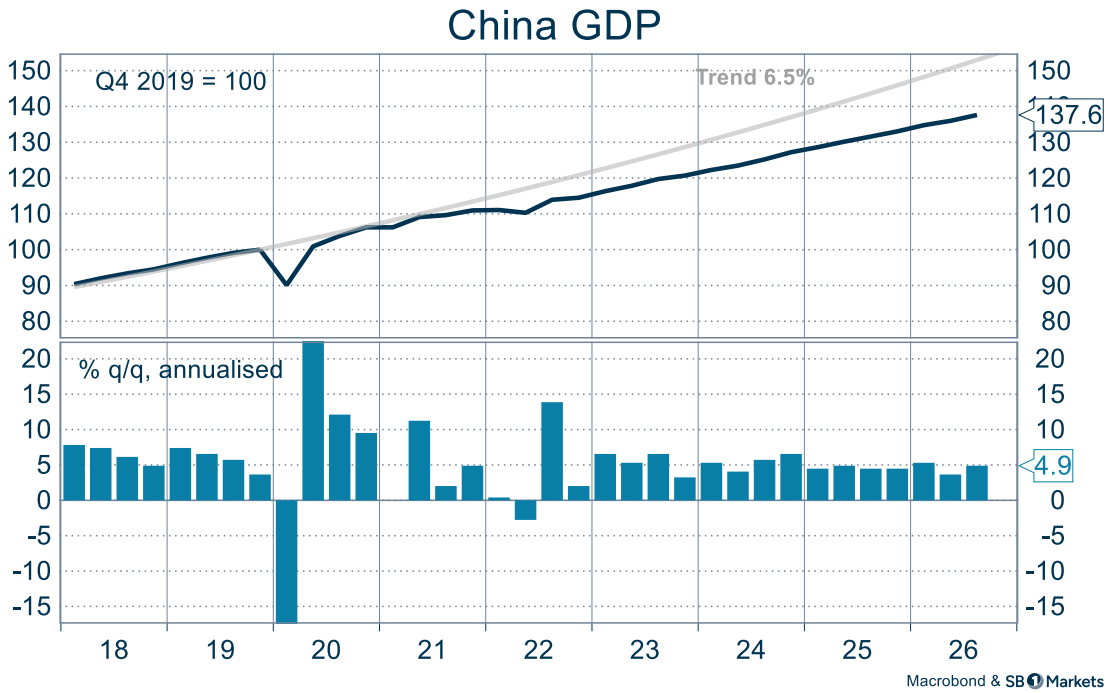


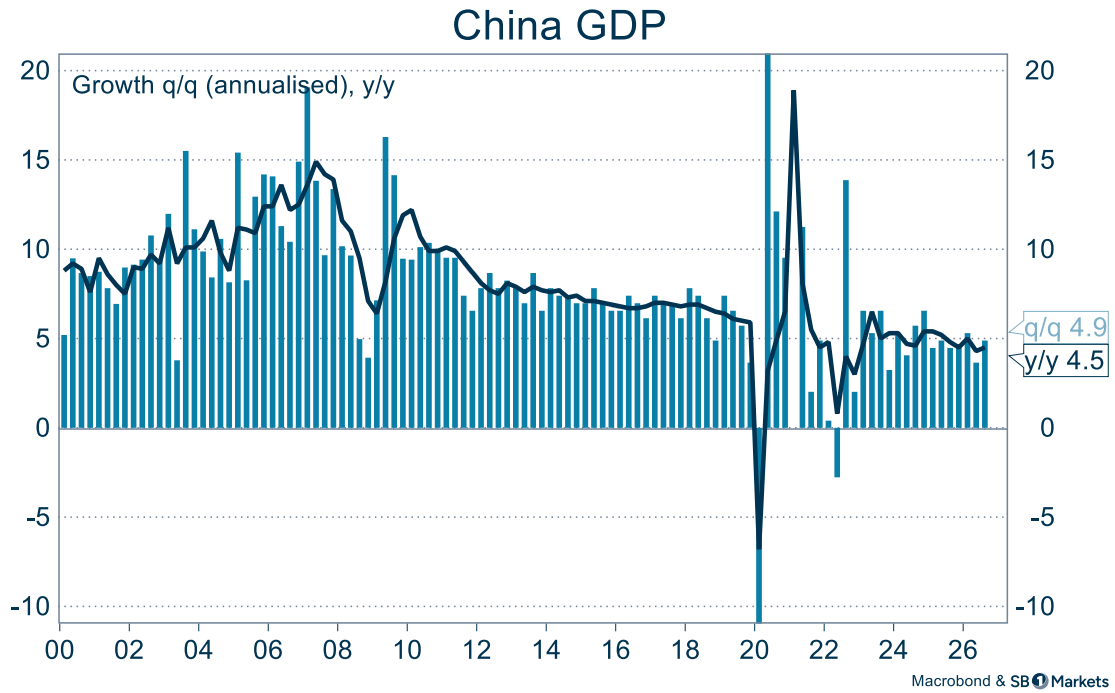


- The central government's expenditure was up 1.6% y/y in August (3m avg.), and is falling as a share of GDP, now at almost 19.6%. Revenues are up 8.5% y/y (but revenue data are very volatile). Still, revenues are trending down as a share of GDP, but more slowly than expenditure – and ***fiscal policy is clearly contractionary***. Disclaimer: *These data are rather volatile, and the seasonal pattern is uncertain*.
- The authorities have recently announced a 6-point plan to stimulate the economy in the short term, and to increase its longer-term growth potential. These plans include measures such as **infrastructure investment, including in power and computing capacity** (the bulk of the money will be allocated here), **consumption support, advanced manufacturing support (AI, robotics, semiconductors), green investments and property-sector stabilisation.** The total amount is around **5% of GDP**, spread over the next five years, a substantial amount, partly funded by government debt.

Q3 GDP growth: 4.9% q/q and 4.5% y/y, the latter *0.1 pp above expectations*

… and up from 4.3% in Q2. The q/q growth rate of 4.9% (annualised) was around 1.3 pp higher than expected.
The official 2026 growth target is 4.5–5%, down from "around 5%" in the previous two years. Now, a 4.6% outcome seems reasonable.

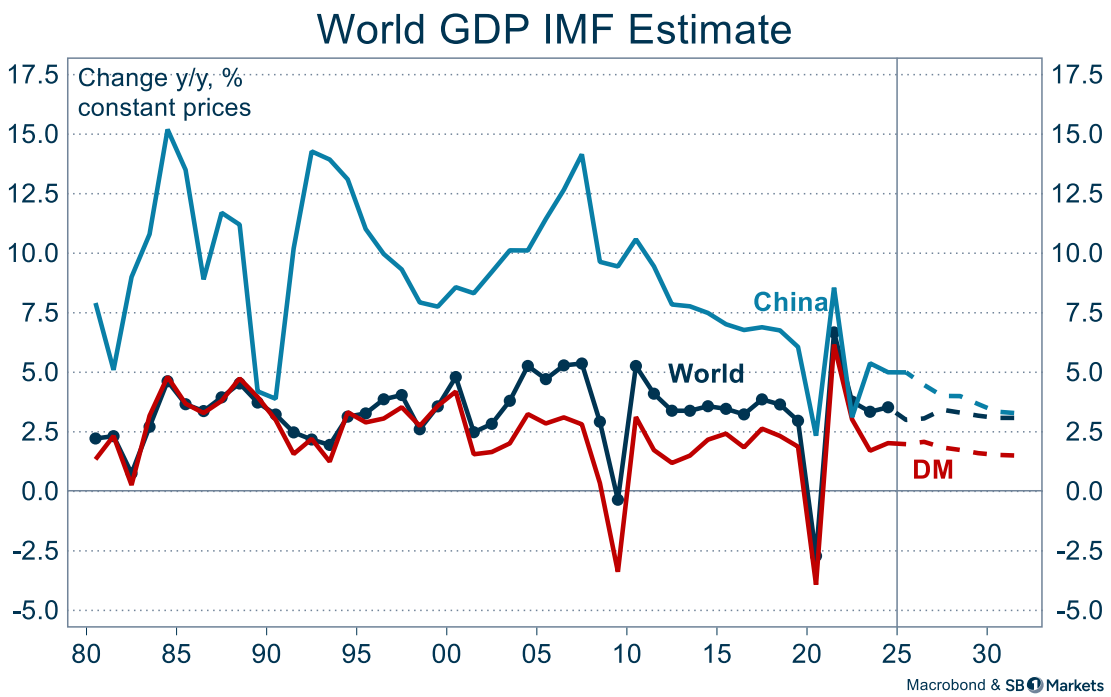


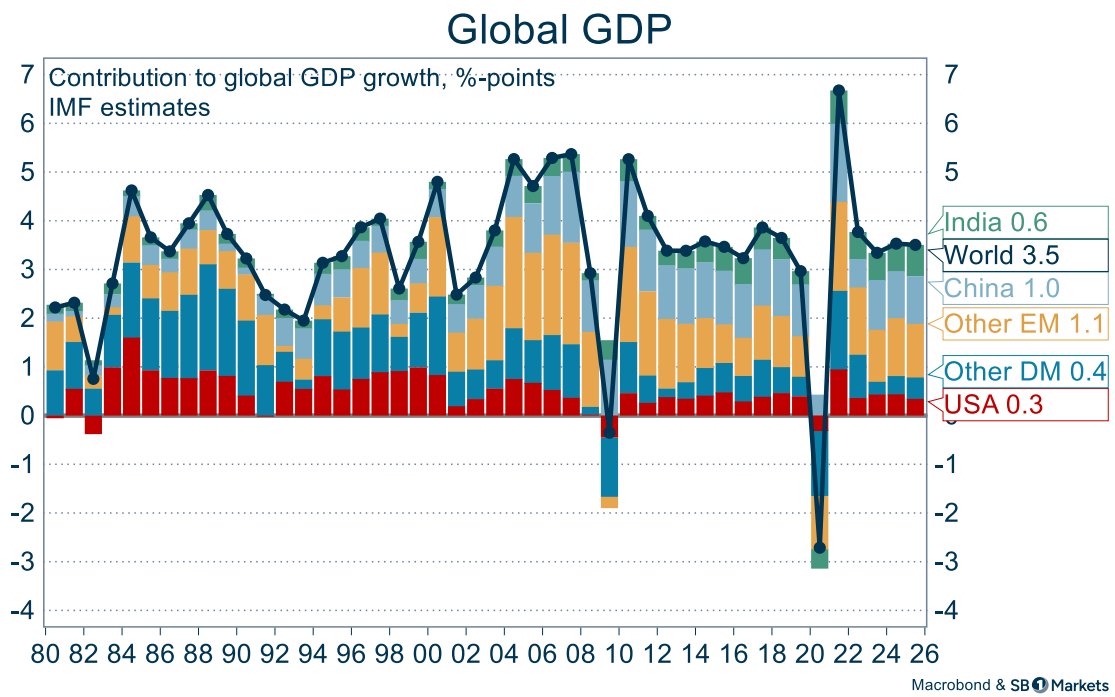


- GDP growth is gradually slowing, from up to 15% before the Financial Crisis down to 6% before the pandemic to some 4.5% now.

A changing world order, I

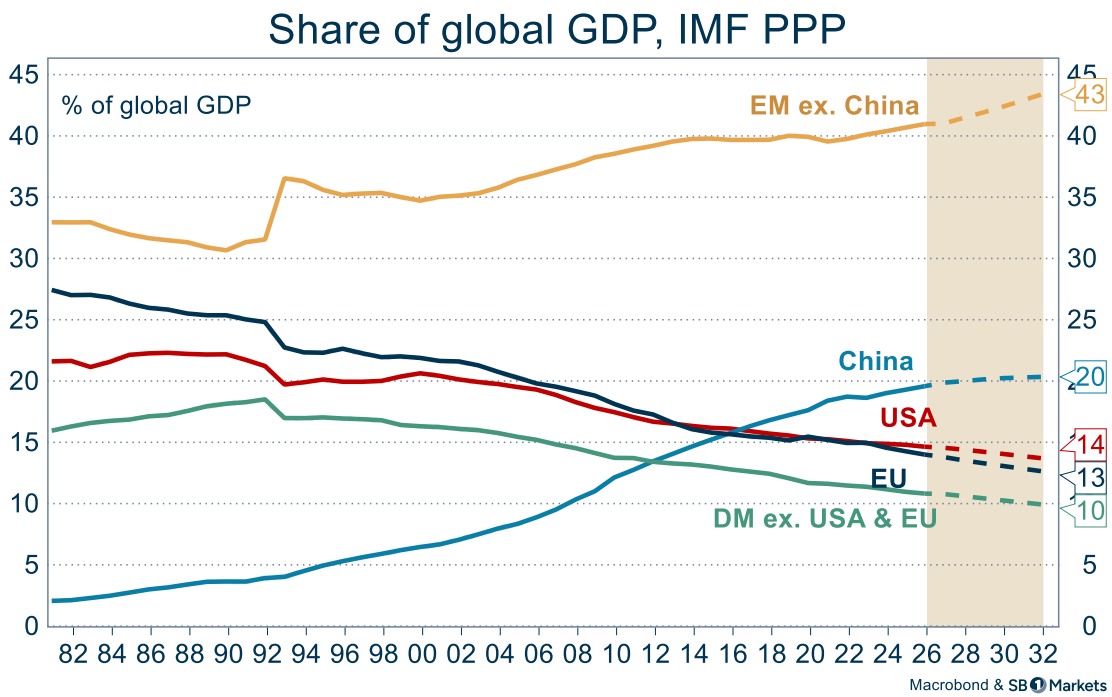
Which economies grow fastest, and which contribute most? DM countries are no longer in the lead





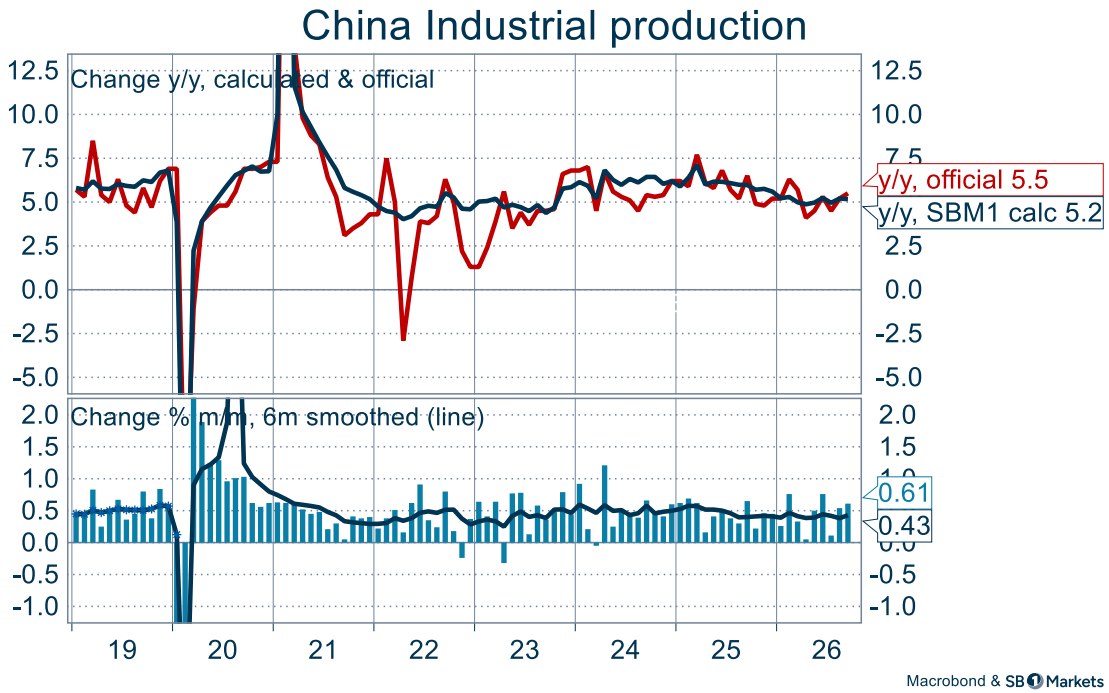
A changing world order, II

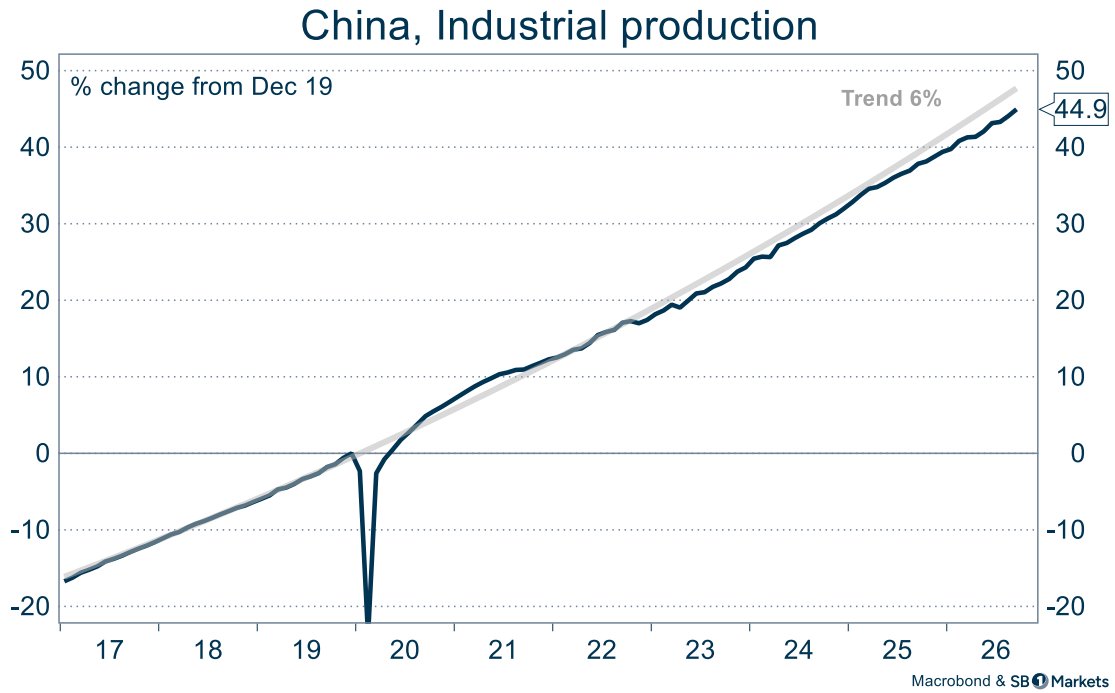
China has been the world's largest economy at purchasing power parity (comparable volumes) for 10 years. It now accounts for 20% of global output. The US contributes 15%, the EU 14% and other DMs 10%, a combined 39%.



Industrial production: the level is not back on track, but is growth?

Production rose 0.6% in September, up from 0.5% in August. The average growth rate over the past 6 months, at 0.43% (5.3% annualised), is not far below the 'normal' growth rate. The annual rate accelerated to 5.5% from 5.2% in August, *as expected*.



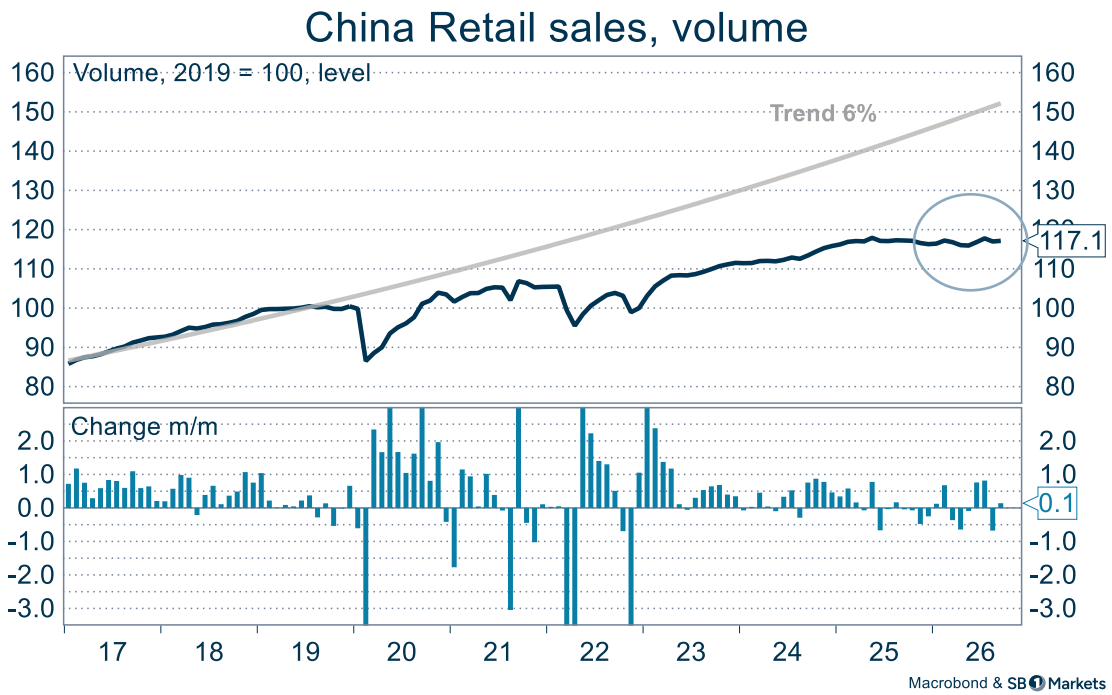


- **Growth has been slowing** since last summer, from above 6% to 5% – but has accelerated marginally in recent months.
- **The outlook**: The **PMI indices** rose further in September and signal more than 'normal' growth. However, the private sector survey (RatingDog) has been very volatile and has very likely exaggerated growth, at least vs. official growth data for the whole manufacturing sector. The NBS PMI remains at a modest level, but not far below its average (see next slide).

Retail sales rose 0.1% in September, but the trend remains flat

Nominal sales (including many services) were up 1.1% y/y, *0.6 pp above expectations*. We estimate a 0.1% decline y/y in real terms. These growth rates are far below normal levels for China. Sales are more than 20% below the pre-pandemic trend – still up 17% from 2019.

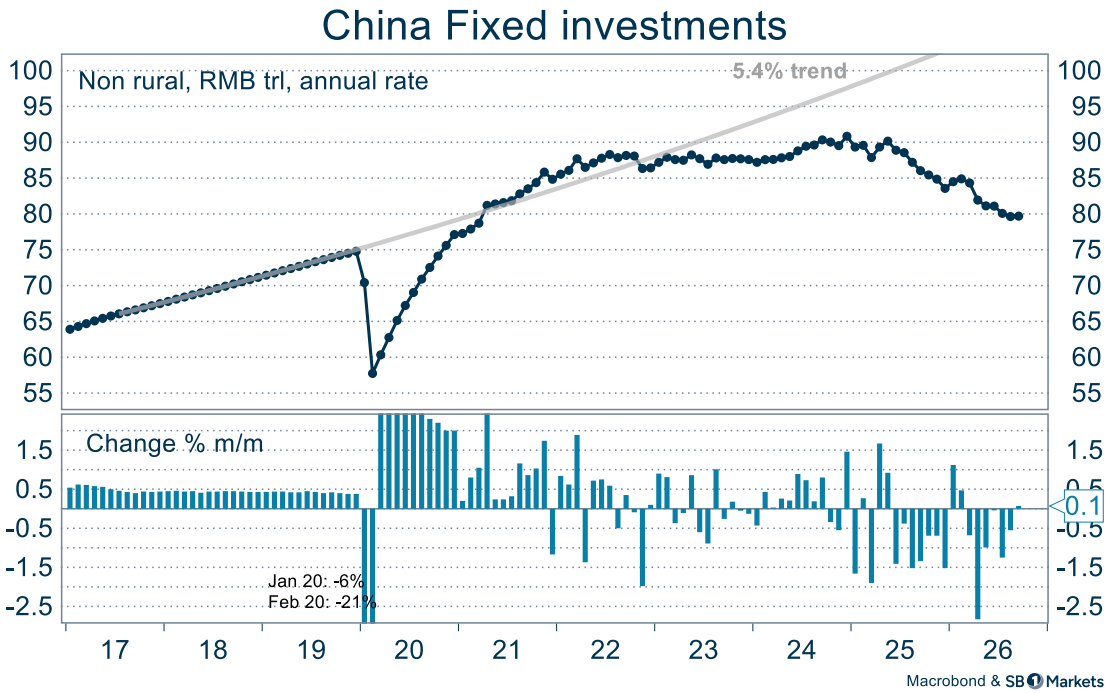


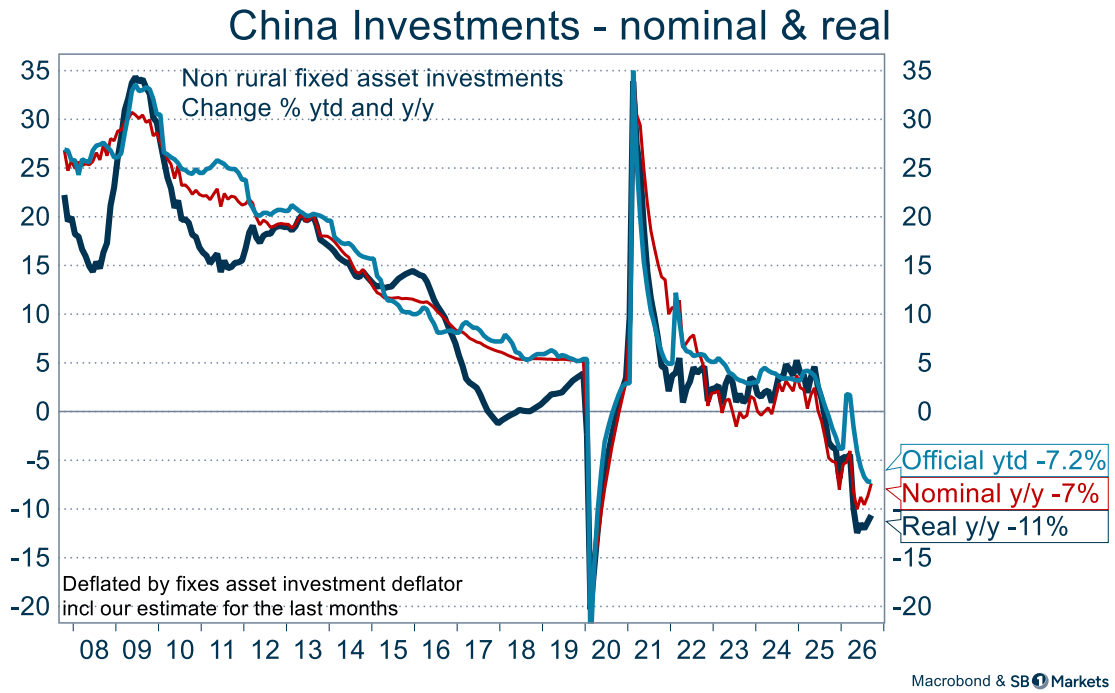


- Disclaimer: Chinese retail sales are notoriously difficult to decipher, partly due to extreme revisions, both up and down, but the official growth (or rather lack of growth) data are more than telling.

Is total investment levelling off? At least the pace of decline is slowing

The official nominal growth rate was unchanged at -7.2% YTD in September, *0.1 pp above expectations*. We estimate a 7% y/y decline in September alone, following a 0.1% m/m increase. In real terms, we estimate an 11% y/y decline, which is unusual for China.



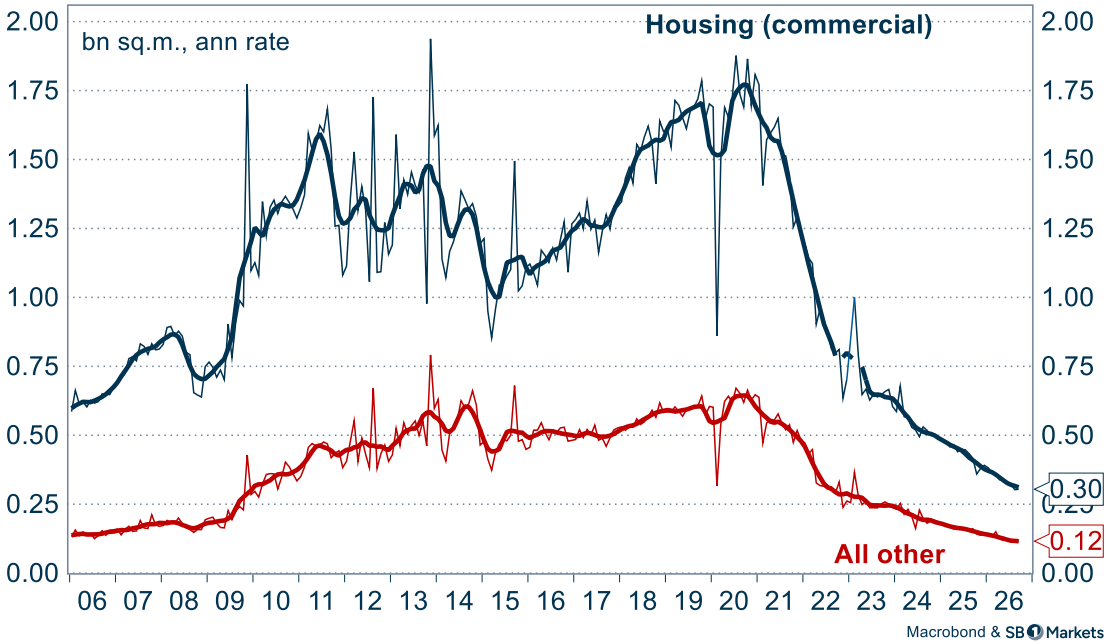


- **Investment** has fallen since early 2025, in a way we have not seen before (except for the 'sudden death' when the pandemic hit in Feb/Mar). The sudden stop at the start of the pandemic was very short-lived.
- **Investment in real estate** is down 21% YTD (versus a 20% decline in August), while other investment is down 4.2% (unch.). **Infrastructure** is down 4.2% and **manufacturing is down 2.7%. High-tech** is still up 5% (down from 20% a few months ago), and some sectors, such as aircraft production, computer manufacturing and information services, are up 8–29% (up from August, but growth has slowed substantially here as well).
- **As with other Chinese data**, inconsistencies as well as heavy revisions mean that our analysis must be taken with more than one grain of salt, and the charts above must be regarded as one of several possible interpretations of these data. However, the unadjusted official YTD data alone show broad, unprecedented weakness in 'normal' times.

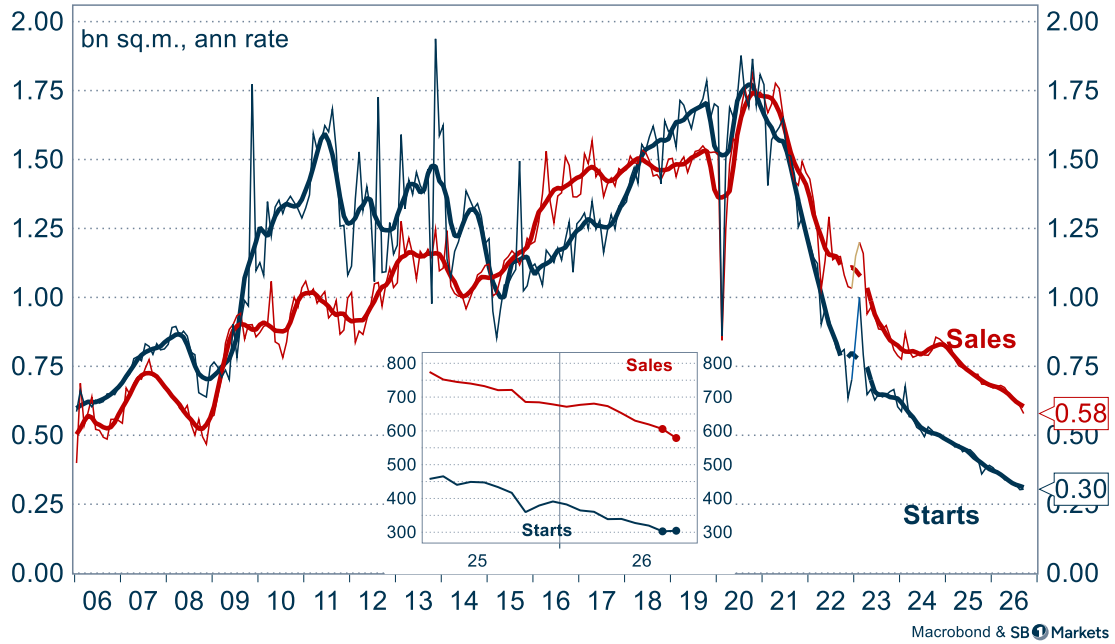
New home sales & starts are still heading down

These numbers are staggering. Construction activity has been falling since 2020, by more than 80%, and housing starts are down 30% y/y. Surveys do not signal that the market has stabilised. Fortunately, the downside risk is limited, at least in sq. m.!

China Construction starts



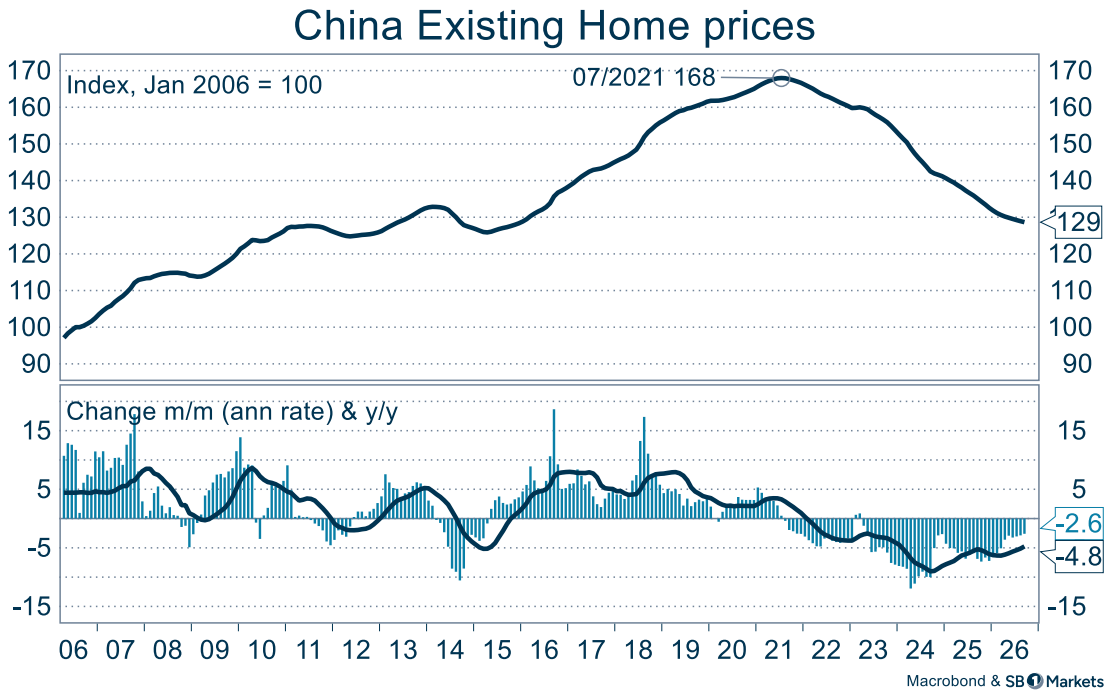
China Housing sales & starts

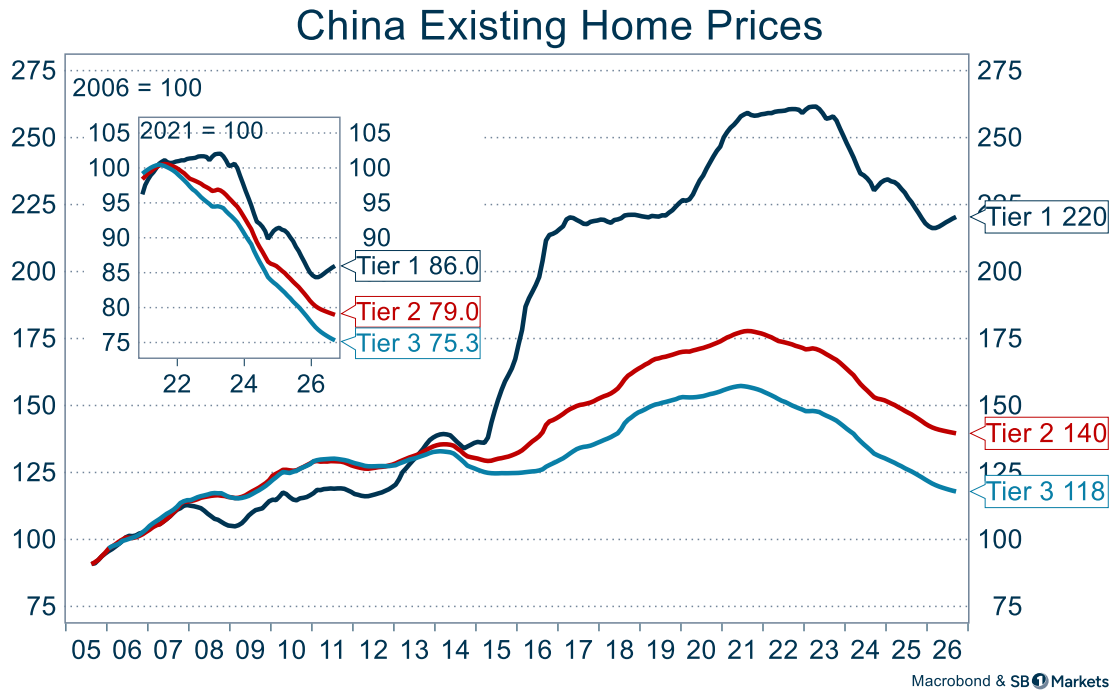


- **Sales** have been running higher than starts for a while, but we have not seen any reports of lower inventories, and prices are still falling (but at a slower pace).
  - **Housing starts** are almost half the level of sales and are still falling rapidly. These sales figures seem to be rather optimistic.
- **Other construction starts** are usually closely correlated with housing starts. In September, they fell 20% y/y. Non-residential starts are also down more than 80% from 2020.
- The **economic impact** of the decline in construction starts is spread out over time, but activity in the building sector must have fallen by almost the same amount.
  - **Production of cement and steel** is down but less than suggested by the decline in construction starts, as higher demand from other sectors has partly offset the decline.
- Some of the adjustments in the real economy may still lie ahead, but most of the decline in construction must be behind us. There is undoubtedly some 'financial clean-up' ahead, which of course may affect activity both within the construction sector and beyond in the coming quarters and years.

Existing home prices are still falling, but more slowly as prices in Tier 1 cities rise

Prices fell at a 2.6% pace m/m in Sep., the slowest pace since 2023. Prices are down 4.8% y/y. In the largest Tier 1 cities, prices have turned up lately (but are still down 1.5% y/y). The national avg. is down 23% from 2021, and it is back to the 2011 level, nominally. In real terms: 2004!

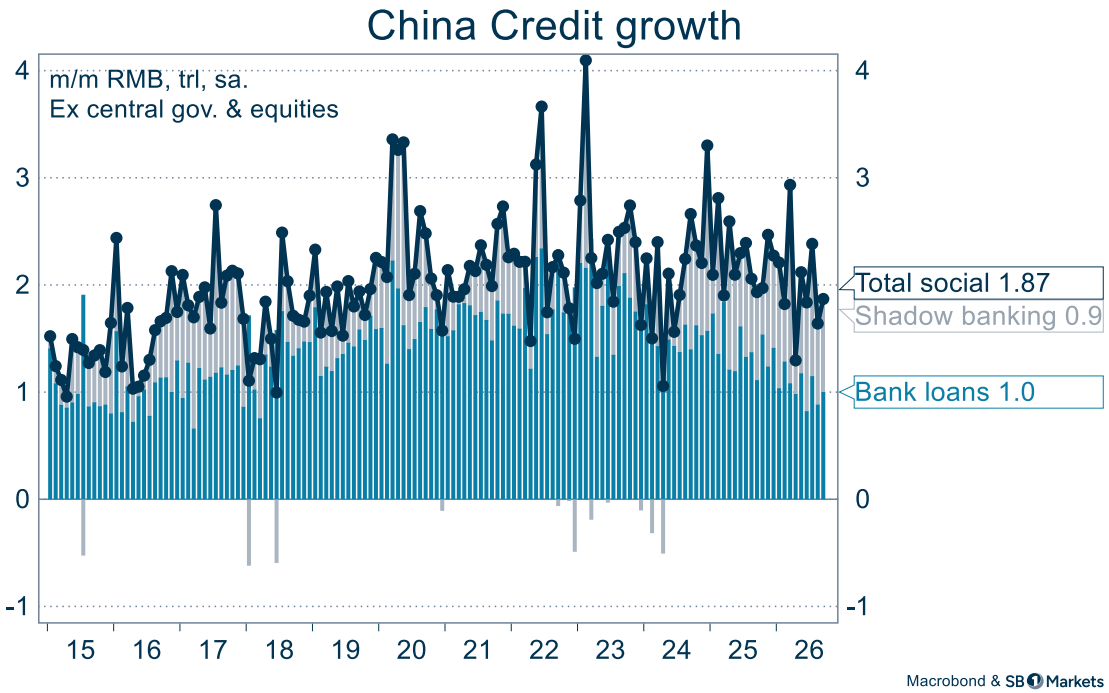


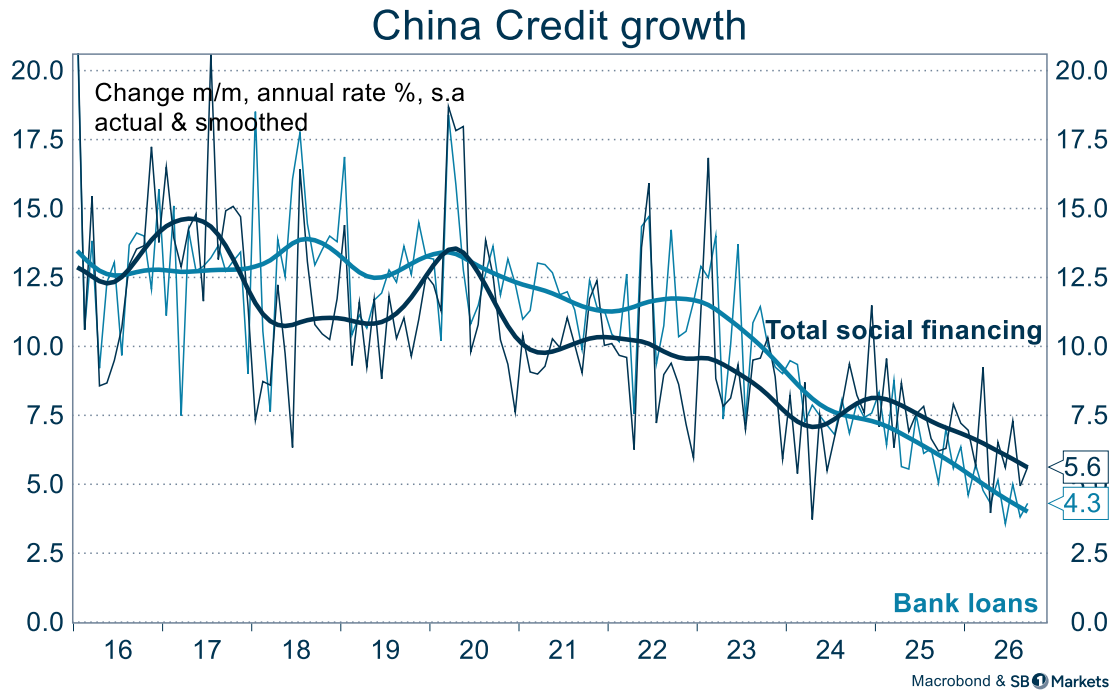


- **Existing home prices** have fallen in 58 of the past 60 months!
- **New home prices** fell at a 0.6% pace in September and are down 3.1% y/y and 12% from the peak – according to the official statistics. Trust in these data is low, as sellers in many places are forbidden to cut their (official) prices.
- ***The price and construction data suggest that the housing market has not stabilised, although prices have found a footing in the largest cities***.
  - In the 'smaller' Tier 3 cities, housing prices are back to the same level as in 2009, in nominal terms.

Chinese credit growth is slowing, as households repay their debts and save more

Businesses are borrowing at a normal pace, even if real estate loans are declining. In September, total credit rose at a 5.6% annualised growth rate, a very modest growth rate by Chinese standards.



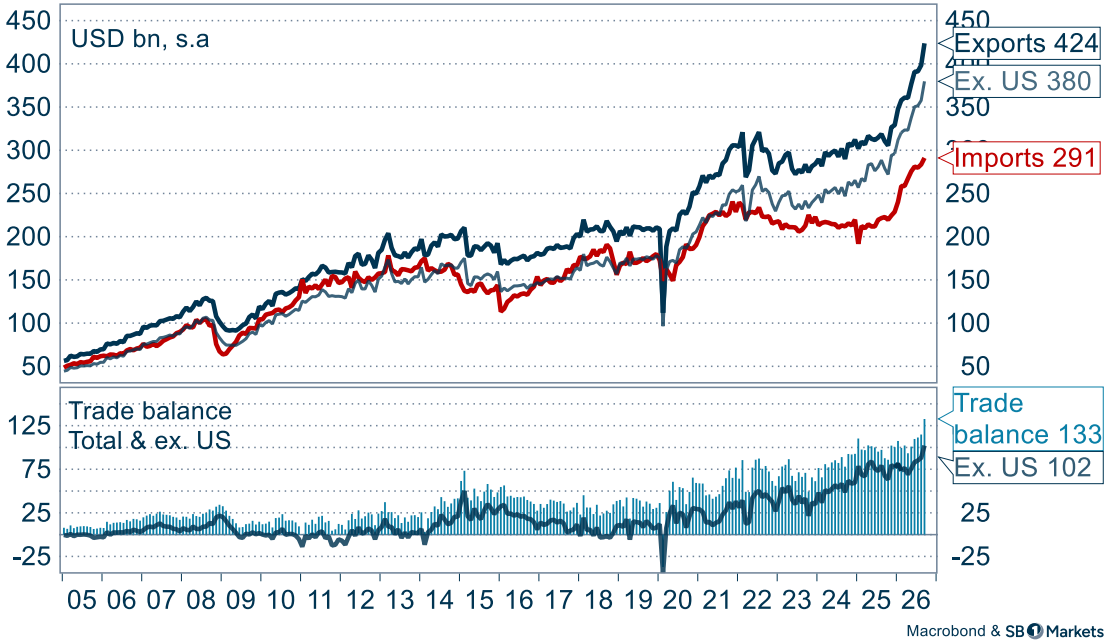


- **Total social financing** grew by RMB 3.37 trillion in September, close to expectations. Seasonally adjusted core credit (excl. central government and equities) rose by RMB 1.9 trillion, or 5.6% annualised. Annual credit growth slowed to 6.5%, a 25-year low, still above nominal GDP growth of 6.0%.
- **Bank loans** grew by just RMB 1.0 trillion (SA), somewhat less than expected. Bank lending is up just 5.0% y/y, the lowest growth rate since 2001.
- **Shadow banking credit** rose by RMB 0.9 trillion m/m, partly due to local government bonds. Other non-bank credit growth has accelerated.
- **Household borrowing fell** at a record monthly pace in both RMB and percentage terms, taking y/y growth to -2.0%. Business borrowing grew steadily at 7.6%.
- **Household deposits** have increased rapidly for the 5th consecutive year, and the deposit/income ratio is sky-high. Will households start spending again at some stage?

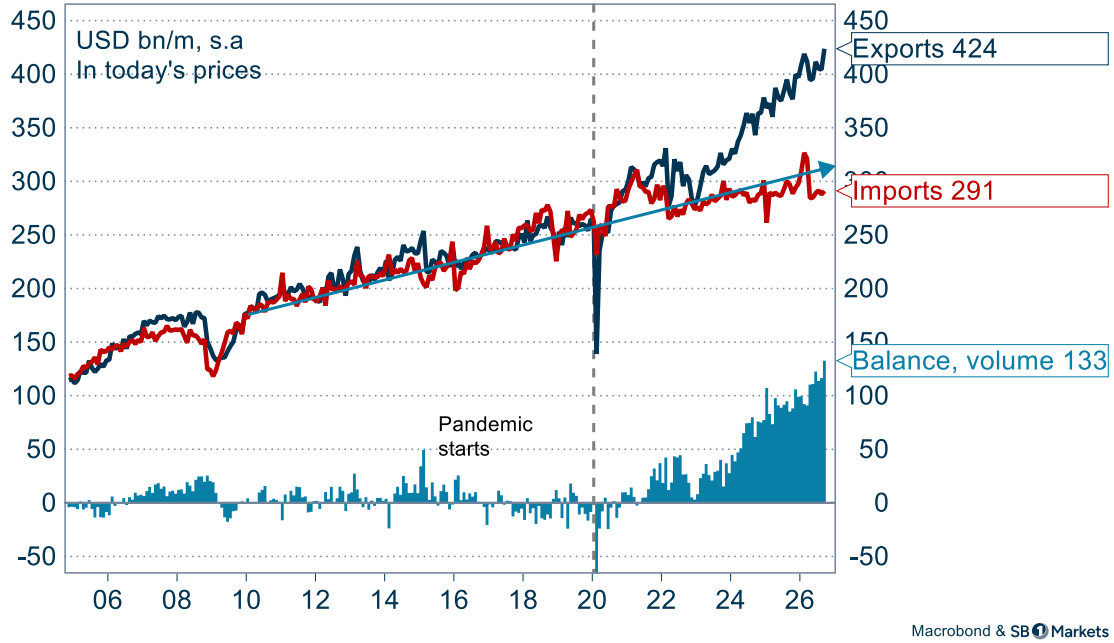
Exports are surging faster than imports. The trade surplus hit another all-time high

Exports rose 36% y/y in Sep., 11 pp more than expected! In volume terms, exports are up 'just' 12%. Imports were up 31%, 7 pp above expectations, but are down 2% y/y in volume terms! The trade surplus reached USD 133bn, by far the highest on record! Is that too much for the rest of the world to absorb?

China Foreign Trade



China Foreign Trade Volume

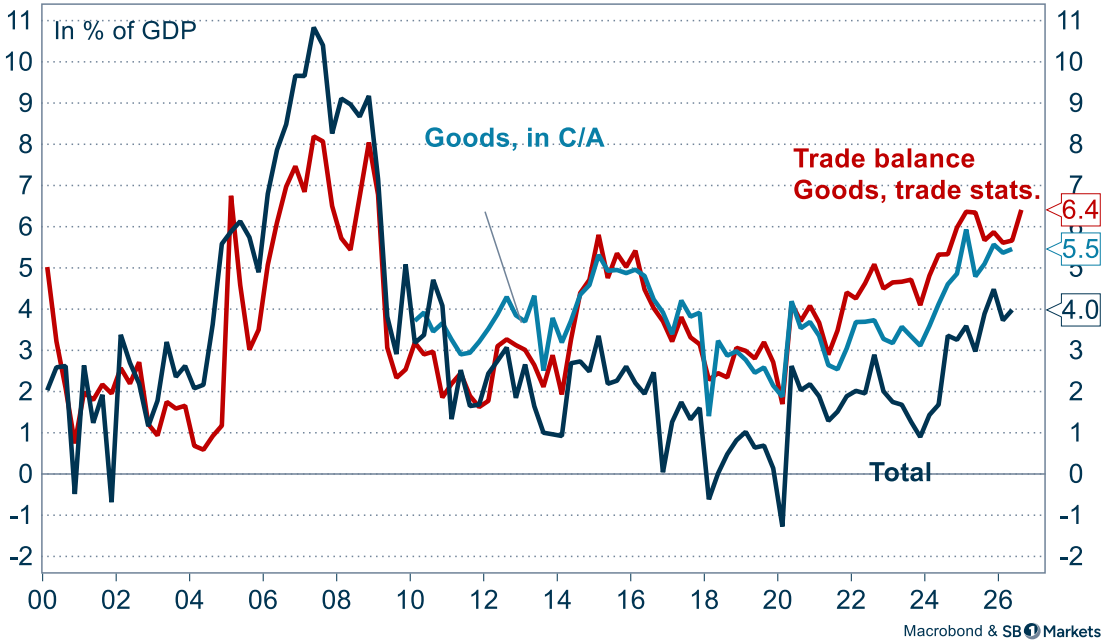


- **Exports** were up 6% m/m in September. Export volumes are less impressive, but also reached another all-time high and are trending up. Export volumes (and even more so export values) are way above any previous longer-term trends – and are up 70% since 2019!
- **Imports** rose 3% m/m. Import volumes have fallen sharply since early 2026 (oil), and the long-term trend is not much better than flat, even though exports, which also require imports, are up sharply. Thus, imports for domestic use have fallen significantly, confirming sluggish domestic demand.
- **The trade surplus** was far higher than expected, at USD 133bn (s.a., up from 112bn last month), and the trend is upwards, even if import prices have increased much faster than export prices. The surplus has also increased in volume terms, supporting growth in production in China.
  - In value terms, the surplus is above 6% of GDP, up from 2.5% before the pandemic. However, China runs deficits in both services and net income from abroad, and the **current account surplus** was 'just' 4.2% in Q2 (at the peak in 2007: 10%). This surplus, measured as a percentage of global GDP, is also lower than 20 years ago. But it is still far too large for the rest of the world to accept. ***The current Chinese growth model is not sustainable.***

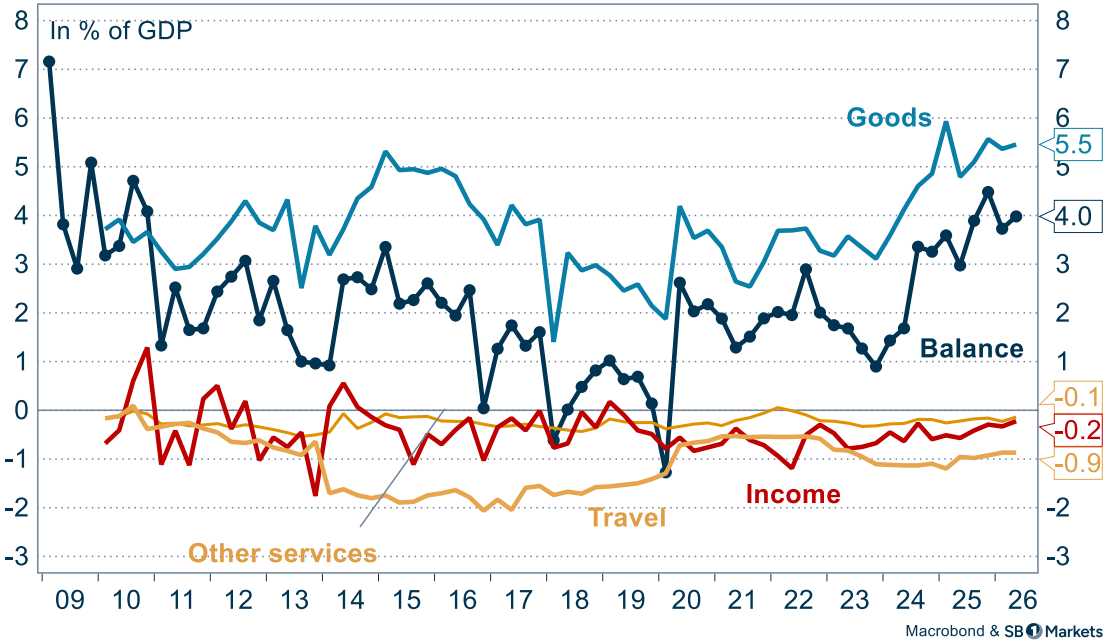
The surplus on the Chinese current account was 4% of GDP in Q2, and is trending up

The goods surplus was 6.4% of GDP in Q3 (trade data). Services were at -0.9%, mostly due to a deficit in travel. The income balance (mostly net capital income) is also negative, at -2% (even if China has a large (low-yielding) net foreign asset position).

China Trade & current account surplus



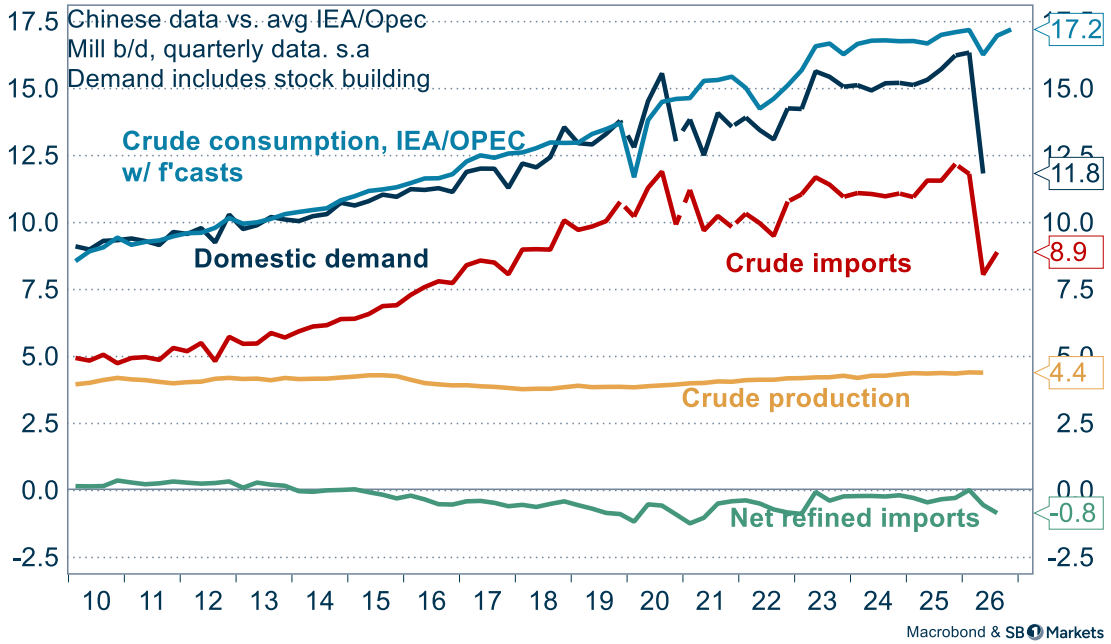
China Current account



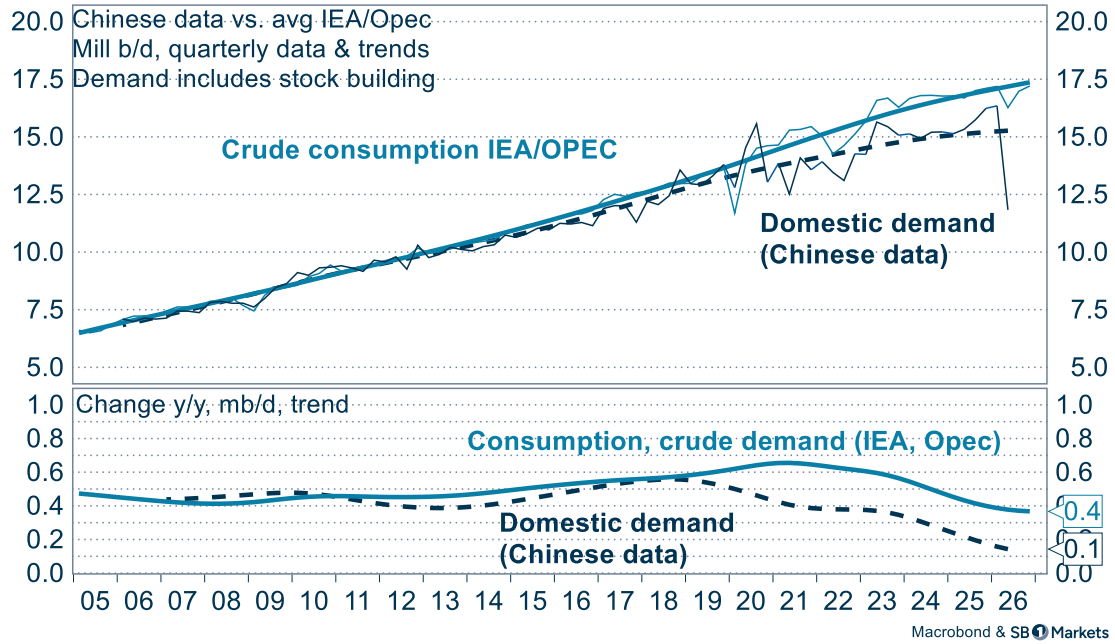
Oil imports remain well below a normal (and very likely sustainable) level

Imports were flat at 8.9 mb/d, 3 mb/d below the early 2026 level. China is drawing down inventories, as final demand has not fallen by 30%. Most likely, imports will pick up as oil is shipped out of the Gulf again.

China Oil Production, Imports, Demand



China Oil Demand - Trends



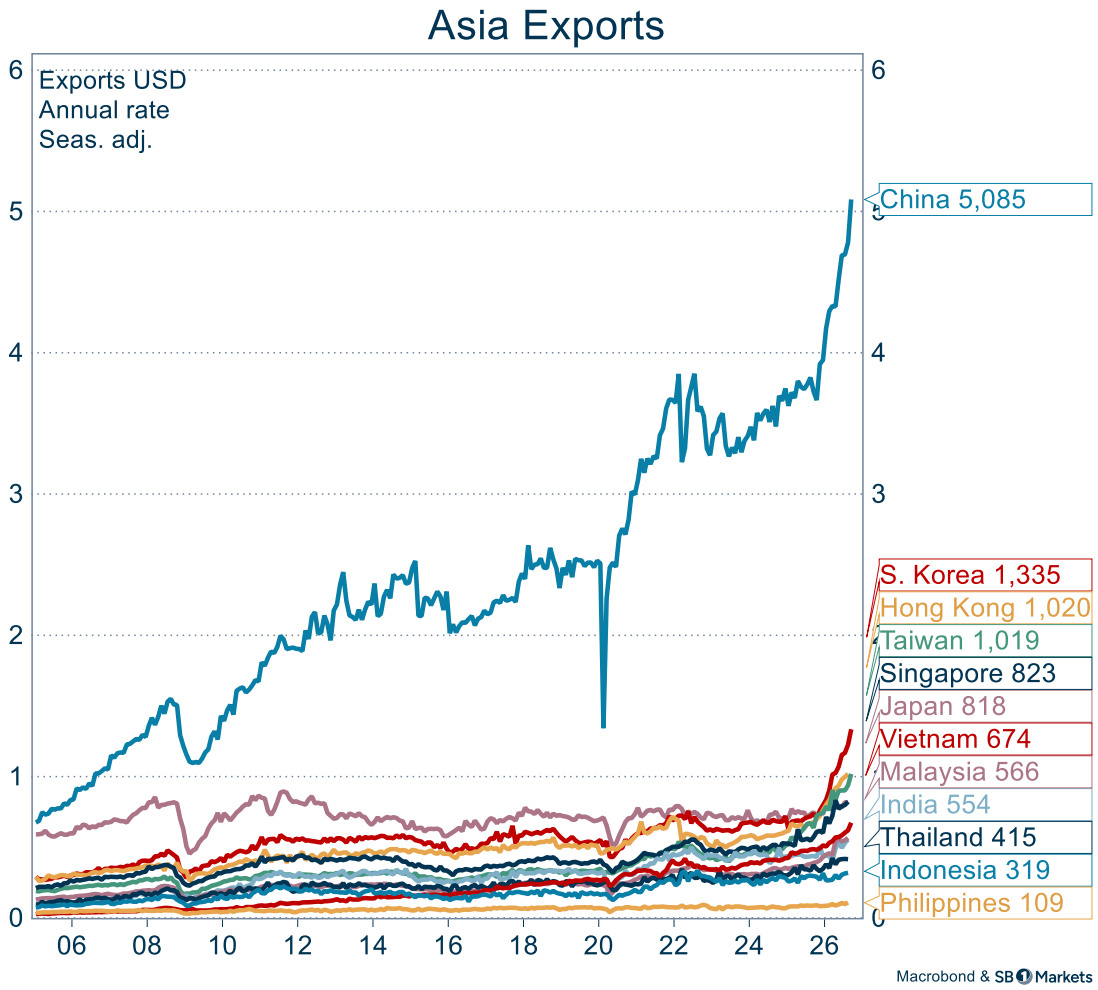
China Crude oil monthly imports

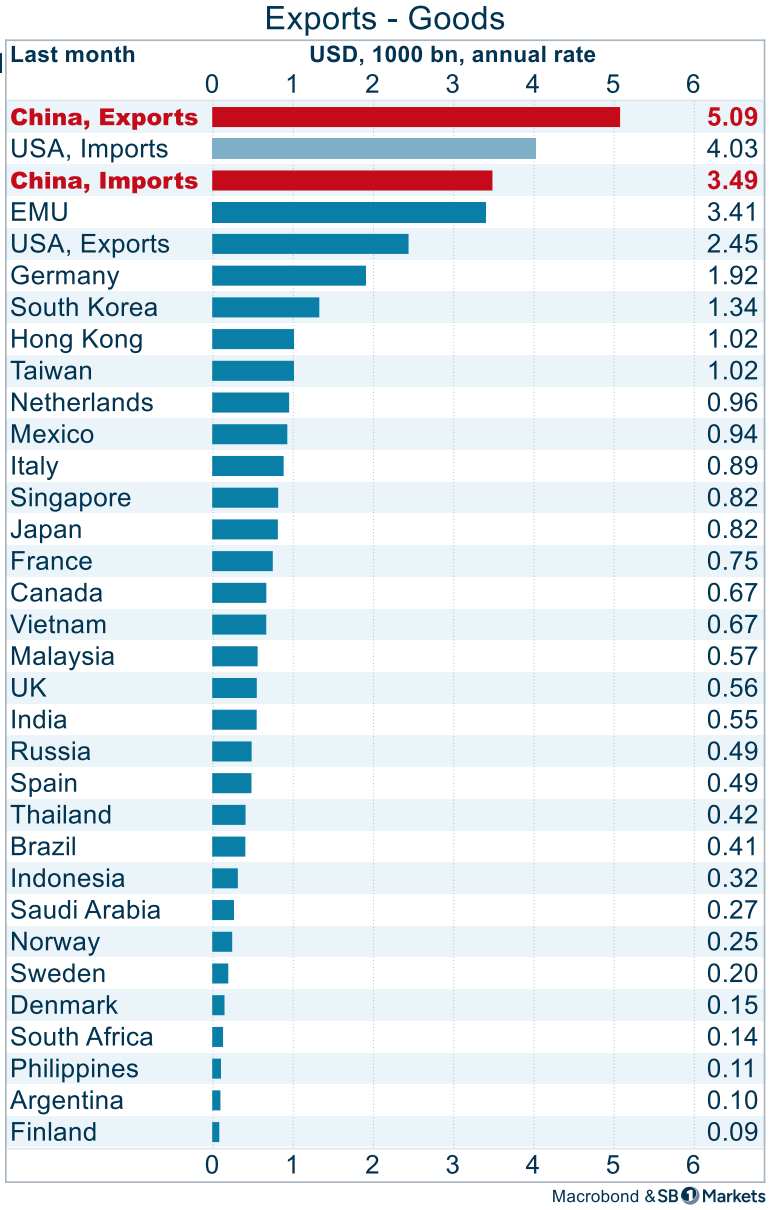


- Chinese **oil demand** has been trending up, at least until now. See the trend lines in the right-hand chart. Underlying long-term growth is still at 0.4 mb/d y/y.
  - In both charts above, Chinese demand data (including changes in inventories) are compared with the IEA's and OPEC's estimates of Chinese oil consumption/crude demand (the charts show their average, as the estimates are similar).
- China is tapping its **inventories**, probably both commercial and strategic. These inventories will very likely be replenished as soon as possible once exports from the Gulf resume.
- Going forward, the rapid increase in **the share of EVs** will soon reduce Chinese demand for oil, according to research conducted by our colleagues.

Two cross-checks on trade flows: China vs. the rest of Asia and the rest of the world

Chinese exports are more than twice US exports, and even 46% above EMU exports!
Chinese exports are almost nine times Indian exports. Chinese imports? 42% above US expo

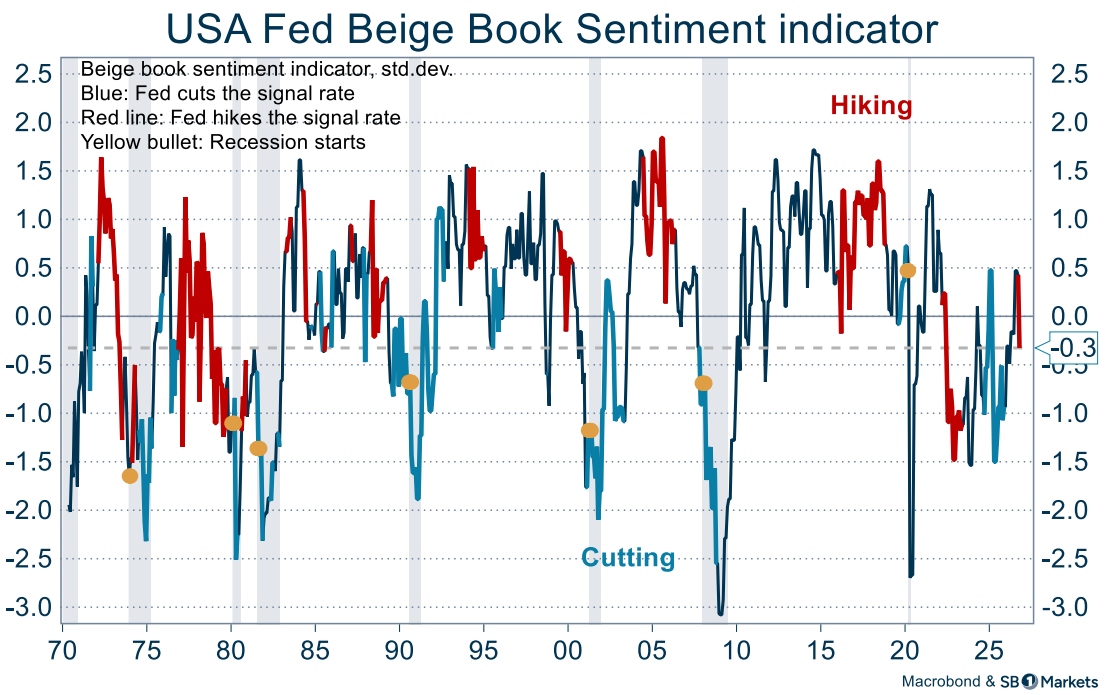




(Several EMU countries are shown separately, and their exports to other EMU countries are included)

Fed's Beige Book: activity has slowed (but not prices)

9 of 12 districts report growth, vs. 10 in Aug.; 3 report no growth. Manufacturing reports growth, other sectors do not (other surveys disagree). Wage growth is modest, but input cost pressures remain elevated. The BB sentiment indicator fell 0.7 std. dev. to *-0.3 std. dev.*

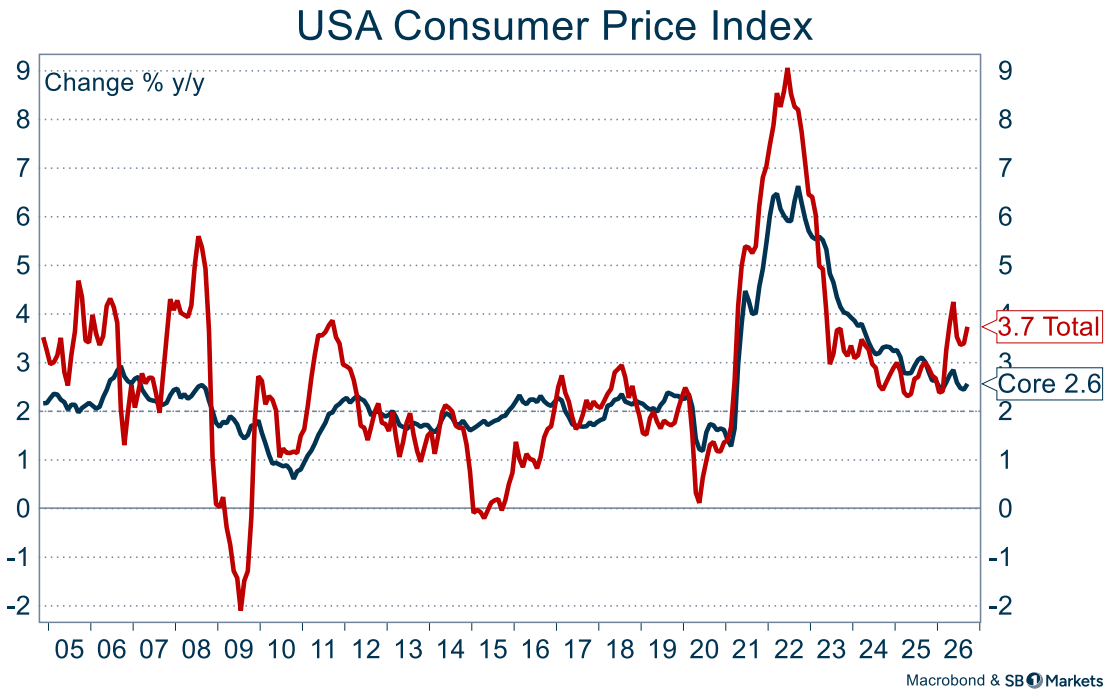


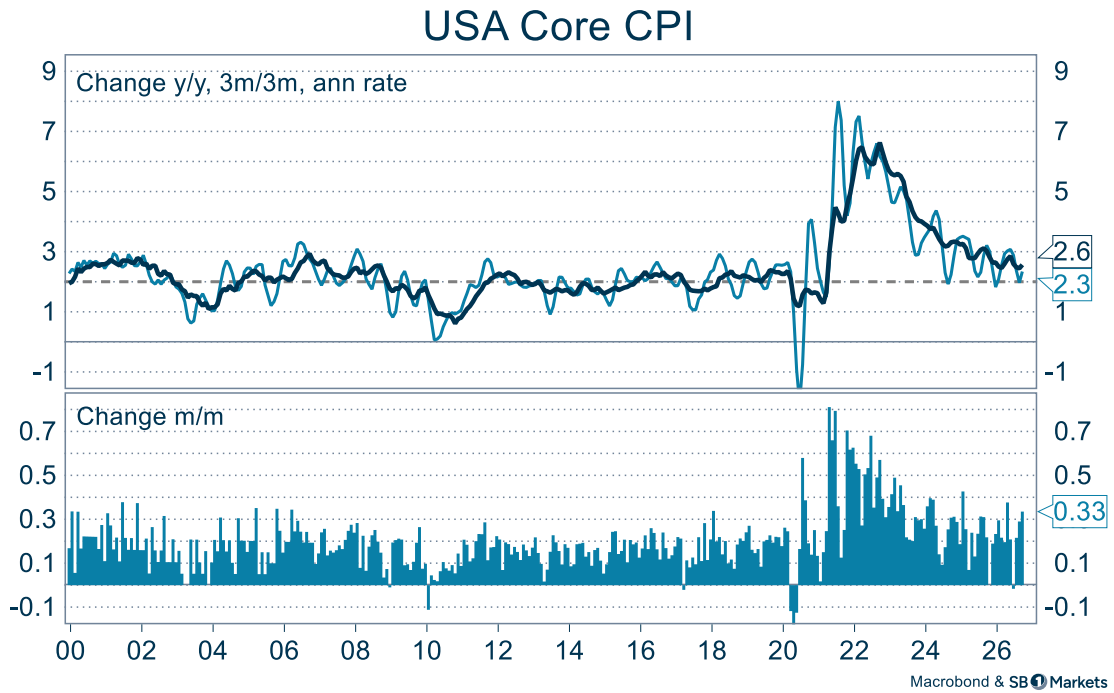
- The Beige Book Sentiment Index declined by 0.7 std. dev. to -0.3 std. dev., far weaker than we assumed.

- **Growth slowed.** 9 of the 12 Fed districts reported slight-to-moderate growth, while three reported little change. Manufacturing remains the strongest sector, while most other sectors show limited momentum.
- **Consumer spending is restrained and increasingly driven by higher-income households.** Most districts reported little or no growth in spending, and several noted weaker demand from lower-income consumers. Auto sales were generally flat to slightly down. (Actual retail sales flattened in Sep.)
- **Labour market conditions remain stable rather than strong.** Employment was broadly unchanged, with only slight increases in most districts. Labour supply is generally sufficient except for specialised technical and skilled-trade occupations.
- **AI is beginning to affect hiring decisions.** Several districts reported firms reducing hiring plans, relying on attrition or expecting fewer future hires after productivity gains from AI investments. *This is a new and increasingly common theme in Beige Books*.
- **Inflation pressures persist.** Wage growth remains moderate, while firms continue to face *rising input costs*. Businesses frequently cited tariffs, energy costs and insurance/benefit expenses as sources of price pressure, and many reported continued pass-through to customers.
- **The outlook is positive but cautious.** Most contacts still expect growth in coming months, but generally only slight growth. Businesses continue to point to uncertainty around policy, inflation, tariffs, interest rates and geopolitics as factors limiting confidence and investment.

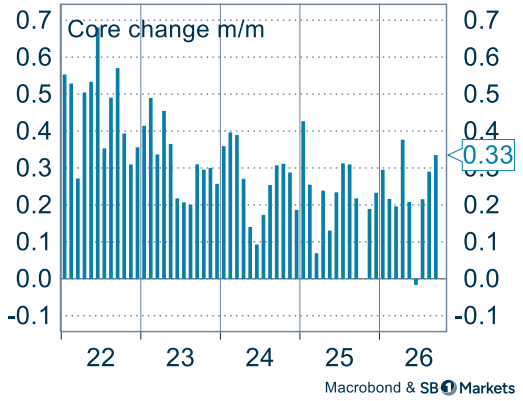
Core CPI up 0.3% in Sep. too, 2.5% y/y, the headline 3.7%, all 0.1 pp > expected

The total CPI was up 0.65%, lifted by higher energy prices. Core inflation trends down but our measures of underlying growth in recent months remain well above 2% (and rose in September). The PPI rose far more than expected and signals higher CPI inflation.



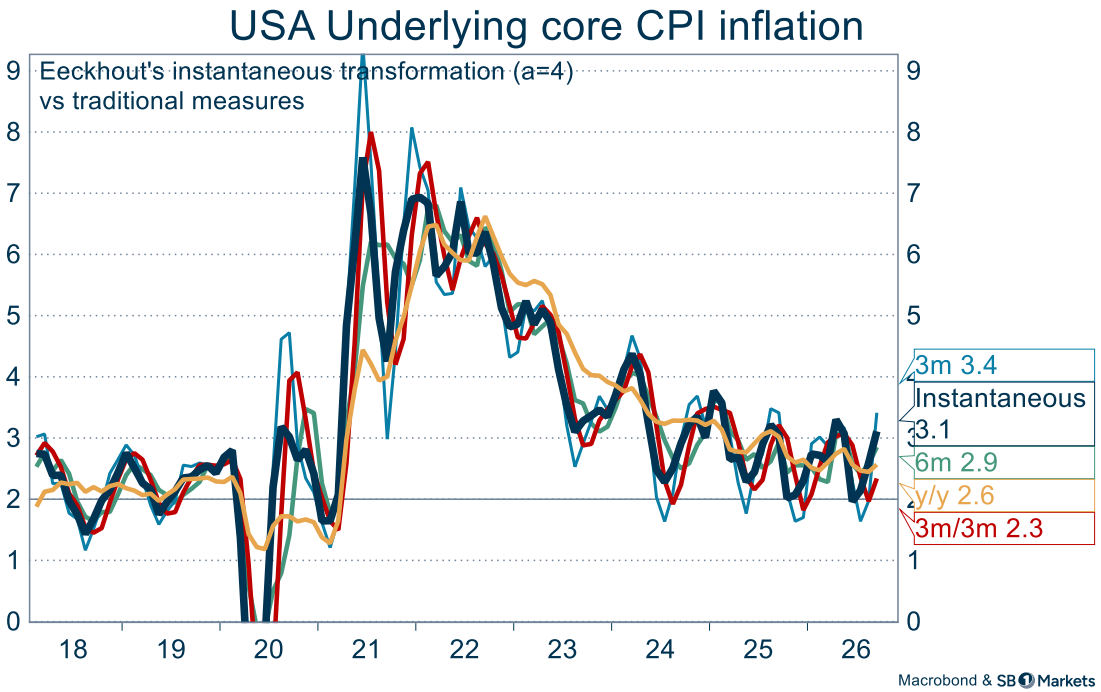


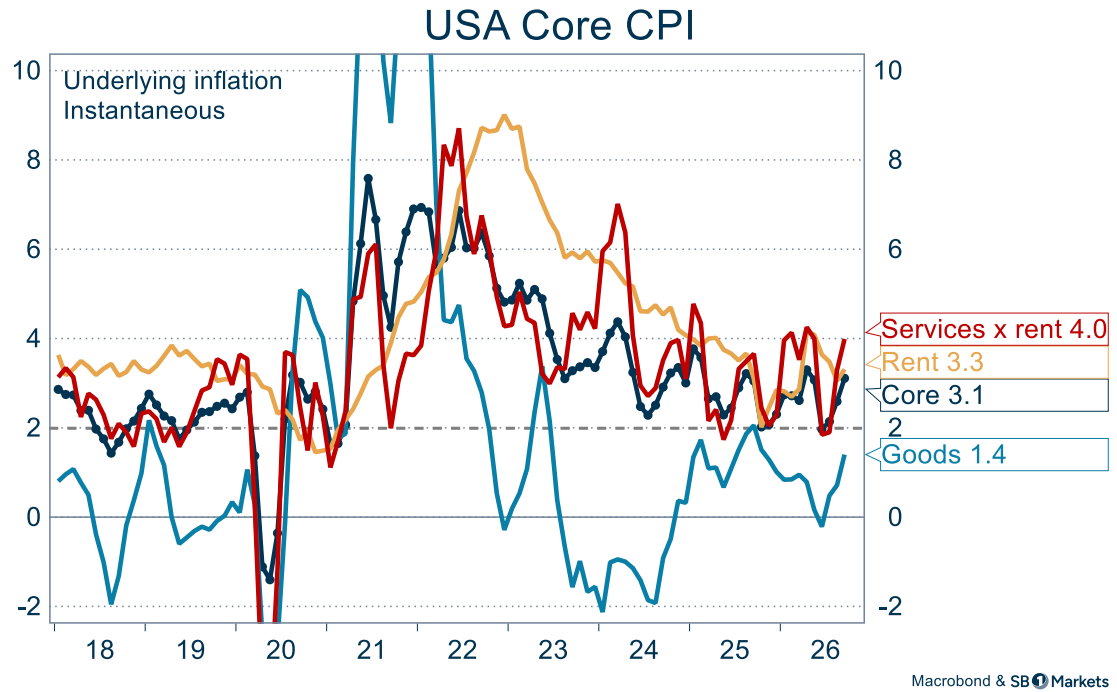
- **Energy prices** are up 20% y/y.
- Within the **core segment**, services ex. rents rose 0.4% and are up 3.2% y/y. Rent inflation has flattened at 3% y/y. Core goods are up 0.7%. The monthly growth in the core index was high in both August and September.
- **The outlook:** wage inflation is slowing, while productivity growth remains brisk (at least vs. recent history). Thus, ***unit labour costs are growing more slowly***, in fact well below 2%, which over time will lower CPI inflation, barring further energy shocks or an indefinite increase in profit margins – which has never happened before. This is the best argument for patience, but actual inflation is well above target, and the labour market is balanced (or on the tight side).
- The September CPI is not an argument against an October hike – but it is not so hot that the Fed has to hike, a week ahead of the midterm elections. The market prices in just a 16% probability of a hike next week. But 89% for a December hike!



The avg. of our underlying CPI core inflation measures is up 0.6 pp to 2.9%

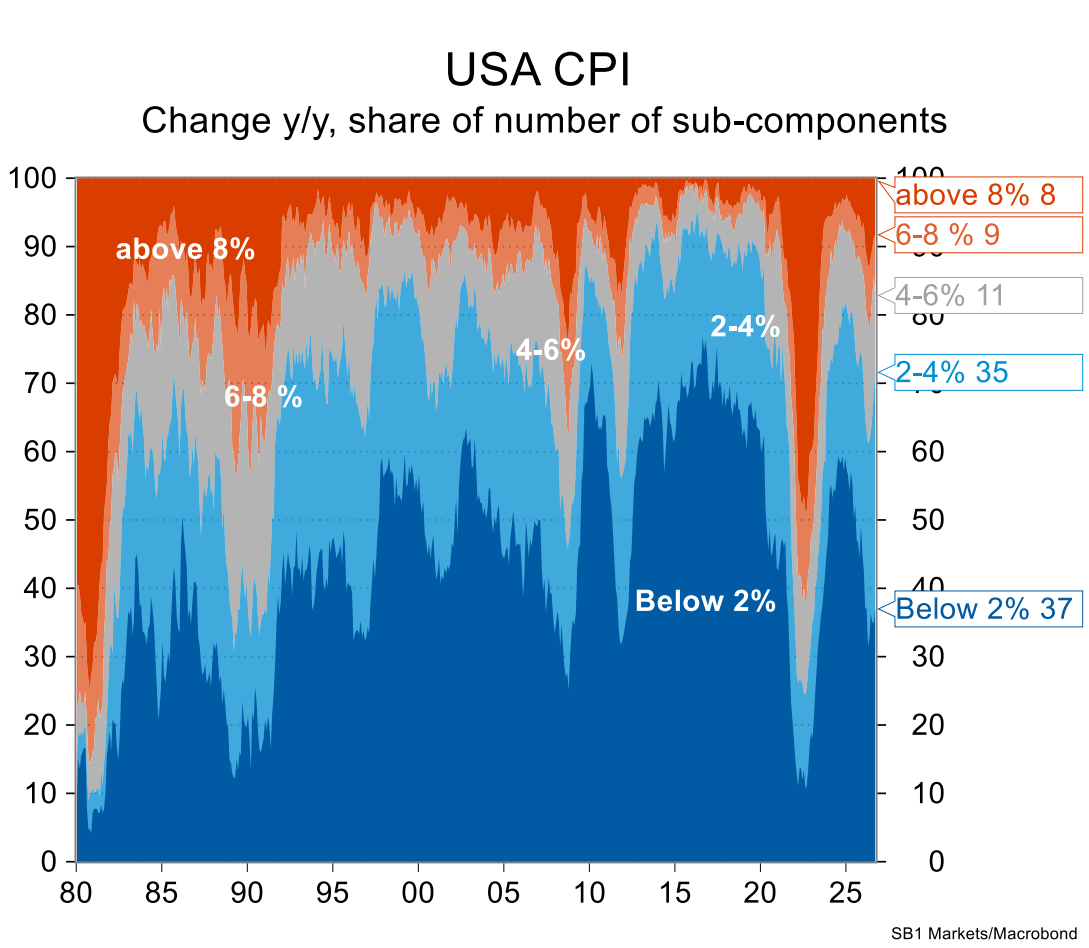
Services ex. rents are mostly to blame (public transport). Rent inflation has flattened at 3% and core goods prices are up 1.4%, all measured by annualised price increases in recent months.

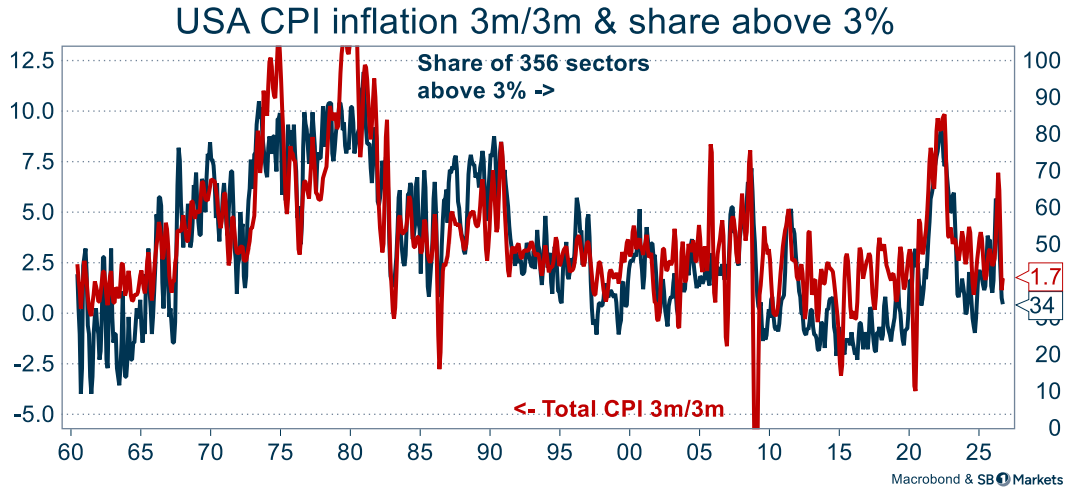


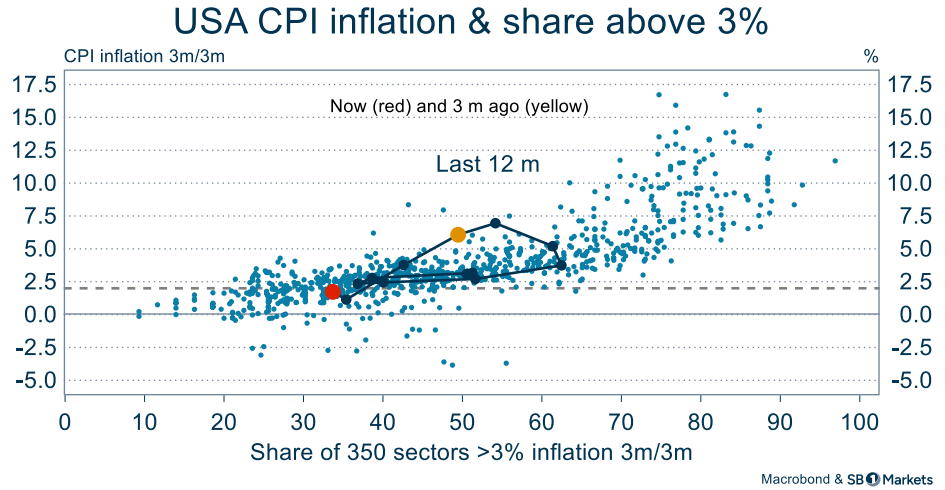


Total CPI: less hot

34% of 356 sub-sectors are up more than 3% measured 3m/3m, down from 70% back in April.





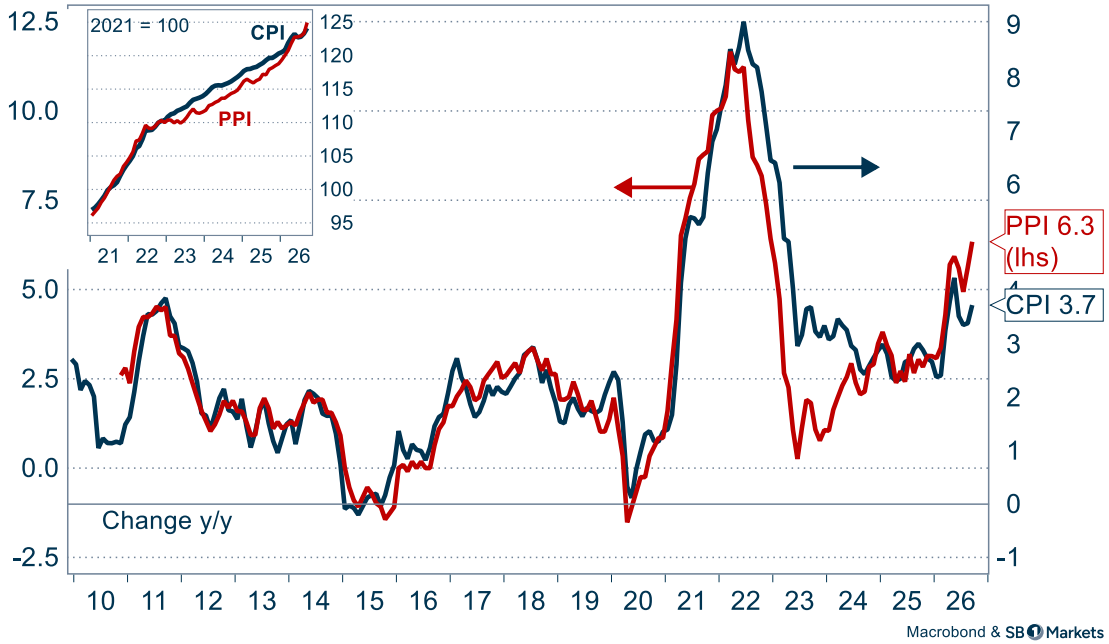


SB1 Markets

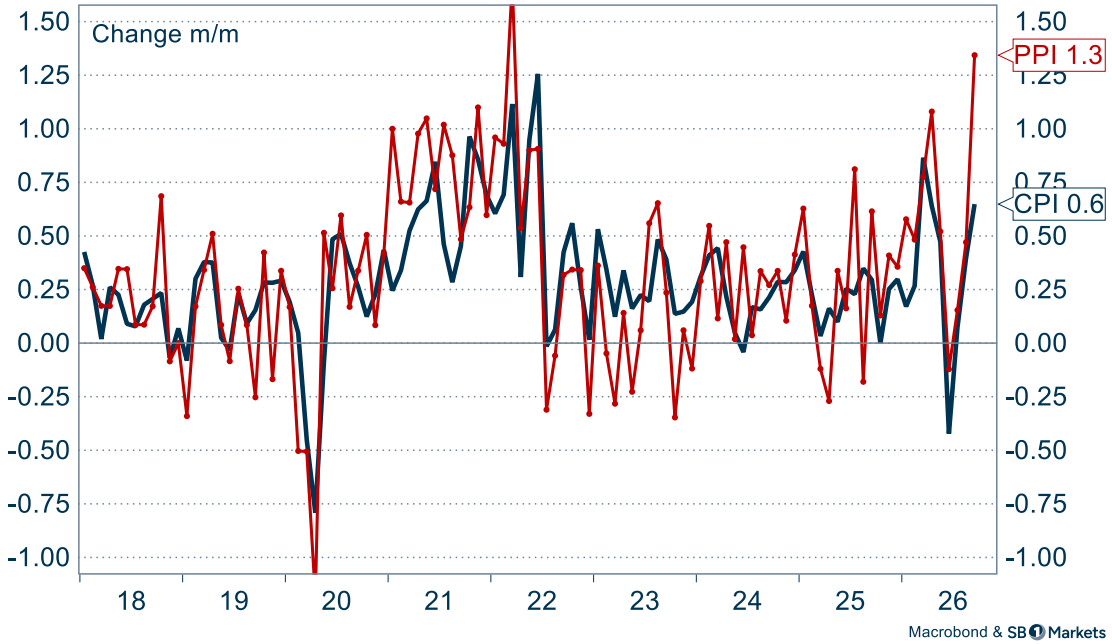
Producer prices head up too, the headline 1.3% m/m, 6.3% y/y, 0.7–0.9 pp > expectations

… which surely does not suggest a decline in CPI inflation. Energy prices rose 11% m/m at the producer level, food prices 1.2%. The PPI for core goods and services for personal consumption rose by 0.6%, above expectations (*check next page*).

USA Total goods & services final demand PPI vs CPI



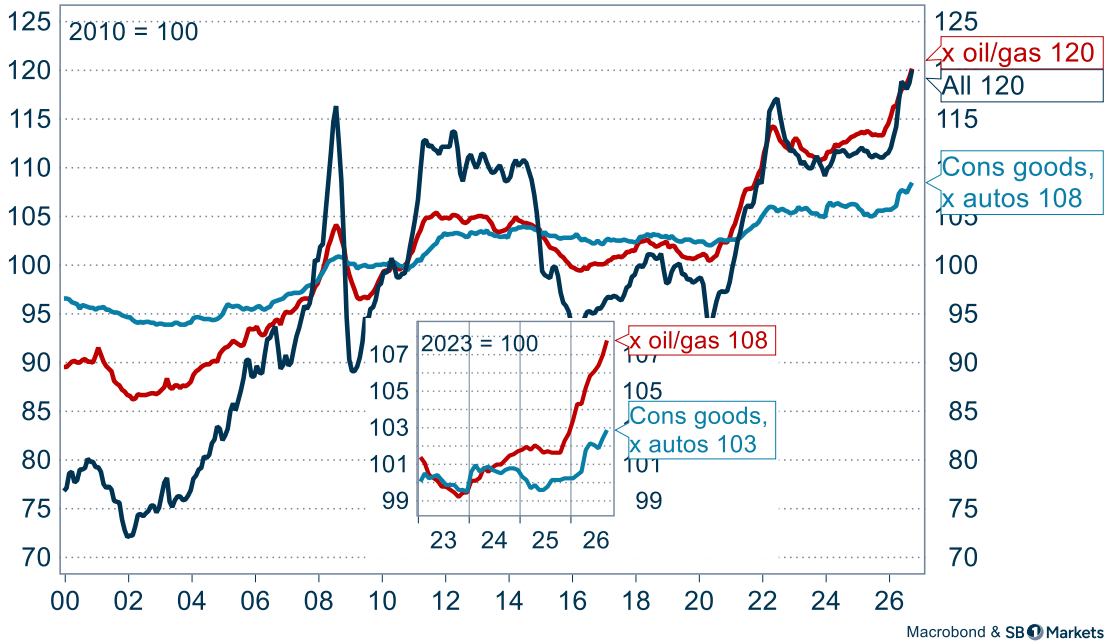
USA Total goods & services final demand PPI vs CPI



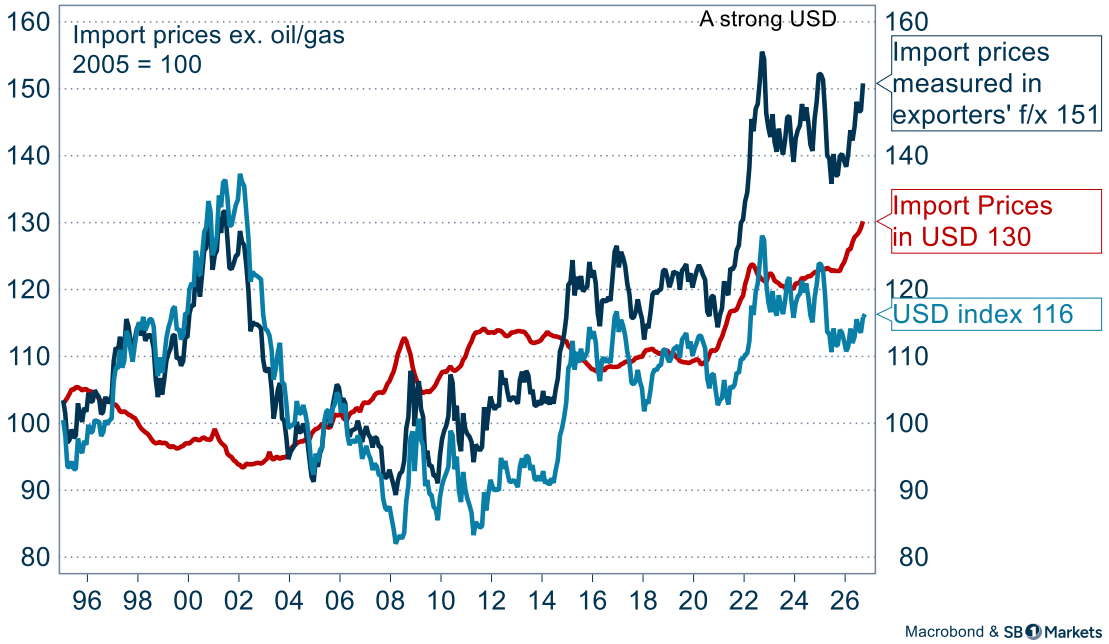
Pre-tariff import ‘core’ prices are surging – but tariffs are lower than a year ago

Import prices ex. petroleum (pre-tariff) were up 0.8% m/m in September, and are up 6.0% y/y. The effective tariff rate is probably some 7.5%, down from 12% at the peak last year, and the post-tariff price level is up ‘just’ some 2.8% y/y, but recent momentum is equivalent to a 5%+ pace.

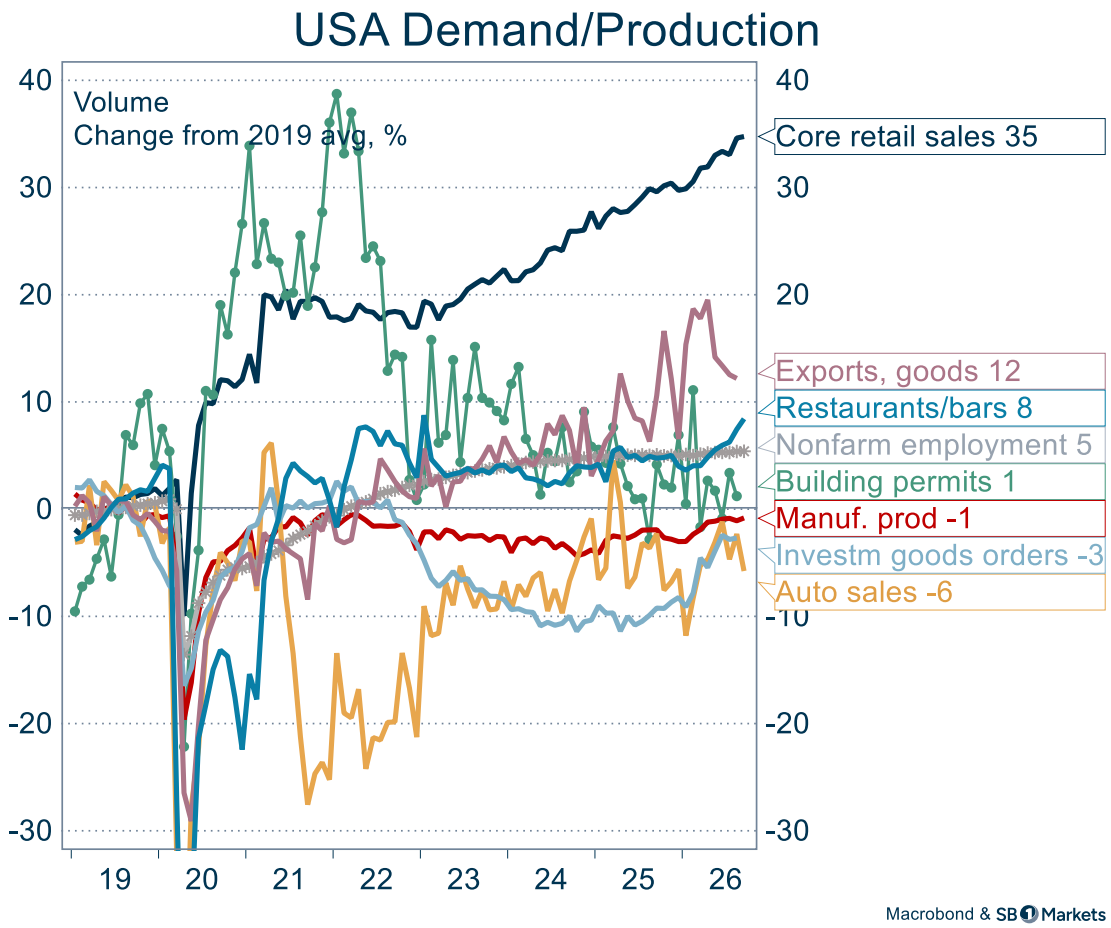
USA Import prices



USA Import Prices & the USD



The main real economy indicators: not that much to complain about

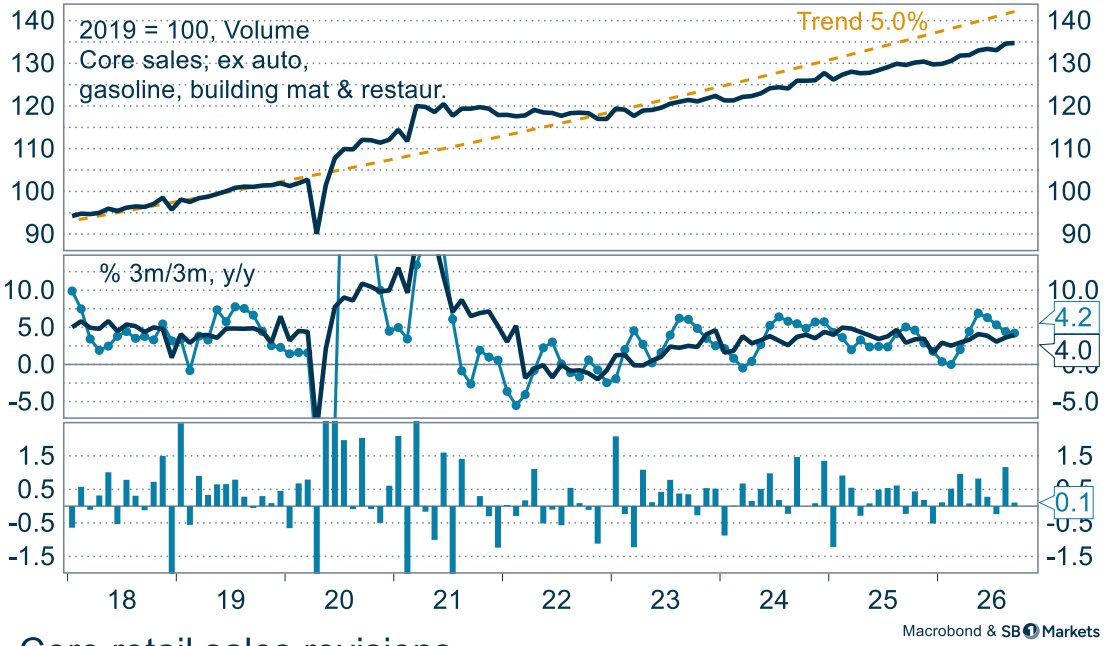


- **On the upside – all in real/volume terms**
  - **Retail sales** are still heading rapidly up.
  - **Restaurants** are on the way up again after a short slowdown.
  - **Investment goods orders** have climbed rapidly.
  - **Export volumes** have fallen over the past 3 months, but the longer-term trend is upwards.
  - **Manufacturing production** fell in August but trends upwards.
  - **Nonfarm payrolls** growth surprised on the downside in September but trends slowly upwards (alongside slow growth in population).
- **Flat**
  - **Auto sales:** mixed, down since June but flat over the past 2 years.
  - **Manufacturing production:** up last year but not further in recent months.
  - **Building permits** are volatile, but the level may have stabilised lately.
- **On the downside**
  - **?**

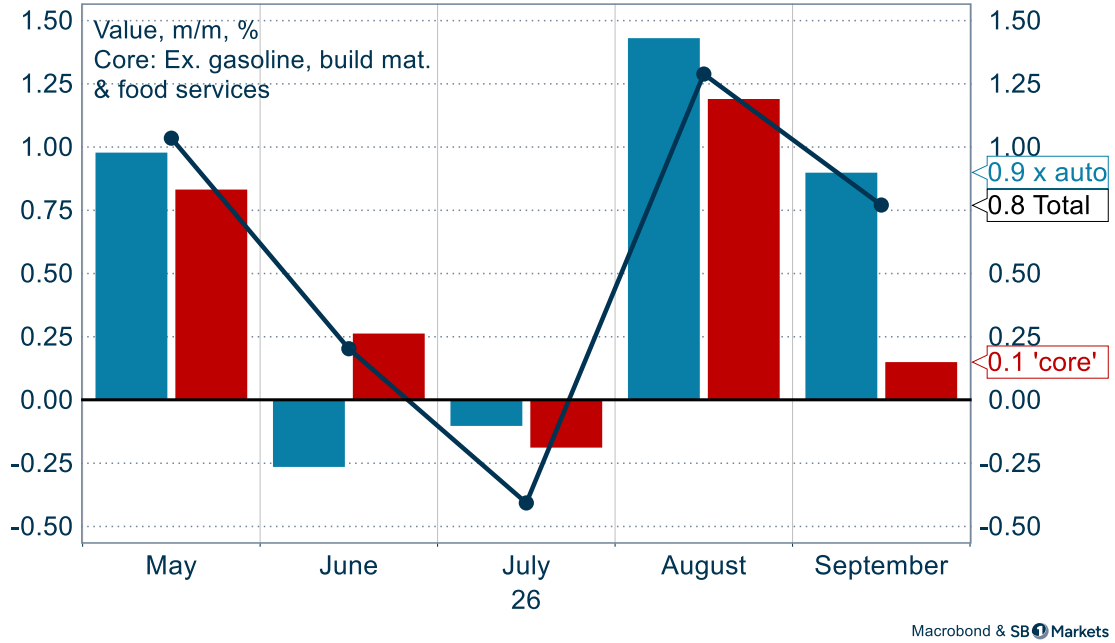
Core sales weaker than expected in September, the total supported by gasoline (prices)

... which is not a blessing. The underlying growth (3m/3m) has slowed somewhat, but is still above 4%, in volume terms. The slowdown is broad. Core sales are up 4.0% y/y. Total nominal sales rose by 0.8% in September, 0.5 pp more than expected – but for a 'bad' reason.

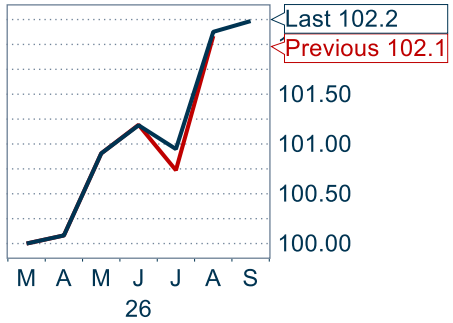
USA Core retail sales



USA Retail sales



Core retail sales revisions



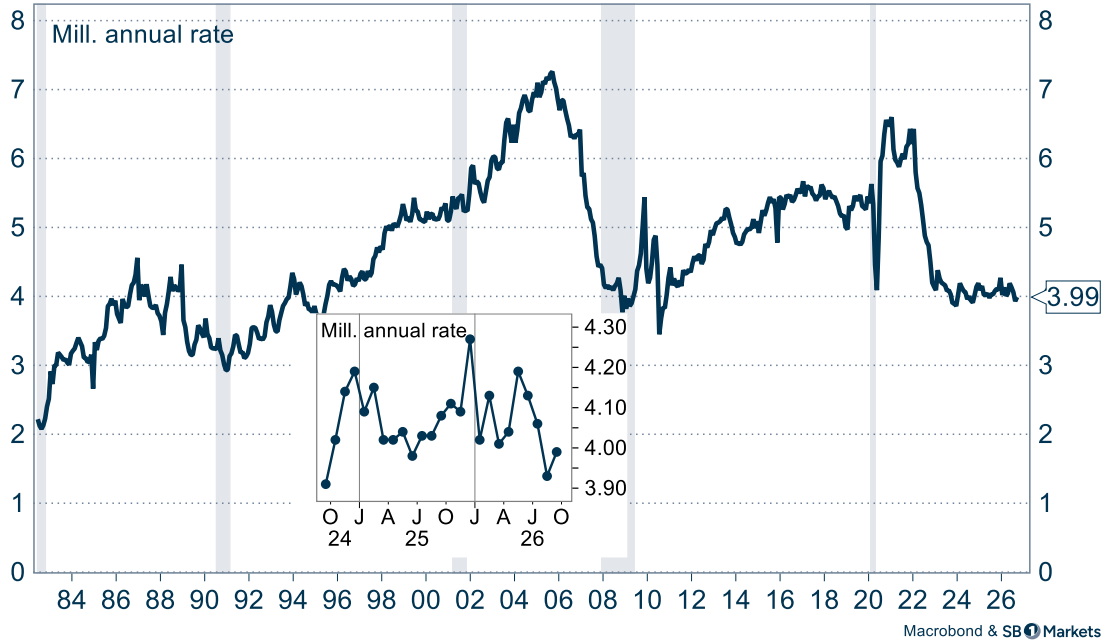
- Sales at **gasoline stations rose** by 6% and together with higher restaurant/bar sales explained all of the 0.8% lift in total sales. Changes in other sectors were minor and totalled close to zero.
- **Core retail sales** grew 0.1%, expected up 0.3%. In volume terms, we assume 0.1% as well.
- **Total real disposable income** has been revised up (National Accounts revision in late Sep.) but still grows slowly and much less than total consumption. The savings rate, which was revised up, is still heading down, and sits at a low level.
- **Nominal retail sales** have been revised substantially downwards (but not sales measured in volume terms, at least not yet).

Core retail sales = Control group = Total sales, excluding autos, gasoline, building materials & restaurant sales. Food sales in stores are included.
Volume growth over the past 3 months is calculated by SB1M

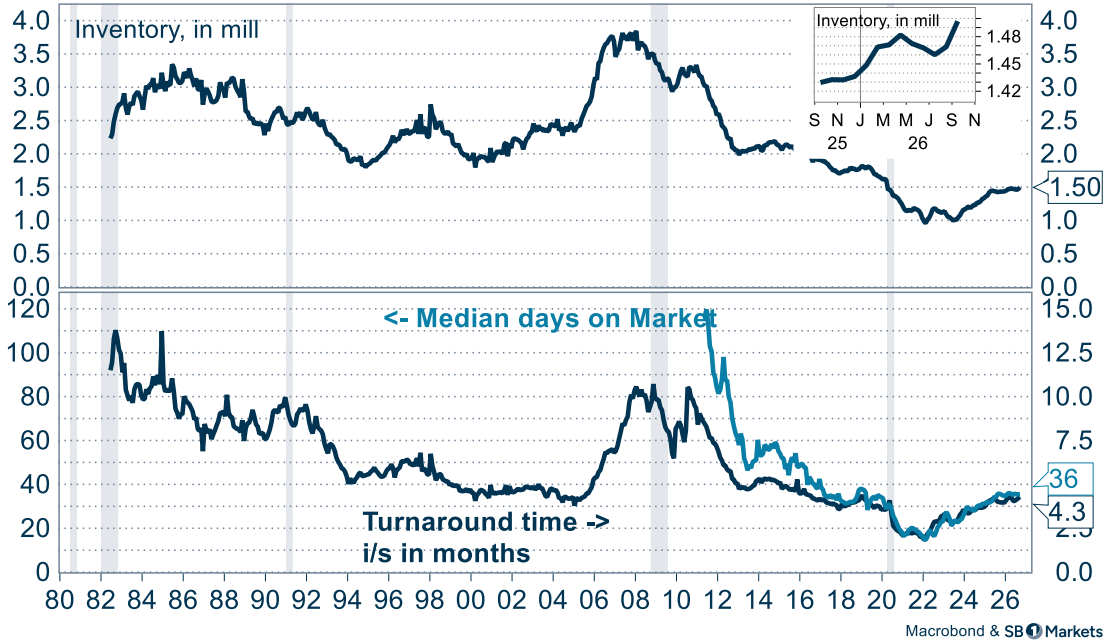
Existing home sales remained at a low level in September, with a flat trend

Sales rose slightly from a downwardly revised level in August, overall as expected. The inventory of unsold homes is below a normal level, also vs. sales, but is slowly trending upwards. Prices fell marginally, following a 0.5% drop in August, but are up 1.3% y/y.

USA Existing home sales



USA Inventory of existing homes for sale

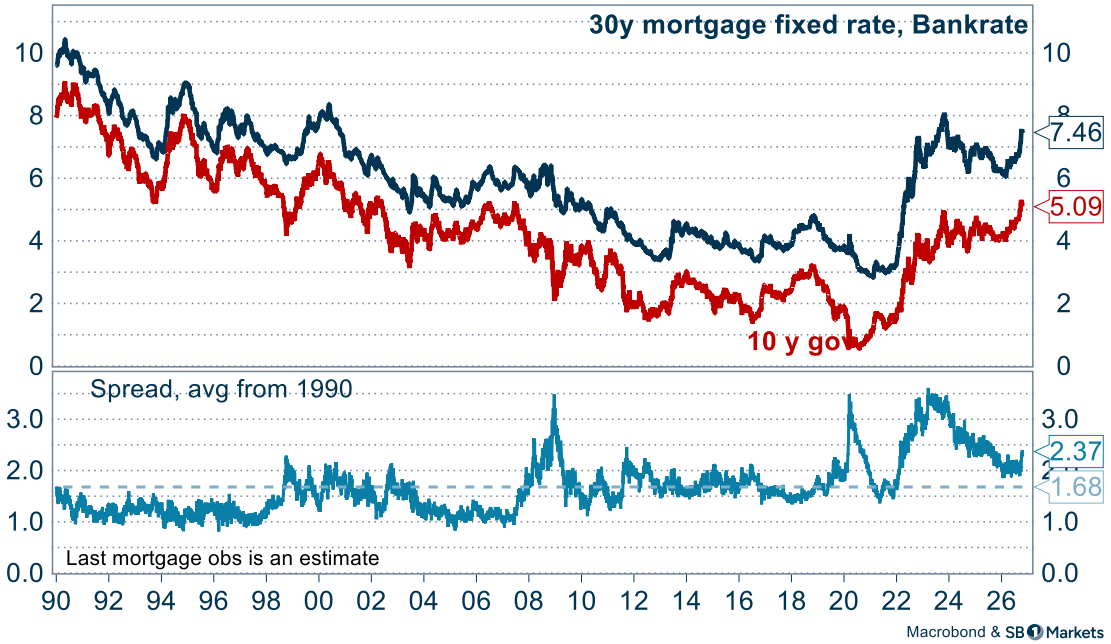


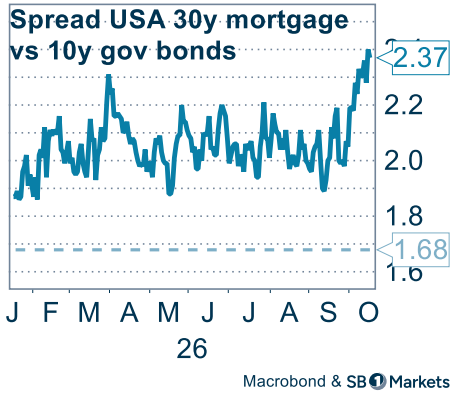
- The inventory is still at a low level, but well up from the bottom in 2022/23, also measured vs. sales.

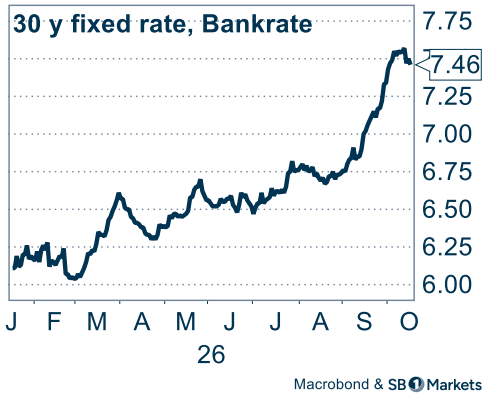
The 30y fixed mortgage rate is up 130 bps since before the war with Iran started, to 7.5%

The mortgage spread vs. the 10y gov. bond yield (the convention) explains less than 30 bps of the lift. The inflow of purchase mortgage applications has fallen sharply in recent weeks and is approaching the 2023–2024 low.

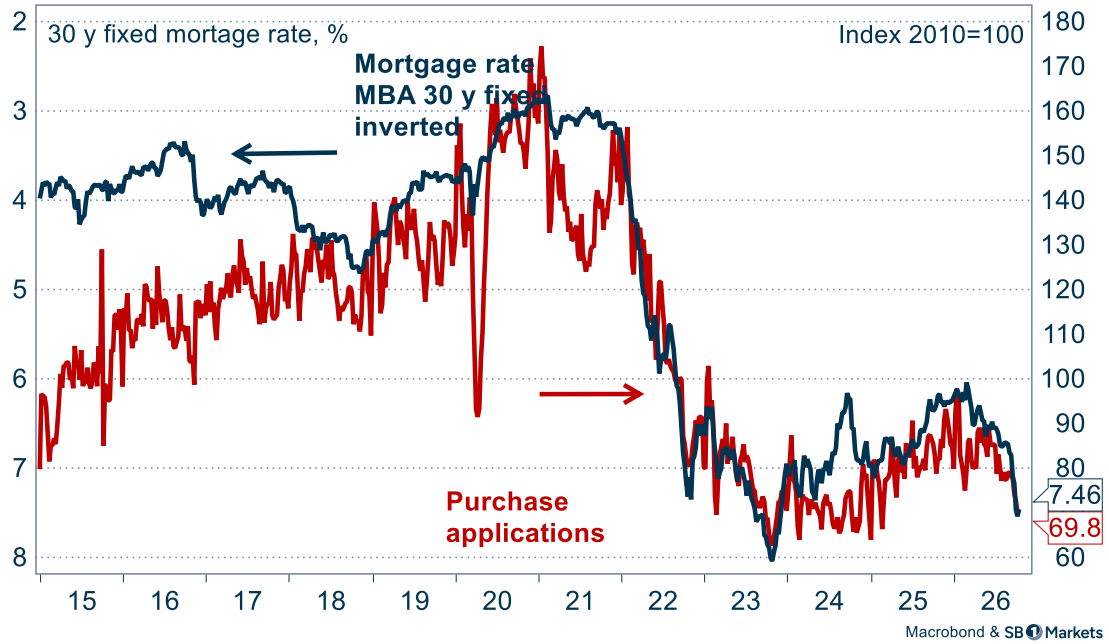
USA 30y mortgage interest rate vs 10y gov bonds







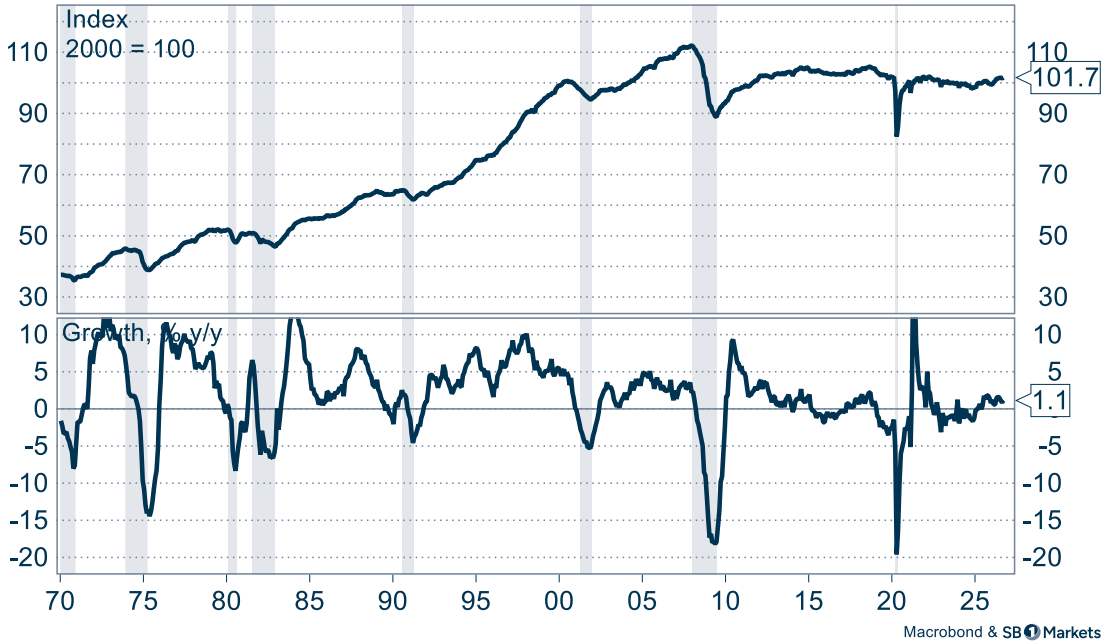
USA Mortgage applications, purchases



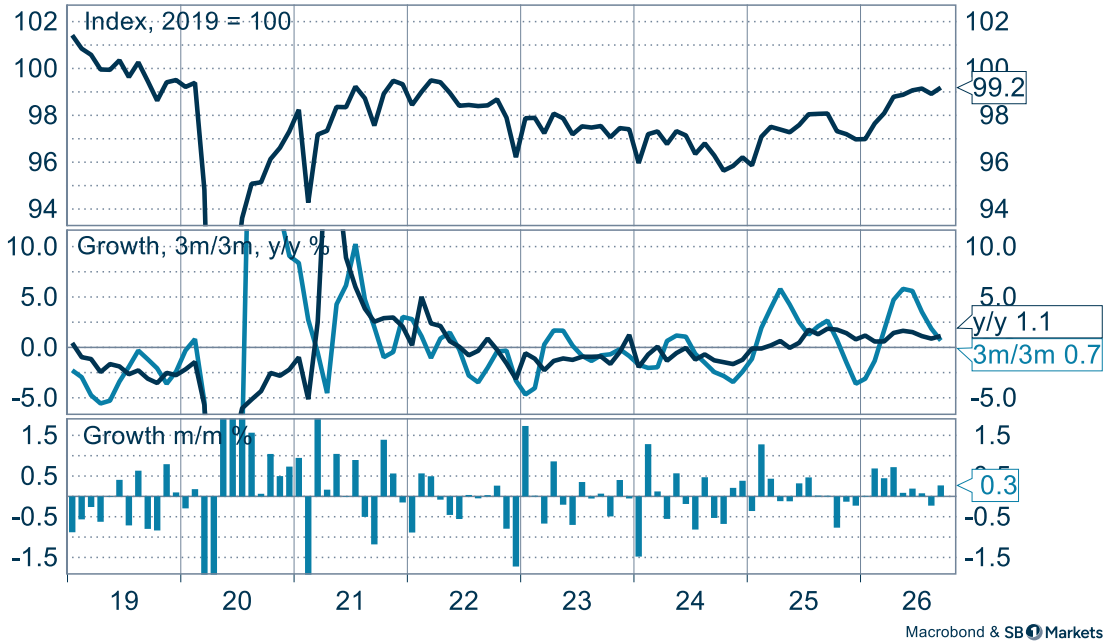
Manufacturing production reversed the 0.3% August decline. Growth has slowed

Production rose 0.3% in September, as expected. The 3m/3m rate has slowed to 0.7% while the annual rate was 1.1%. Non-durable consumer goods trend flat, while the other main sectors are on the way up – but not at a fast pace.

USA Manufacturing production

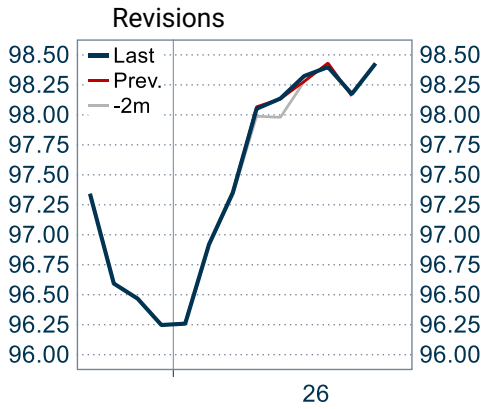


USA Manufacturing production

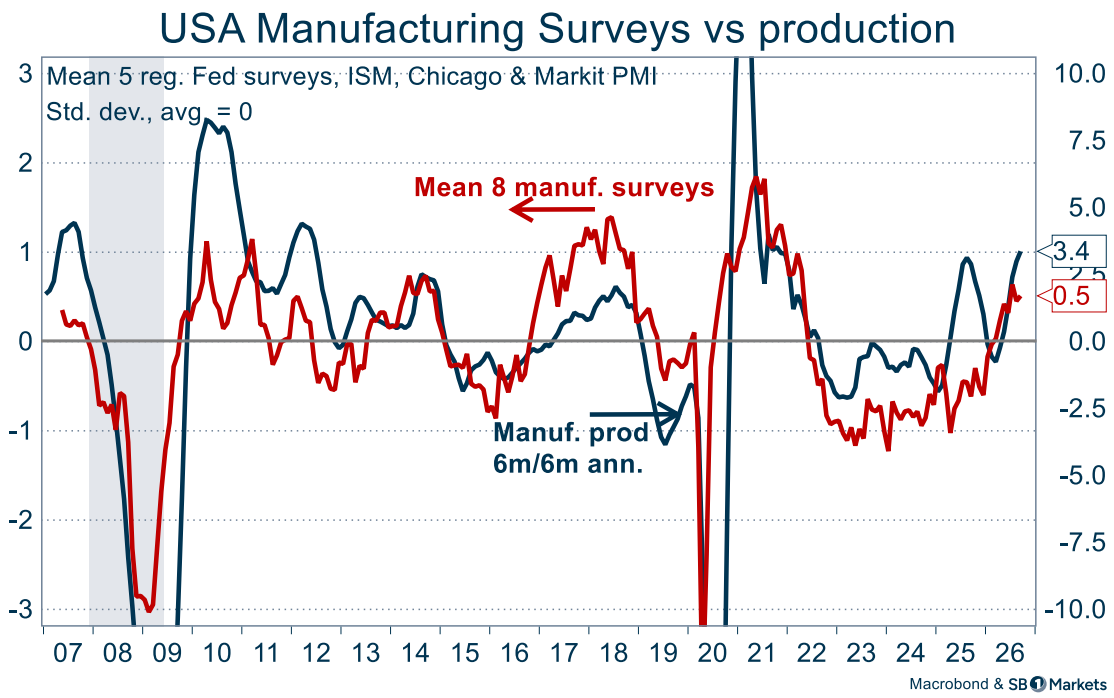


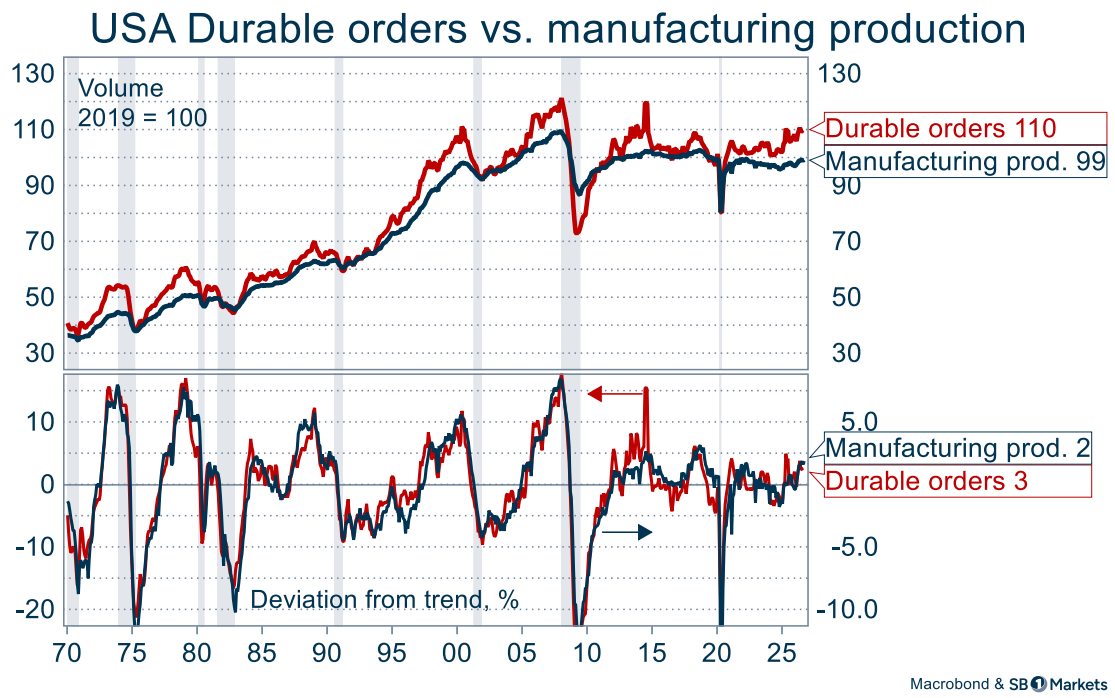
- **Manufacturing production** is still 1% lower than in 2019.
- **Total industrial production, including utilities, mining/oil & gas**, rose 0.7% m/m, 0.3 pp more than expected.
- **Capacity utilisation** is marginally above an average level, following a small lift so far in 2026.
- In September, **manufacturing surveys** reported growth above trend and were slightly up from August (but below the July level). The decline in the Phil Fed survey suggests a lower survey average in October.
- Durable orders are drifting upwards and signal growth in production.

Revisions



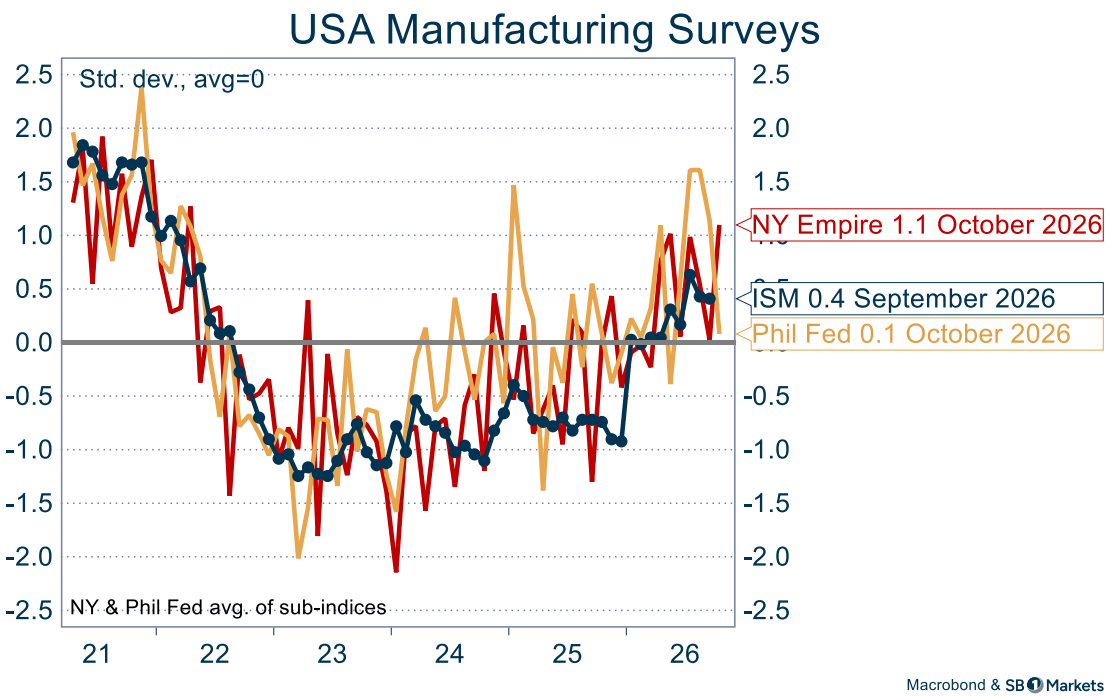
Surveys and new orders signal continued growth in manufacturing production

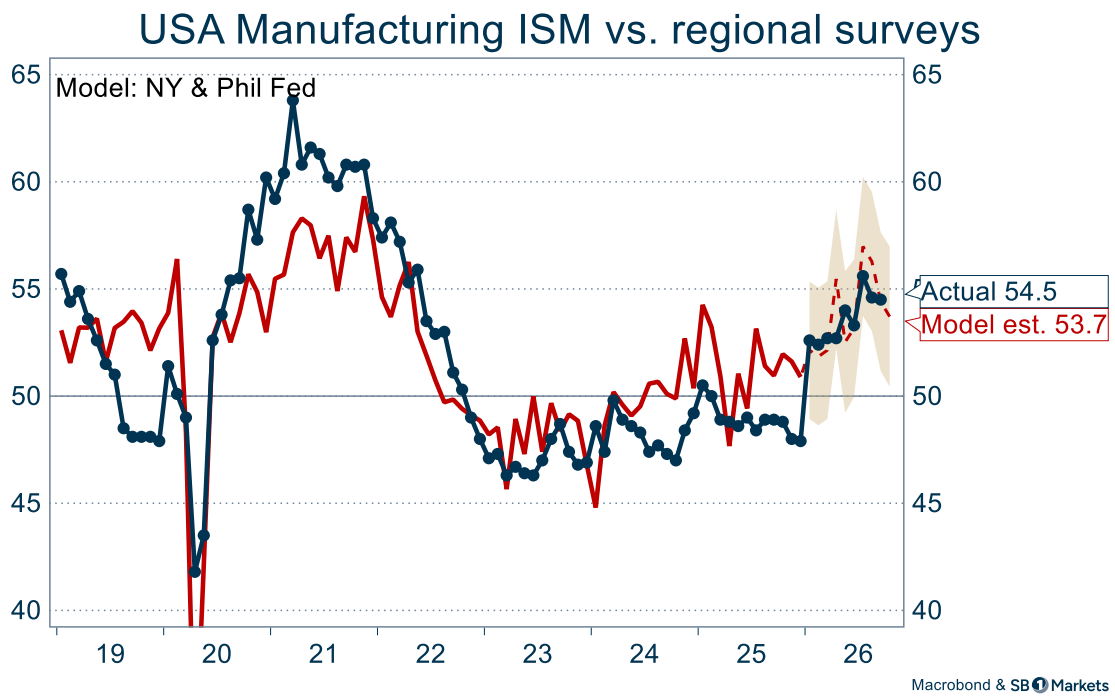




Phil Fed's survey down towards an average level, NY Fed's index shot up

Philly Fed is the most trustworthy and our model suggests a slightly weaker ISM index.

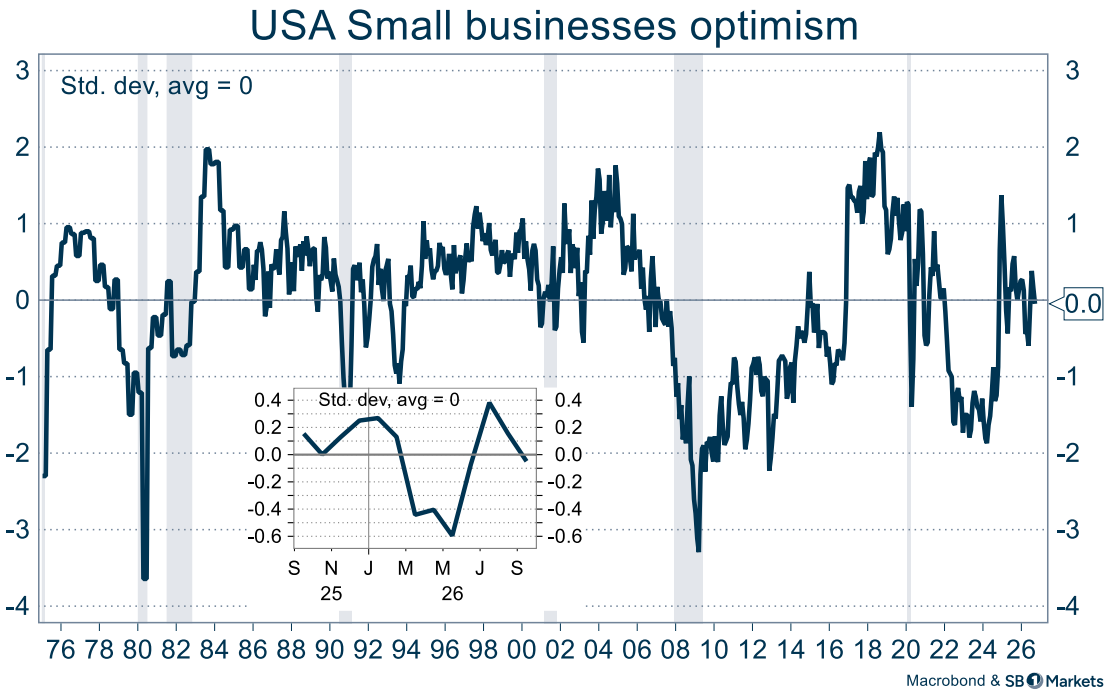


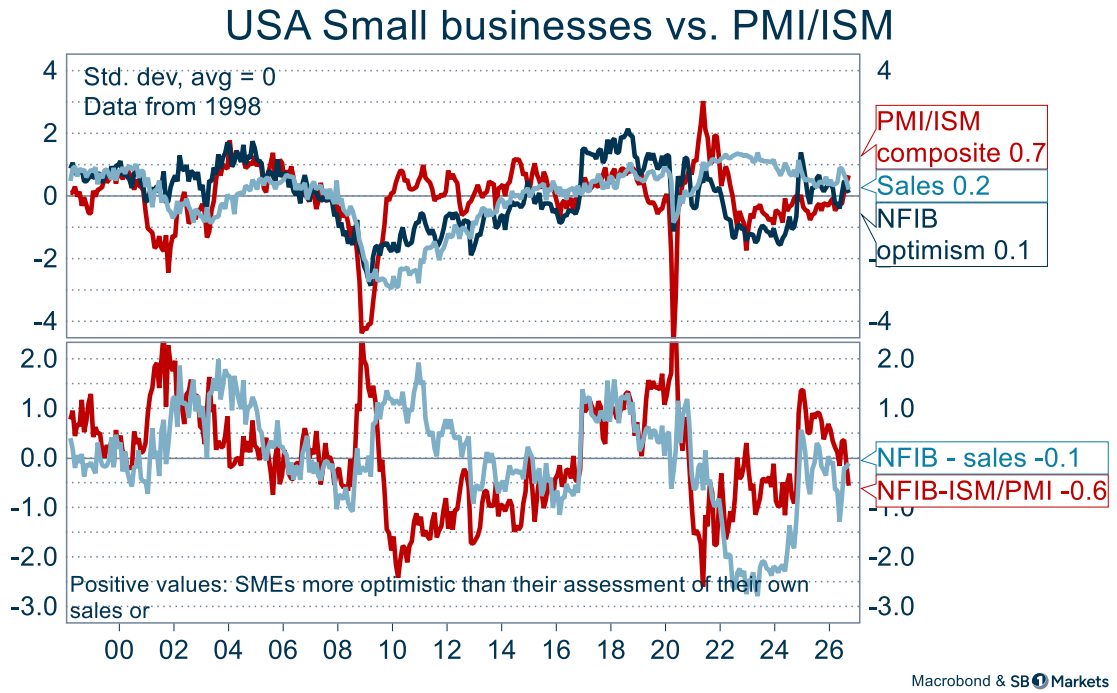


- The Philly and NY Fed indices are weighted averages of the sub-indices in these surveys.

SME optimism down to marginally below average in September

Small businesses are less optimistic while companies report faster growth than normal in other business surveys (like PMI, ISM). More companies report poor sales but still fewer than normal.

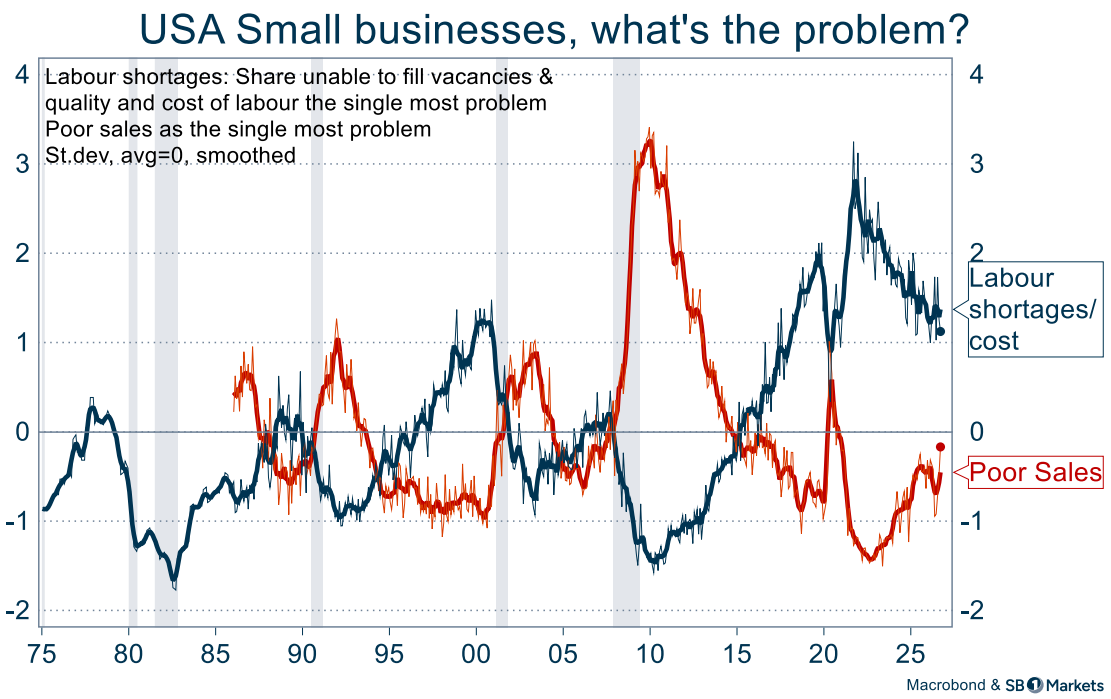


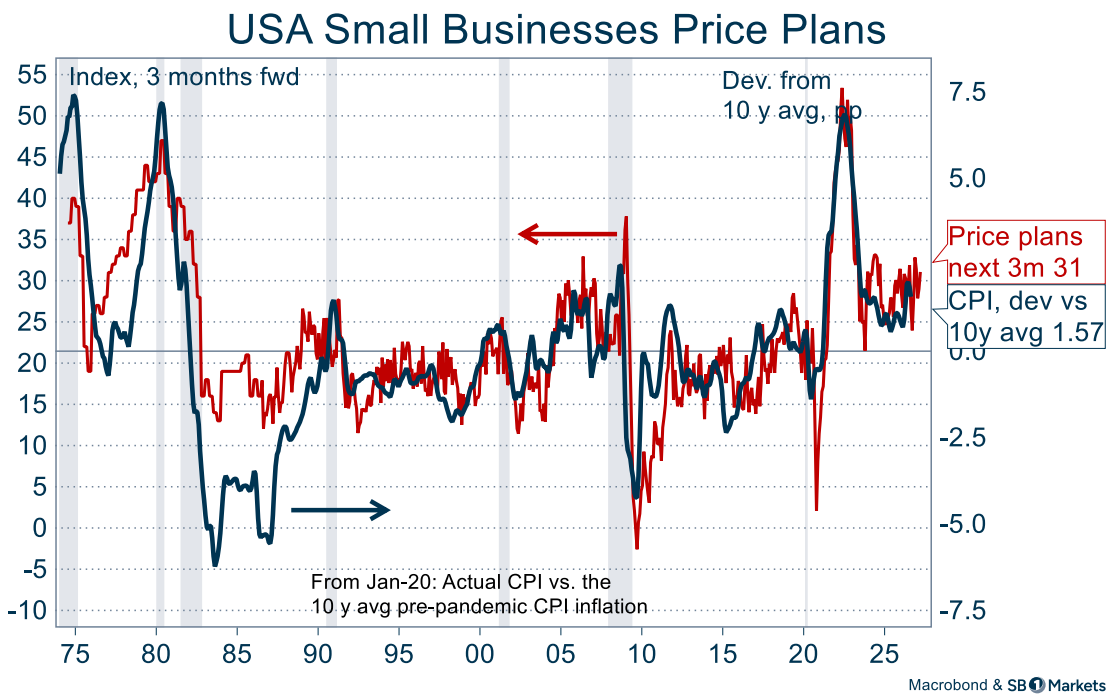


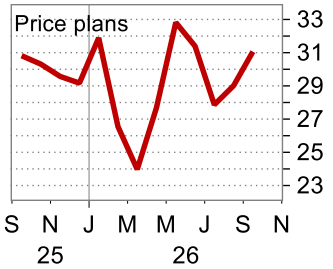
- The **NFIB optimism index** declined 0.2 std. dev. to marginally below average in September.
  - The ISM/PMI average is 0.7 std. dev. above par, signalling some 4% GDP growth.
- The share of companies reporting **poor sales** rose sharply in September but is still below average.
- **Labour constraints/costs** remain the main challenge for SMEs.
- **Hiring plans** rose sharply in August and remained high in September.
- **Investment plans** were revised further down in September. The level is still below average, but not by much.
- **Price hike plans** signal inflation above a normal level.

Big picture: labour shortages/costs still the problem, not poor sales (but less so in Sep!)

Price plans are well above average, which has normally been consistent with inflation well above average.

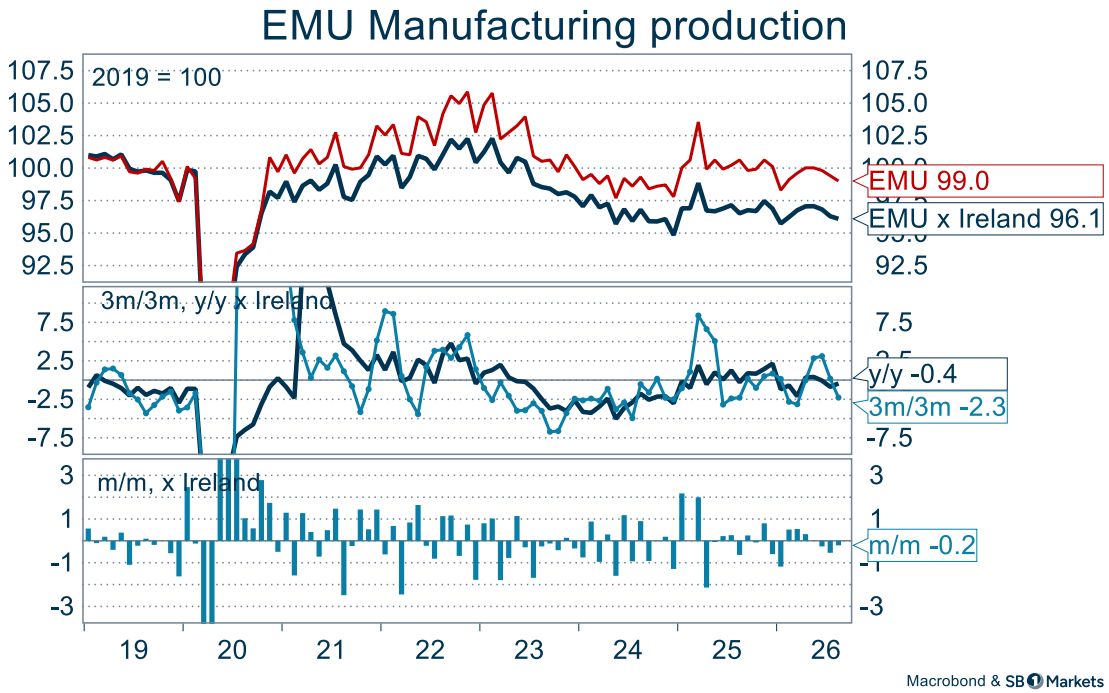


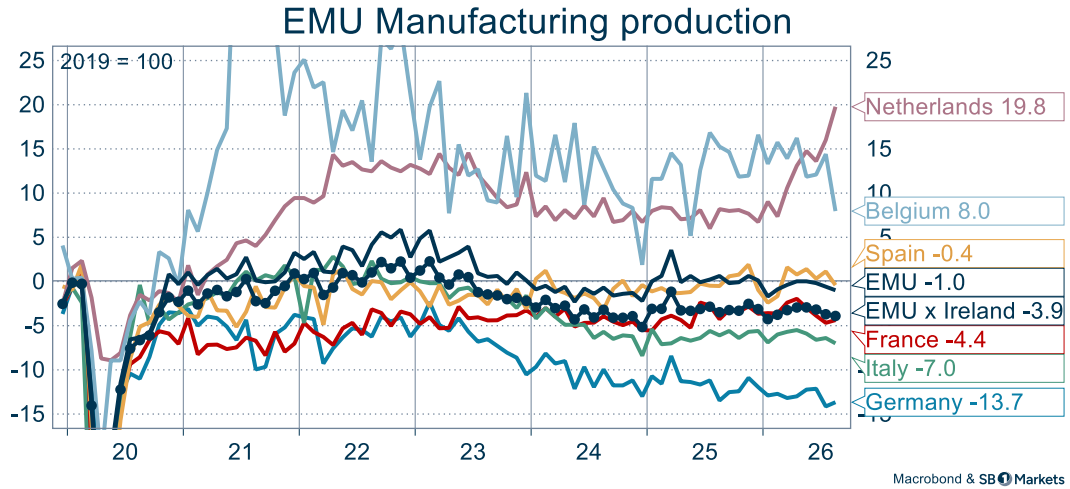


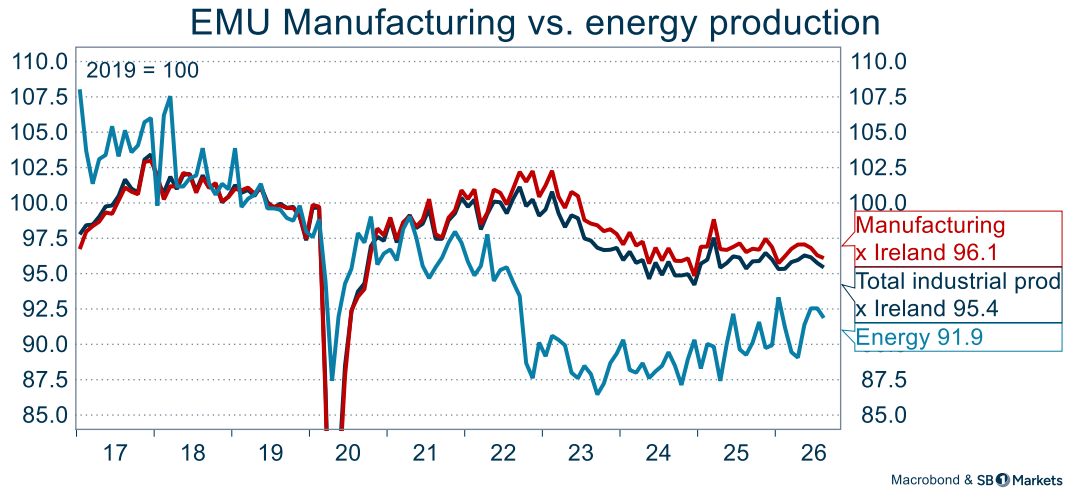


Manufacturing production trends flat – at best

Production (ex. Ireland) declined 0.2% in August and was down 2% 3m/3m. Total industrial production was up 0.2%, as expected. Germany is still the laggard.







- **Manufacturing production** ex. Ireland is 3.9% below the 2019 average (but -1% including irrelevant Irish data).
  - Germany is down 14% from 2019, Italy -7%, France -4%, Spain is close to flat, the Netherlands up 20%.
- **Energy production** is slowly on the way up but production is still down 8% from the 2019 level.
- **Surveys** signal growth in manufacturing production that so far has not been seen.

Ireland often reports extremely large changes in manufacturing and industrial production, mostly due to huge changes in the 'modern' IT/software sector, at least partly tax-motivated. The level is also extremely high, and far from 'for real'.

SB1 Markets

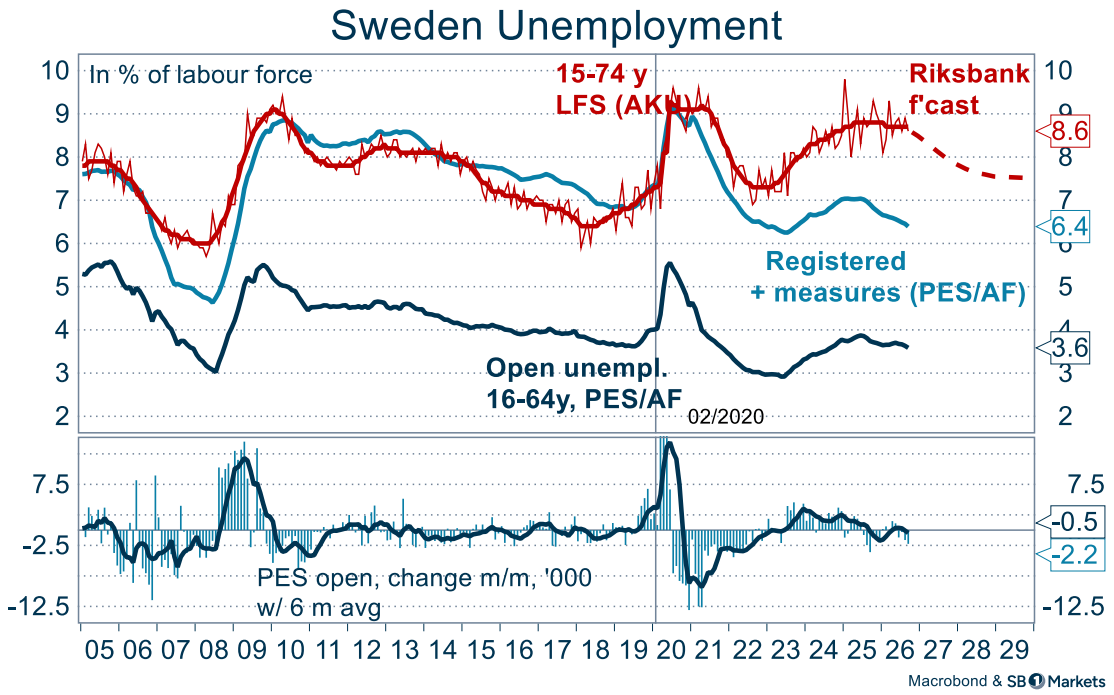
SB 1 Markets

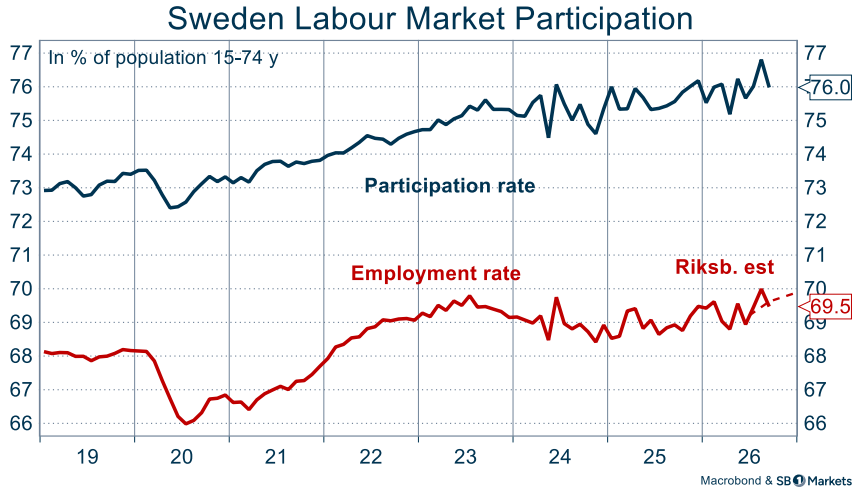


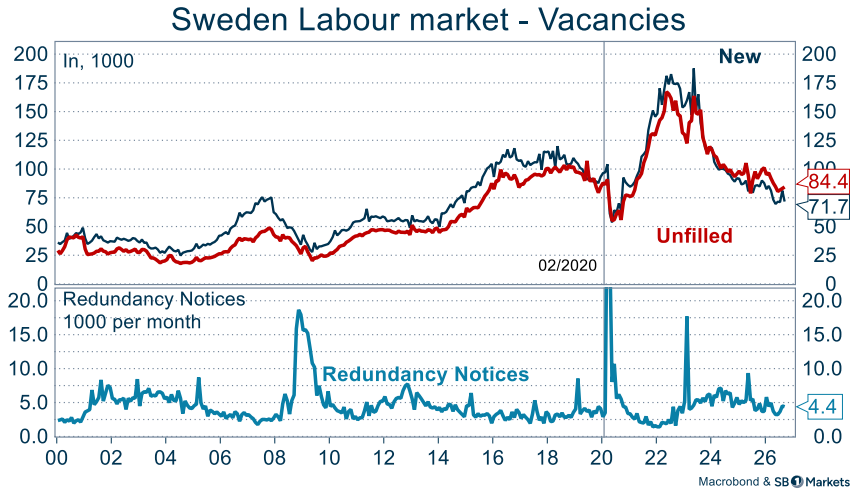
Sweden

PES unemployment heads down, LFS unemployment has peaked, employment trends up

The PES unemployment rate fell 0.05 pp, but was unchanged at 3.6% after rounding. The trend is slowly down. The LFS rate fell 0.3 pp to 8.6% and has peaked. The employment rate declined but trends up. The participation rate is at a record high level. Vacancies may have flattened, at a 'low' level.





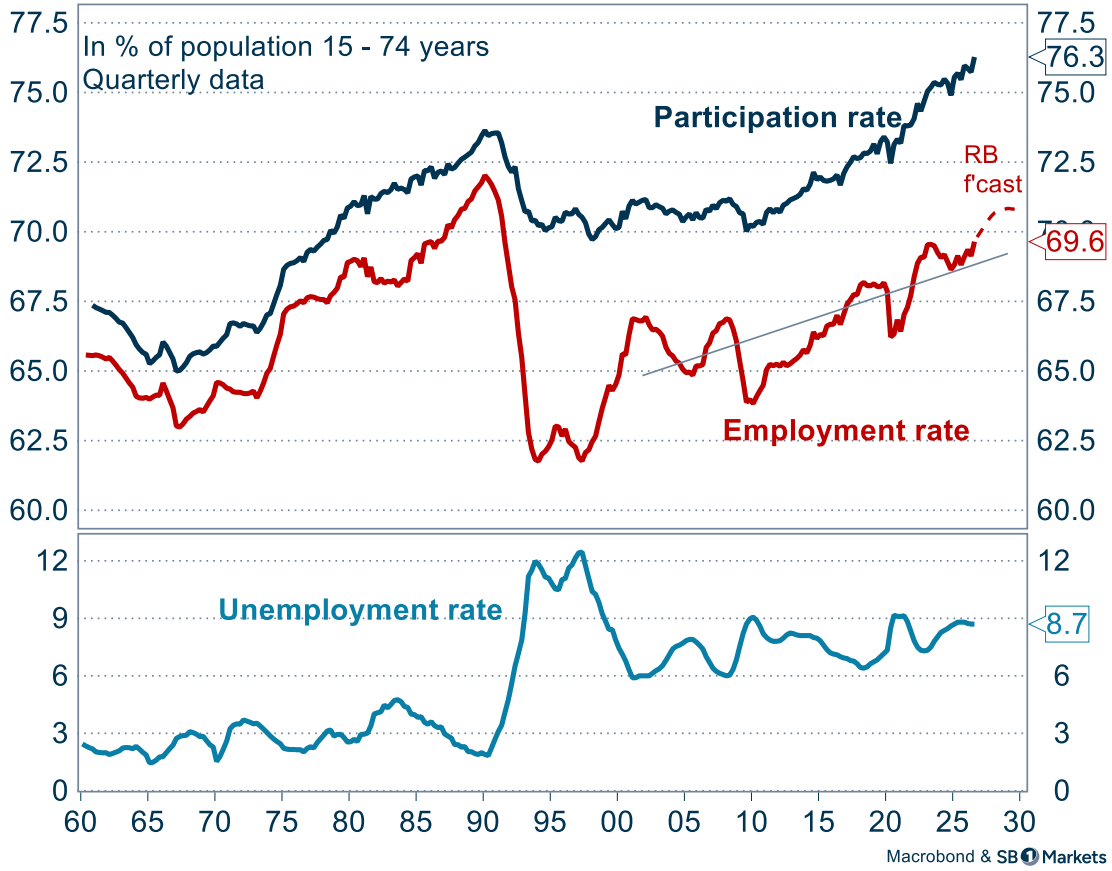


- The employment rate trends upwards, from a local trough in late 2024 – in line with the Riksbank's forecast. In September, a small decline, by 0.5 pp to 69.5%.
- The participation rate fell more in September, but trends up, and the level is at a record high!
- Vacancies have fallen sharply from a very high level in mid-23. In August, a small uptick. Vacancies on average lead unemployment by some 9 months.

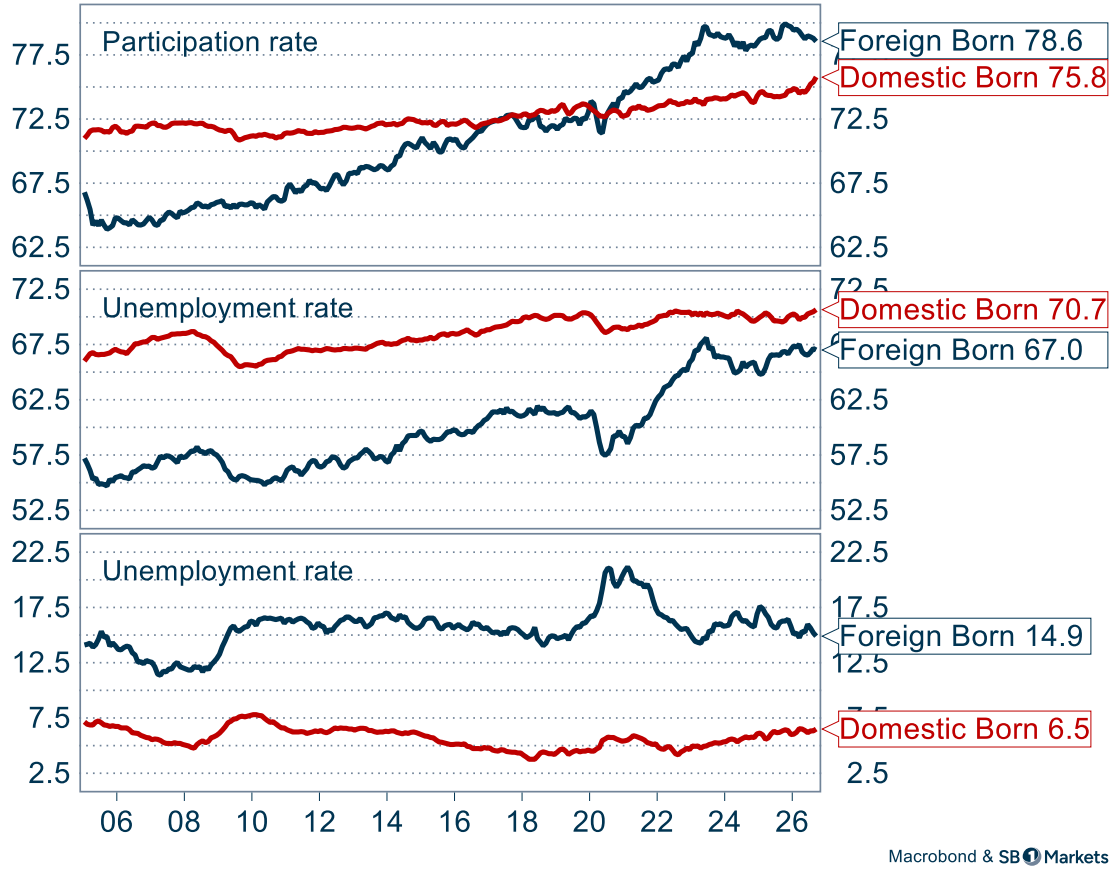
Participation is at a record high. Employment has risen over the past 2y

Employment is up 1.2% 3m/3m, 0.2 pp above the annual growth rate. The Swedish labour market has been recovering since late 2024 – even though the unemployment rate has remained high.

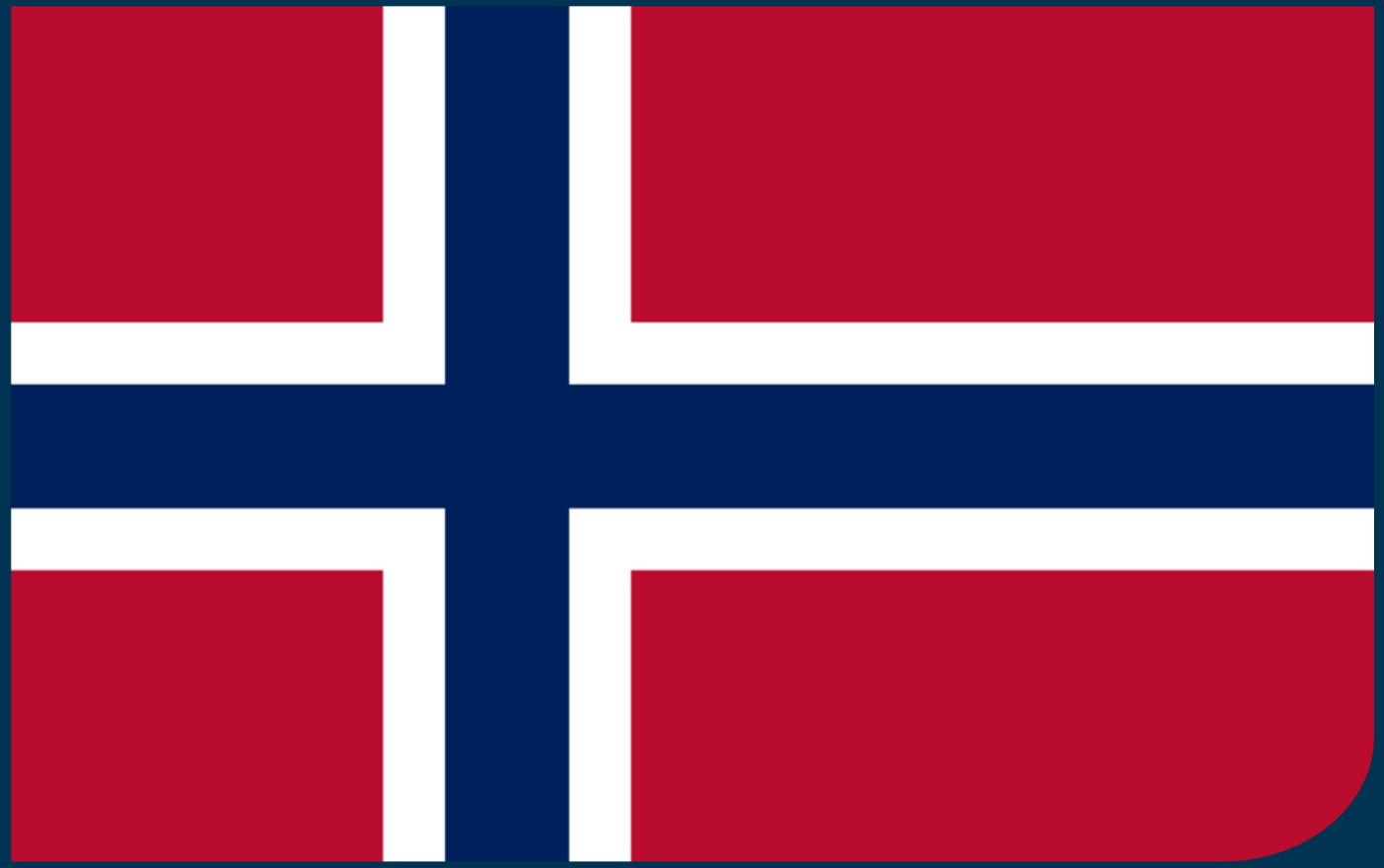
Sweden Labour market



Sweden Labour market - Domestic vs. foreign born



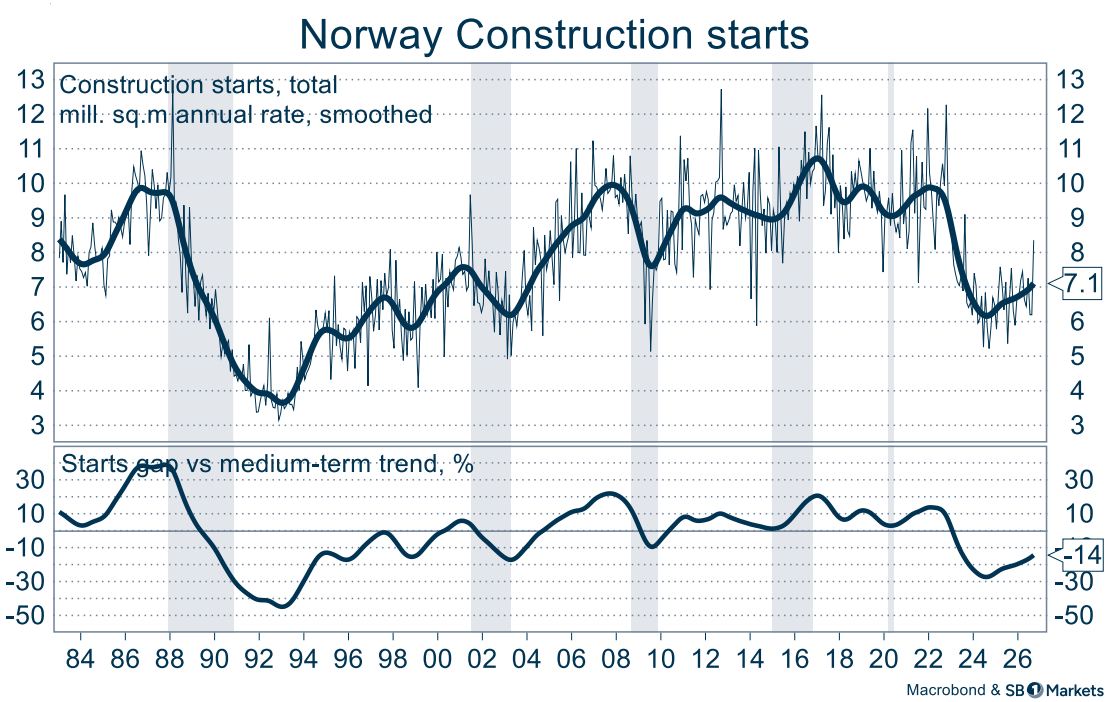
SB 1 Markets

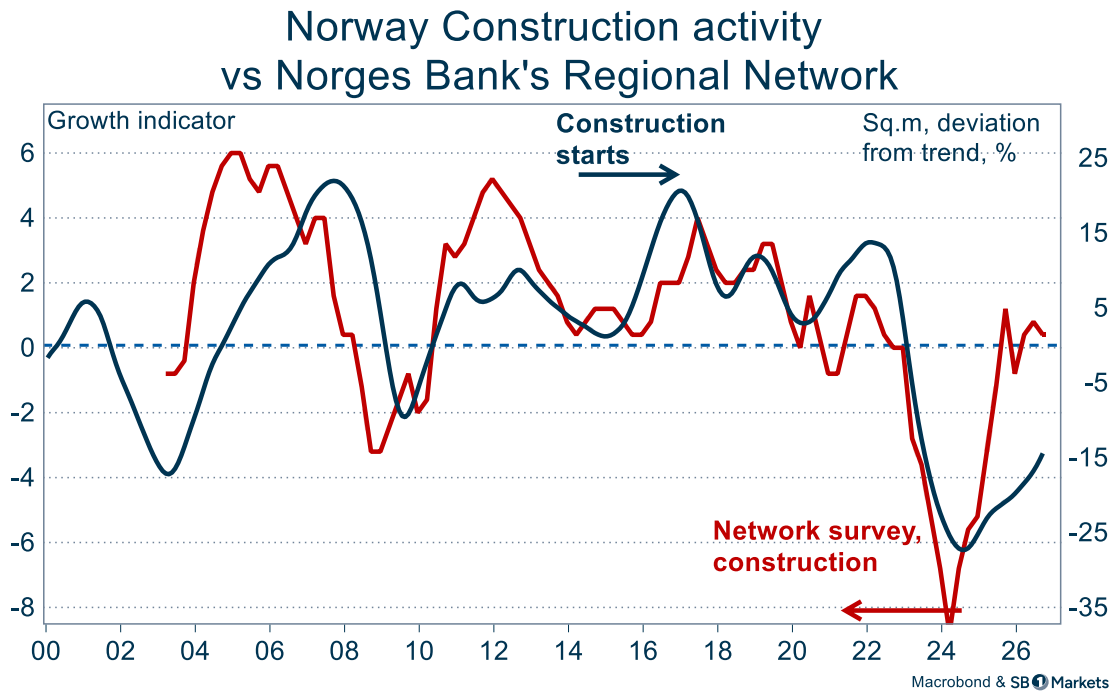


2. Norway

Construction starts have bottomed, and the construction sector reports growth

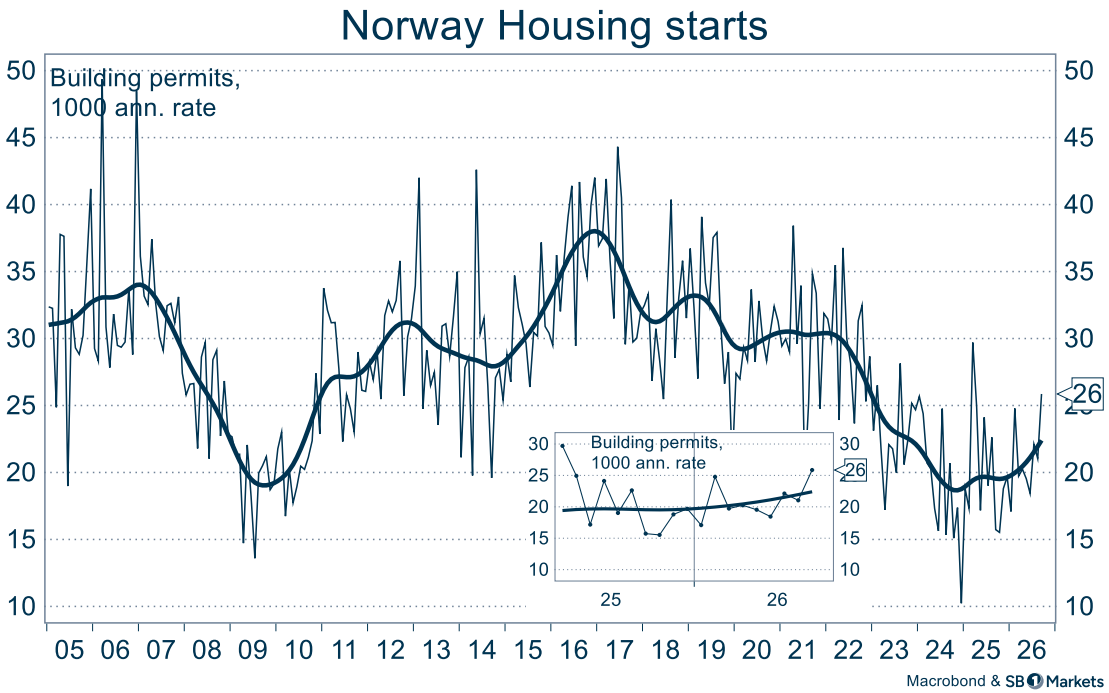
… albeit very modest growth. The level is still low, at least vs. construction activity in the 2006–2022 period.

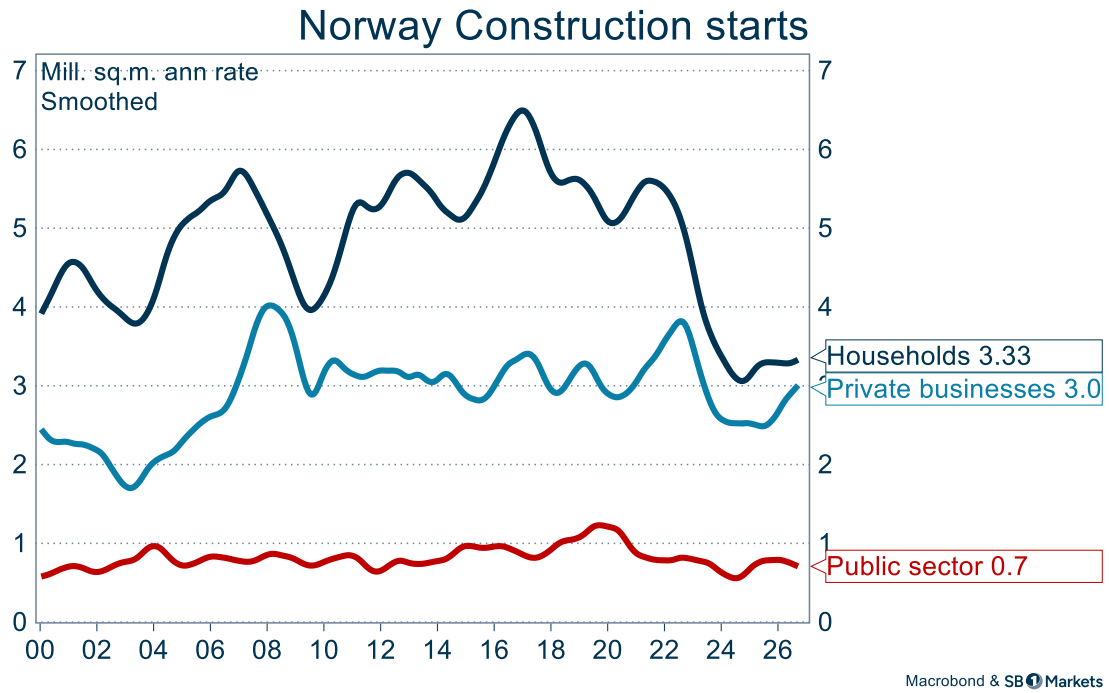




SSB reports a modest upward drift in housing starts – but the level is still low

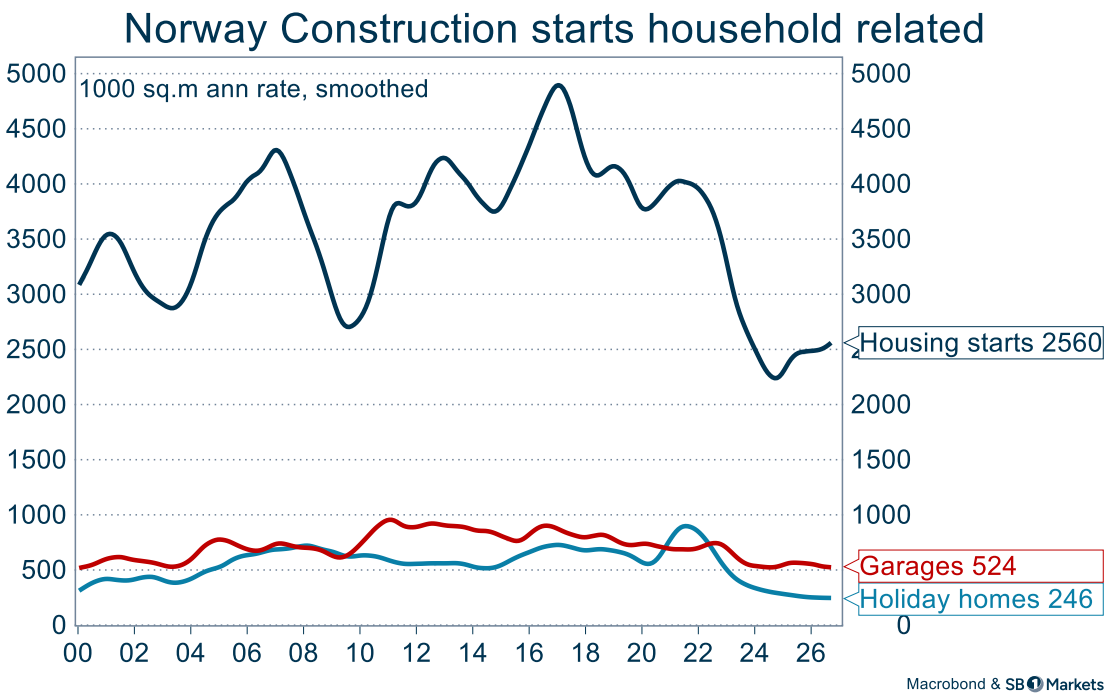
Housing starts (building permits) trend marginally upwards. Construction starts in the business sectors have recovered lately, in fact back up to a normal level! Public sector starts are up from the 2024 trough but have once more slowed somewhat. The total is up.





- **Residential building permits** (starts in the headline…) rose by 4,000 to 26’ in September (annualised). The average over the past 6 months is 21’. Measured in sq. m., starts have just flattened.
  - Construction of **second homes** is still heading down, from a low level (*check next page*).
- Private sector construction start**s** are even more volatile from month to month than housing starts, but so far in 2026, activity has picked up.
- Through 2024, starts in **public sector buildings** fell to the lowest level since the 1990s, but recovered in H1–25 (partly due to the new Oslo hospital and a large public office project). In recent months, starts have slowed again, as no new hospital buildings have been added.
  - Public sector construction starts equal some 20% of non-residential construction and have never contributed much to the large cycles in construction activity.

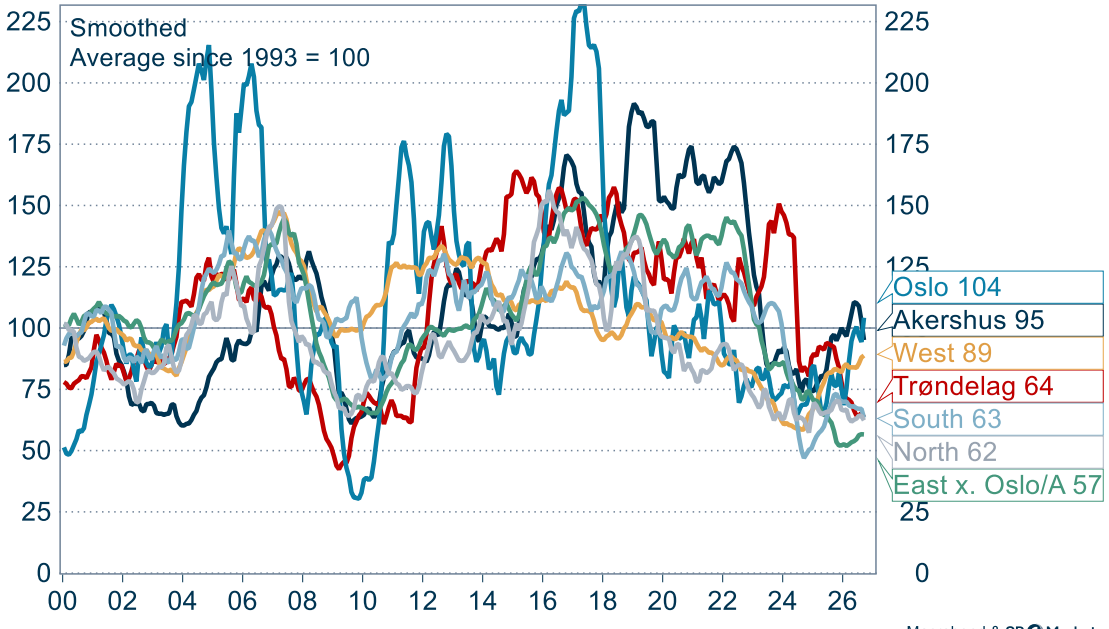
Housing starts have probably bottomed, but holiday home starts have not

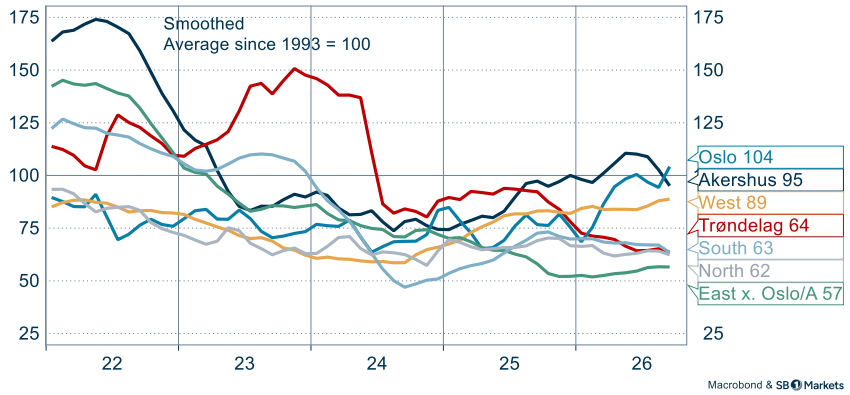


Housing starts are still heading down in Trøndelag. Better in Oslo/Akershus & in the west

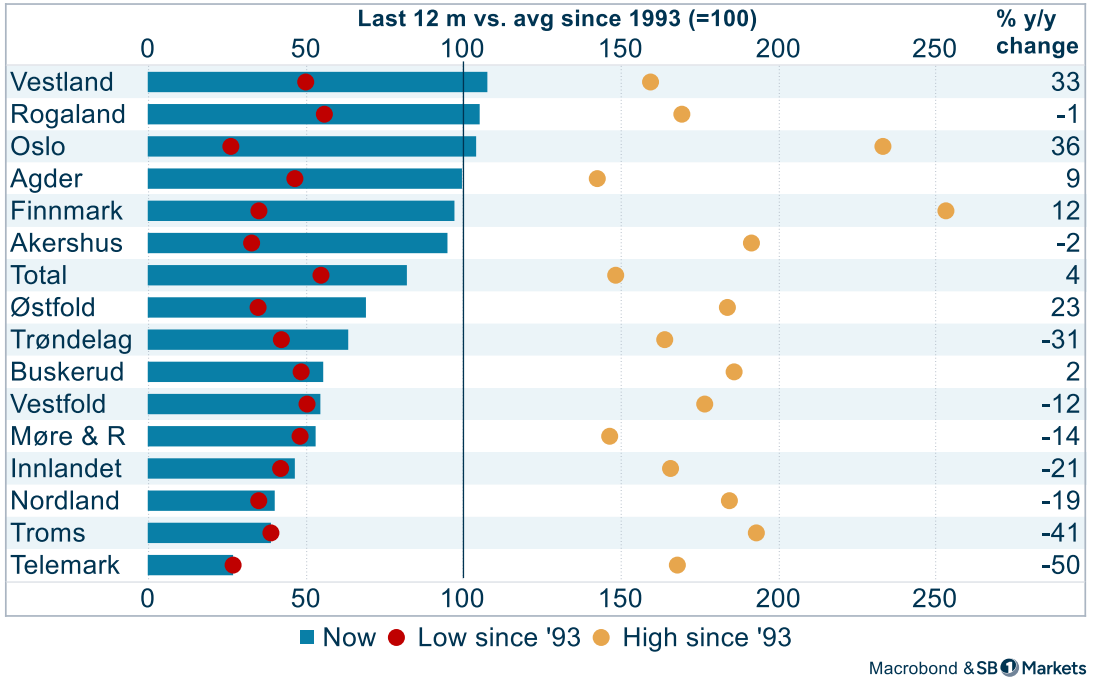
Starts in Vestland, Rogaland and Oslo (!) are above the average since 1993. Agder is close to average (but our unweighted 'south' aggregate is below average due to Telemark). Mixed in the north.

Norway Housing starts



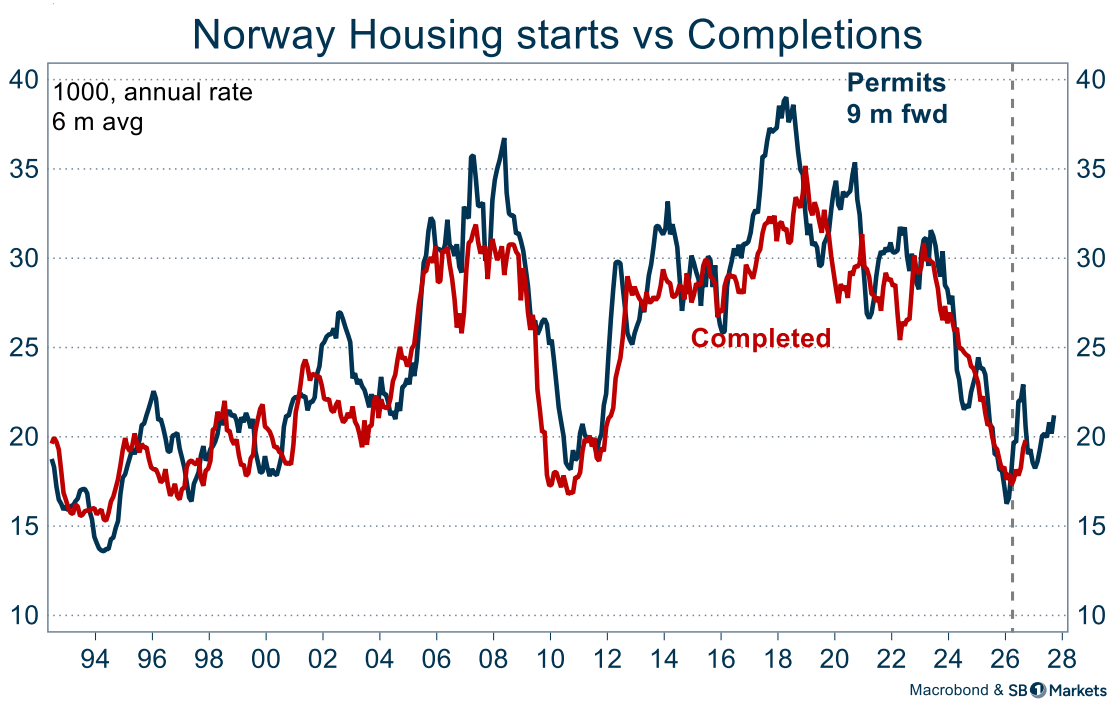


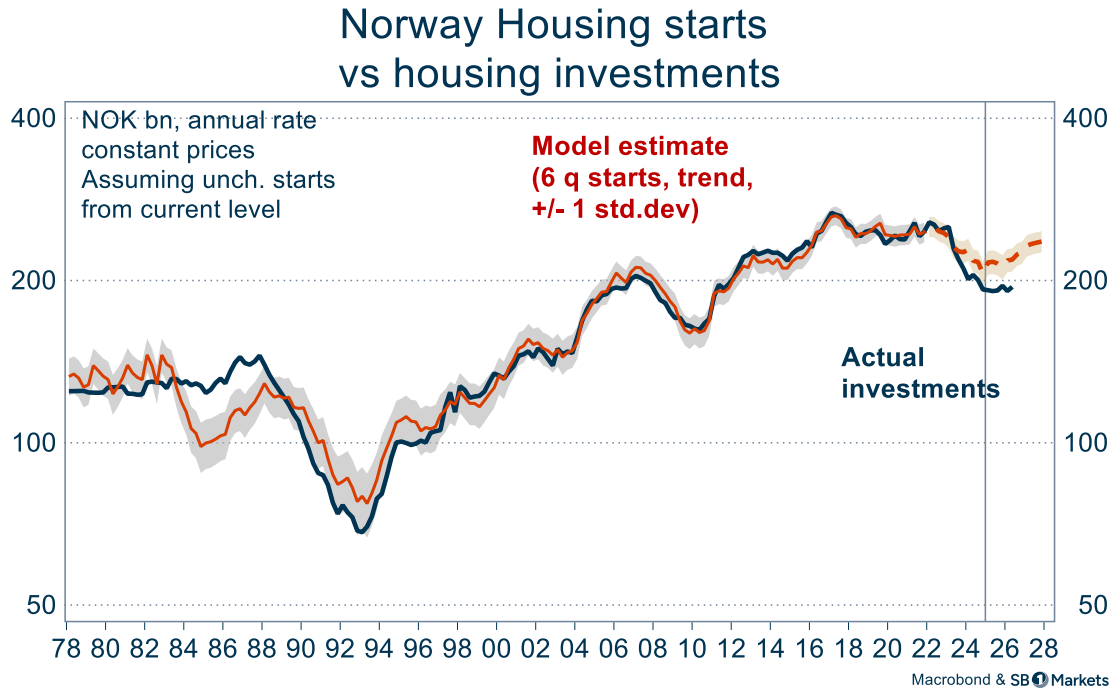
Housing starts



The smoothing is not the same in the two charts on the left as in the bar chart on the right.

Housing starts signal that the bottom is behind us

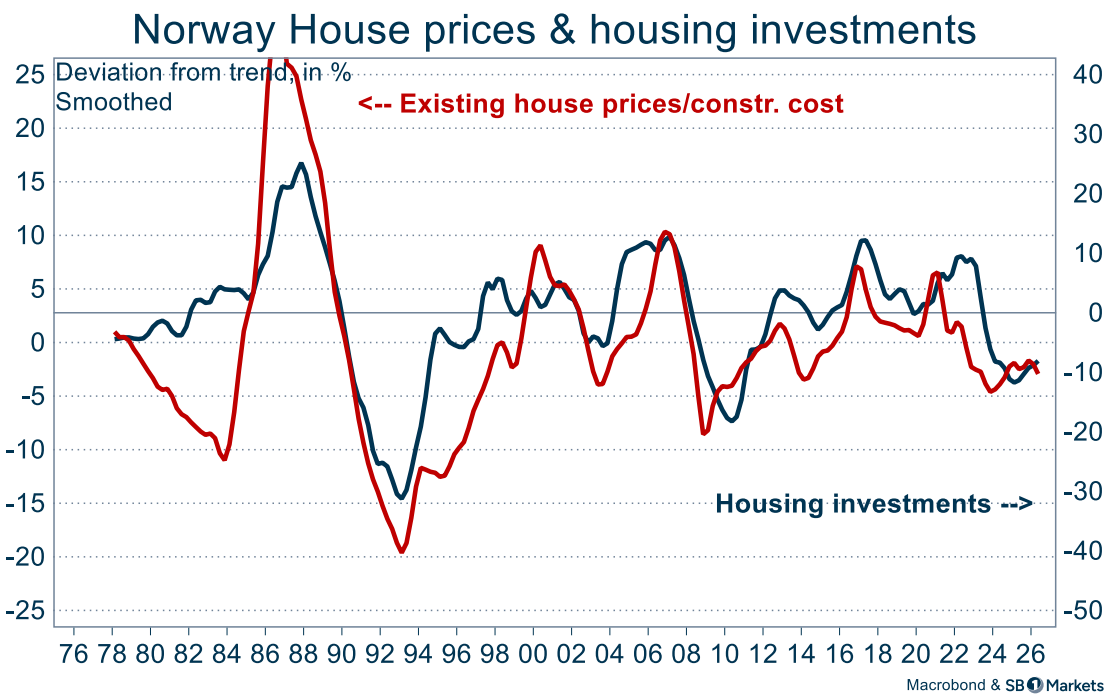


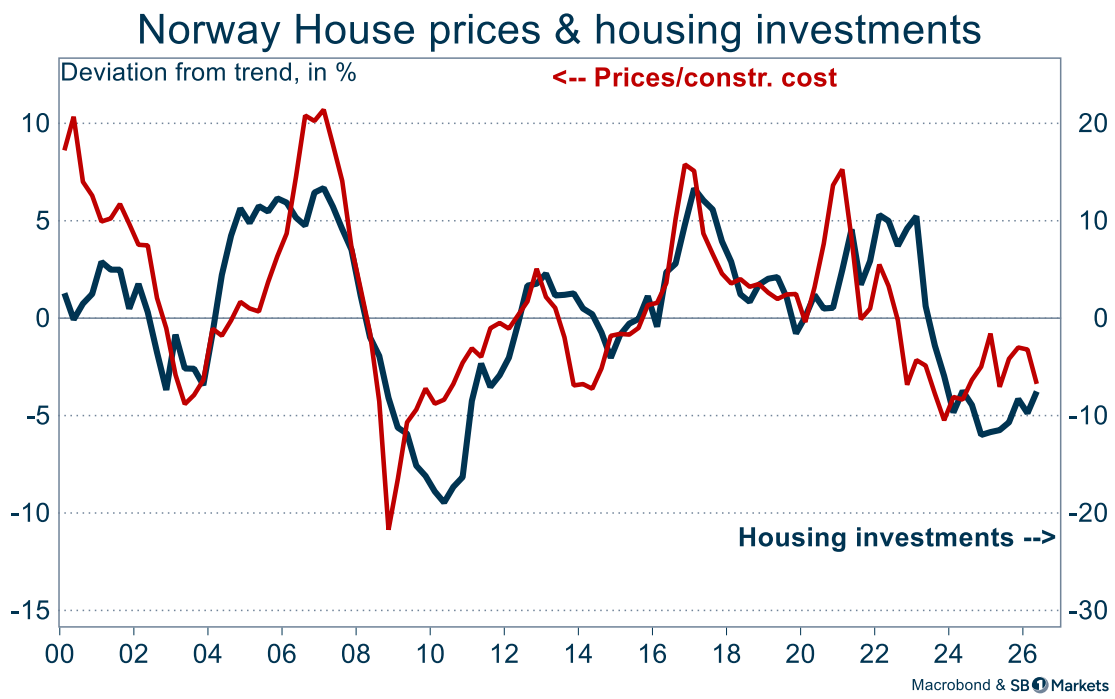


- Completions have fallen in line with permits, implying that permits are utilised.

Housing investment has fallen in line with our house price/construction cost forecast

… after the huge upward revision of residential investment in the National Accounts last autumn. In addition, this model indicates that housing investment will turn up, as second-hand prices are marginally up vs. construction costs.



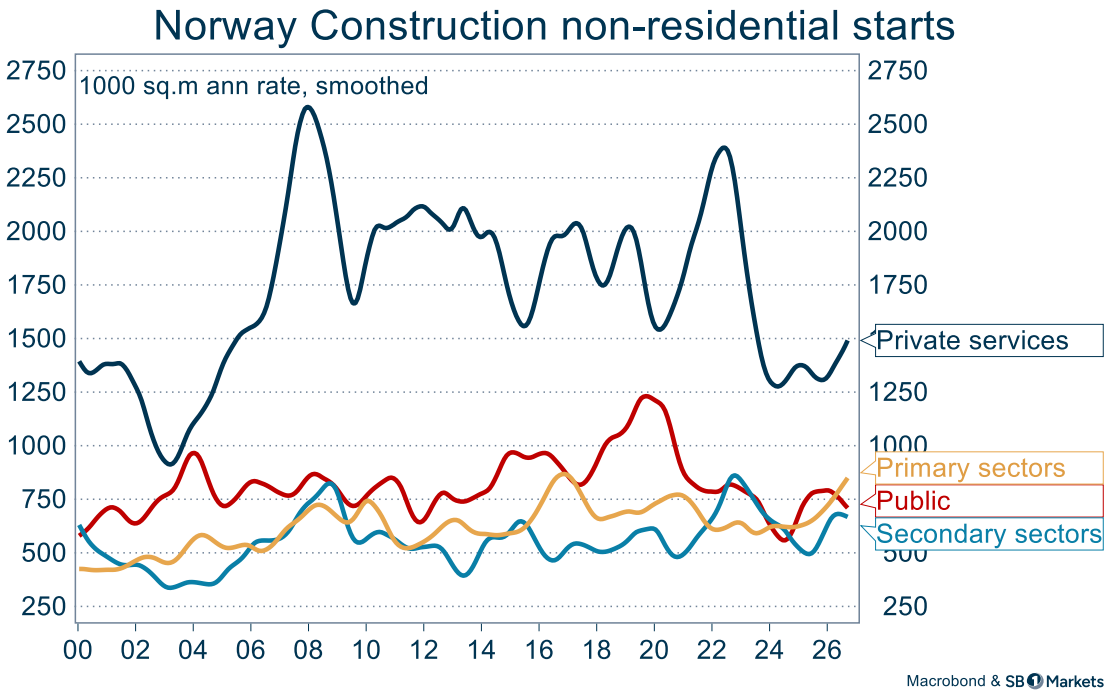


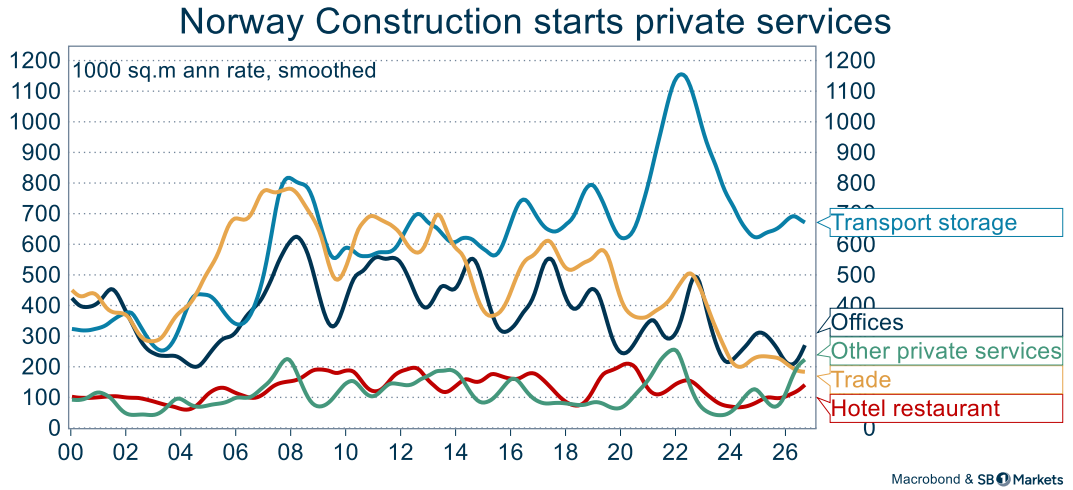
- Builders, at least in cities, are probably reluctant to acknowledge the decline in land prices and would rather wait and see if second-hand housing prices recover than accept the current price level. Now, second-hand housing prices are on the way up, and slightly faster than construction costs.

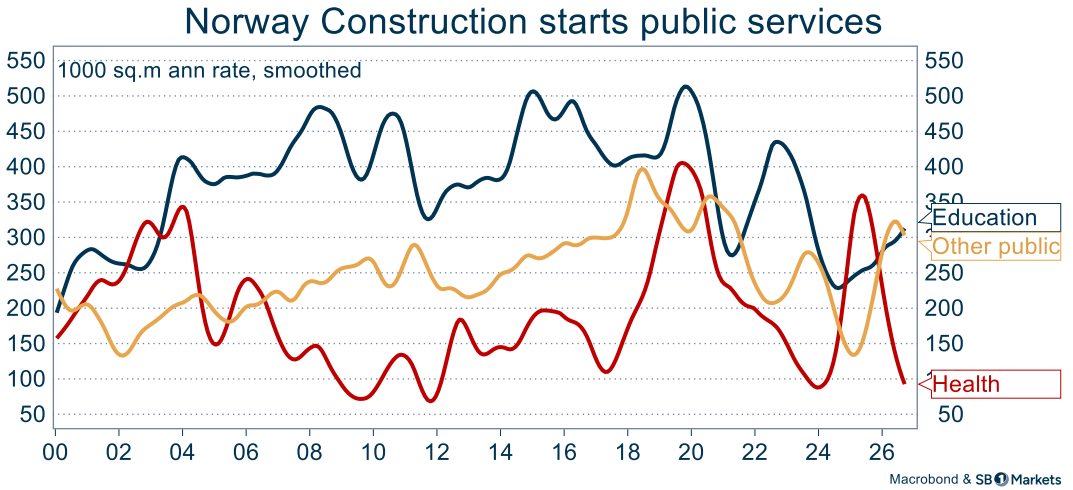
SB1 Markets

Non-residential construction: Private services have turned up?

Data are volatile, but the sum is up even if trade is still down. Primary and secondary (manufacturing) sectors have turned up as well. No growth in construction related to the public sector.







- Within the **public sector**, offices have taken the lead, growth-wise. Healthcare construction increased last year but no big projects have been started recently. Starts on education buildings are back, following a downturn.

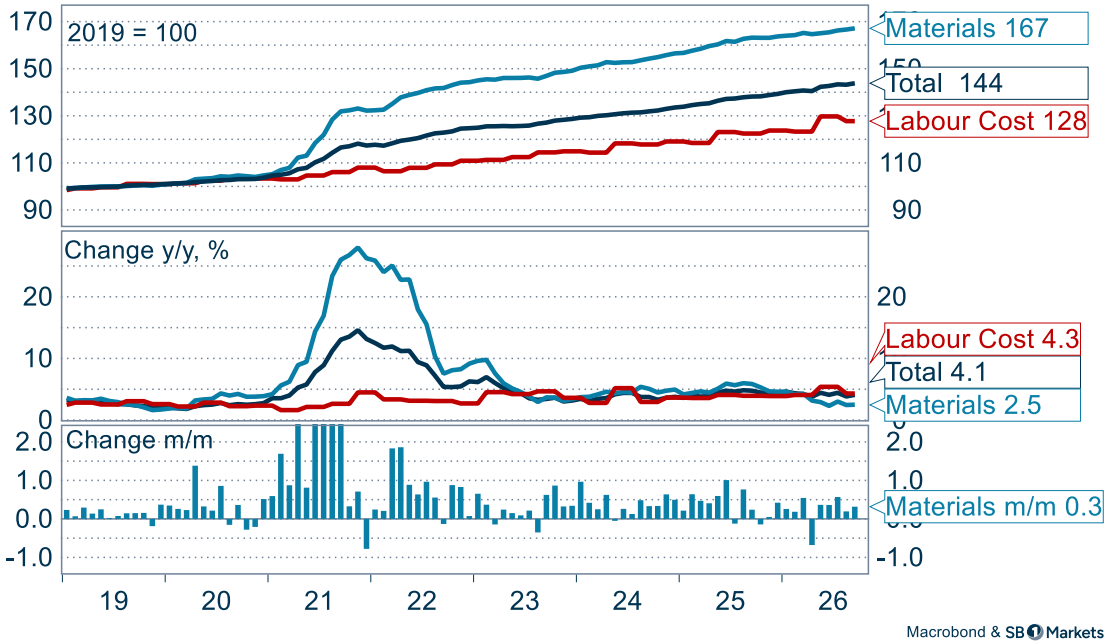
"Public" in the chart on the left, and on the previous page: Construction starts in education, health and other public activities

SB1 Markets

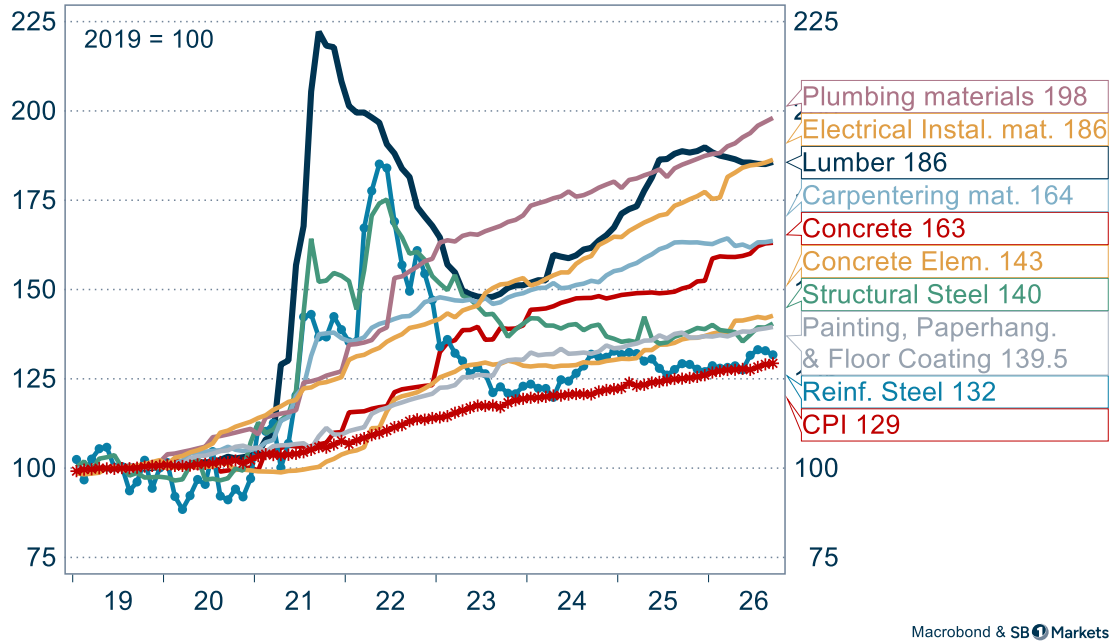
Construction costs: Material prices have calmed down, up 'just' 2.5% y/y

Material prices rose 0.3% m/m in September. Lumber heads down, carpentry materials are flat y/y while other materials are still on the way up. Labour costs: +4.3% y/y. *Total costs: 4.1%.*

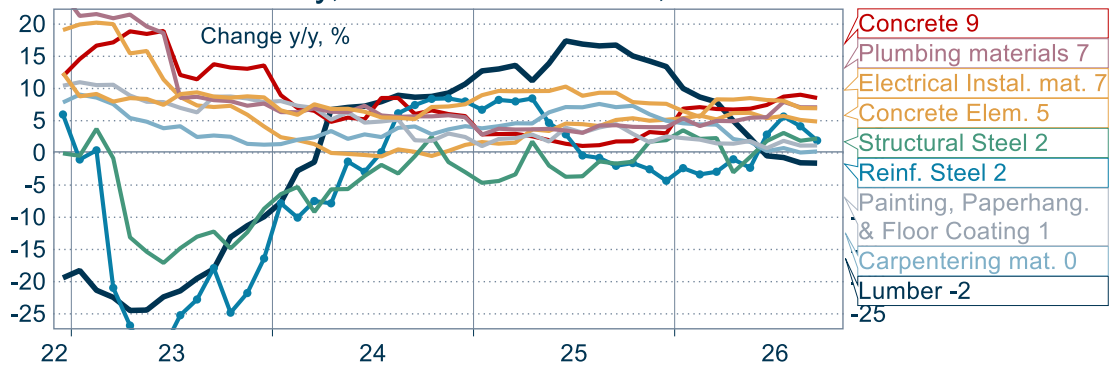
Norway Residential Construction Cost Index



Norway, Residential constr, material costs



Norway, Residential constr, material costs

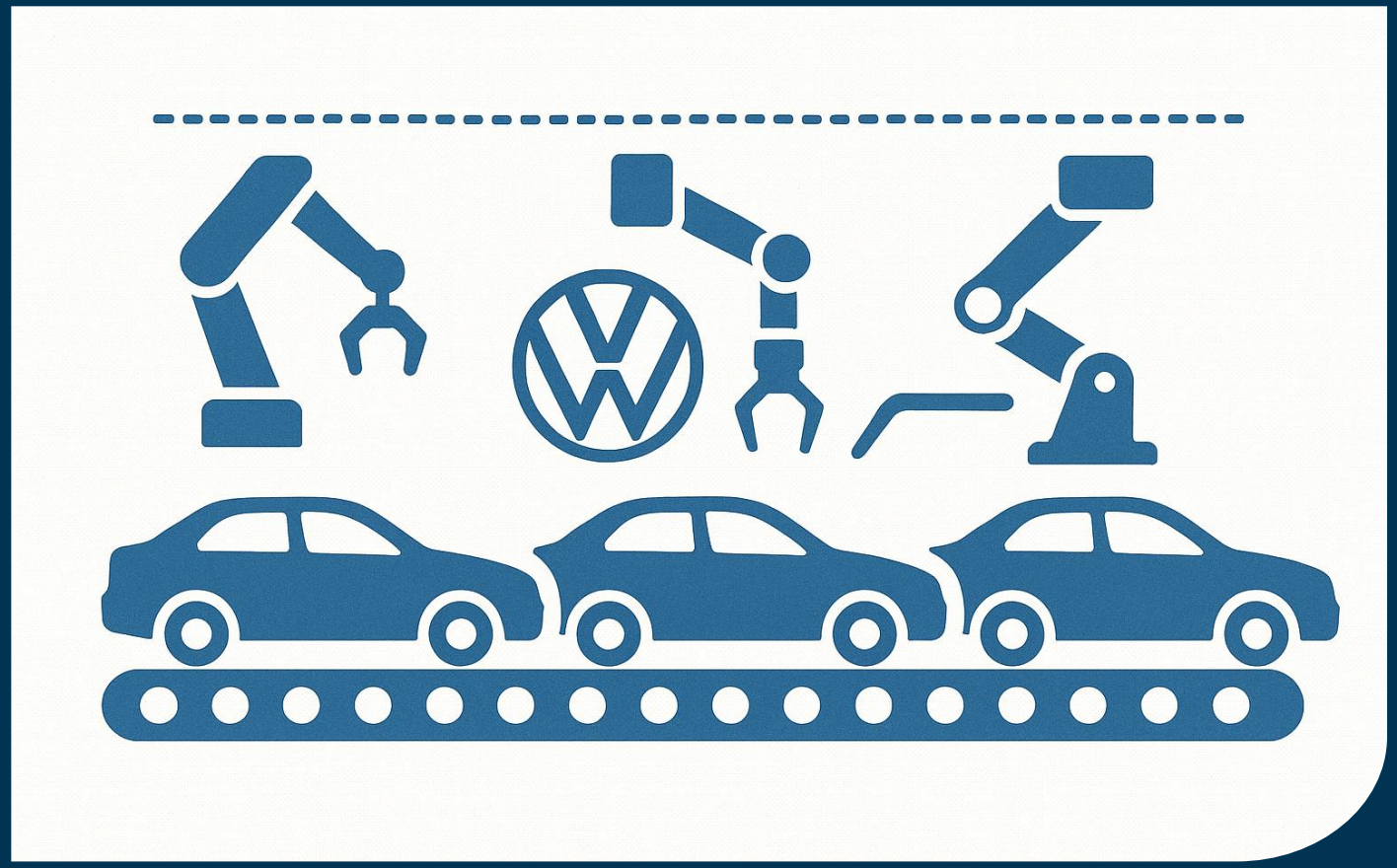


SB 1 Markets



3. Major economies

SB 1 Markets

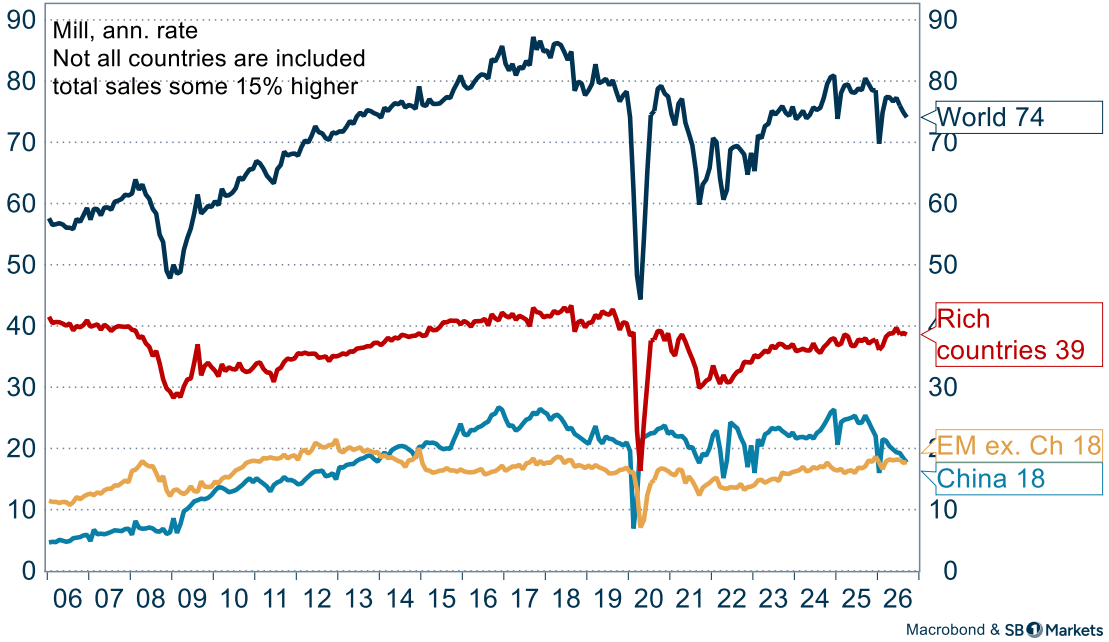


Auto sales

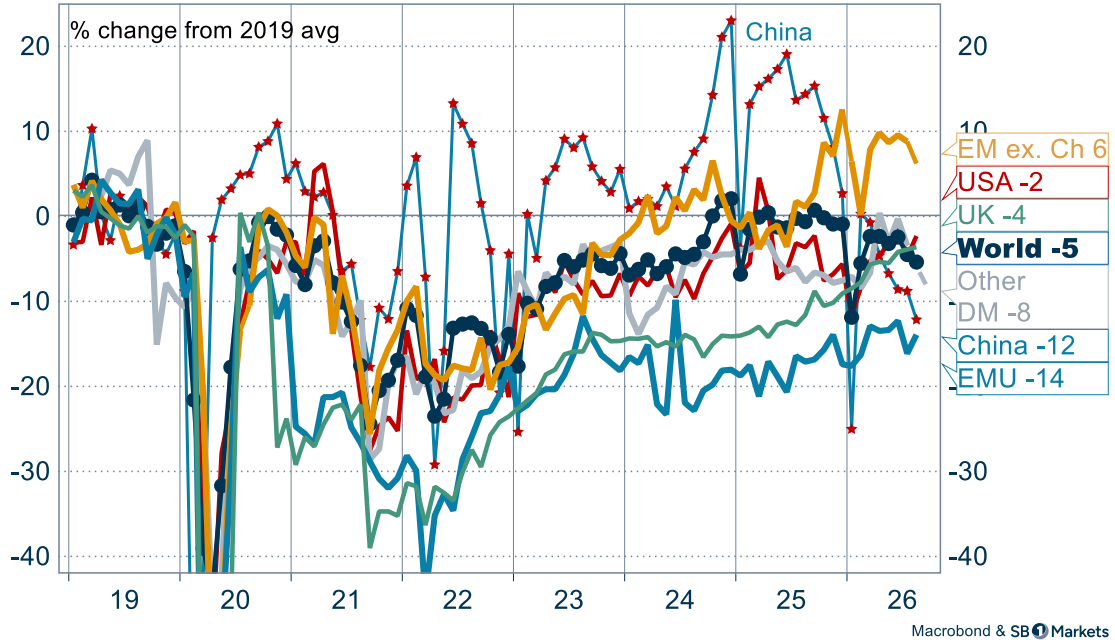
Global auto sales head down, mostly due to rapidly falling sales in China

Global sales fell 1% m/m, are trending down and are down 5% from 2019. Chinese sales are down 30% from the peak, and 12% from '19! US sales fell m/m but are down just 2% from 2019. EMU sales rose in Sep. but are down 14% from 2019. EM ex. China: down m/m, but +5% from '19.

Global auto sales

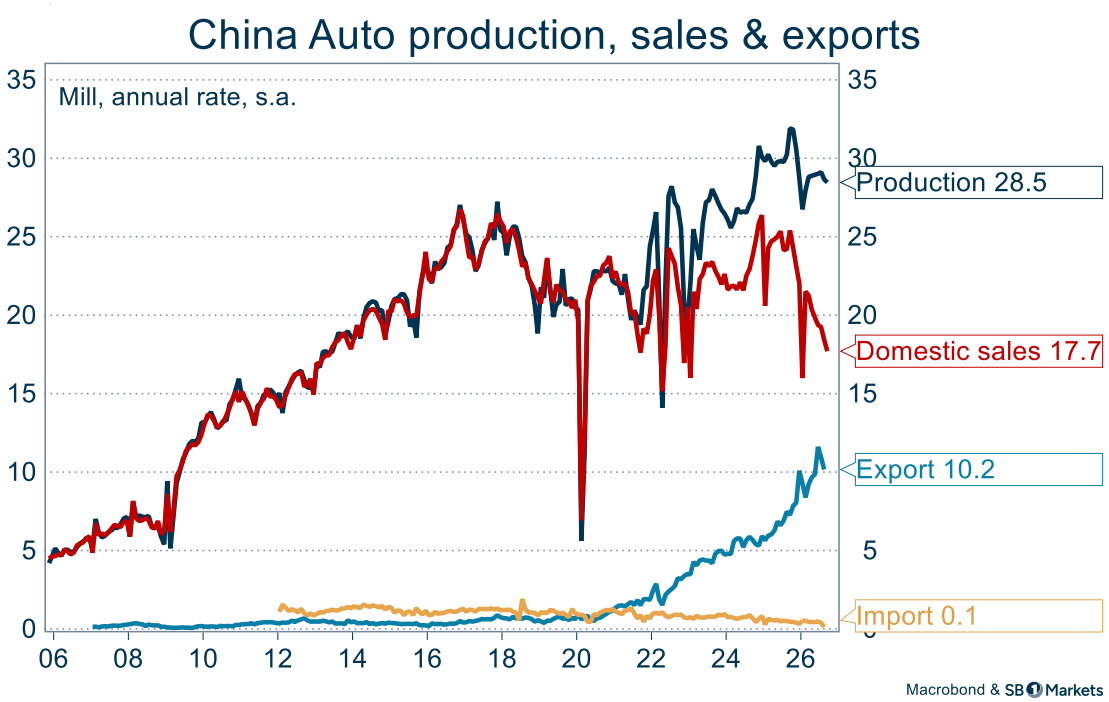


Global auto sales



How long will this model work?

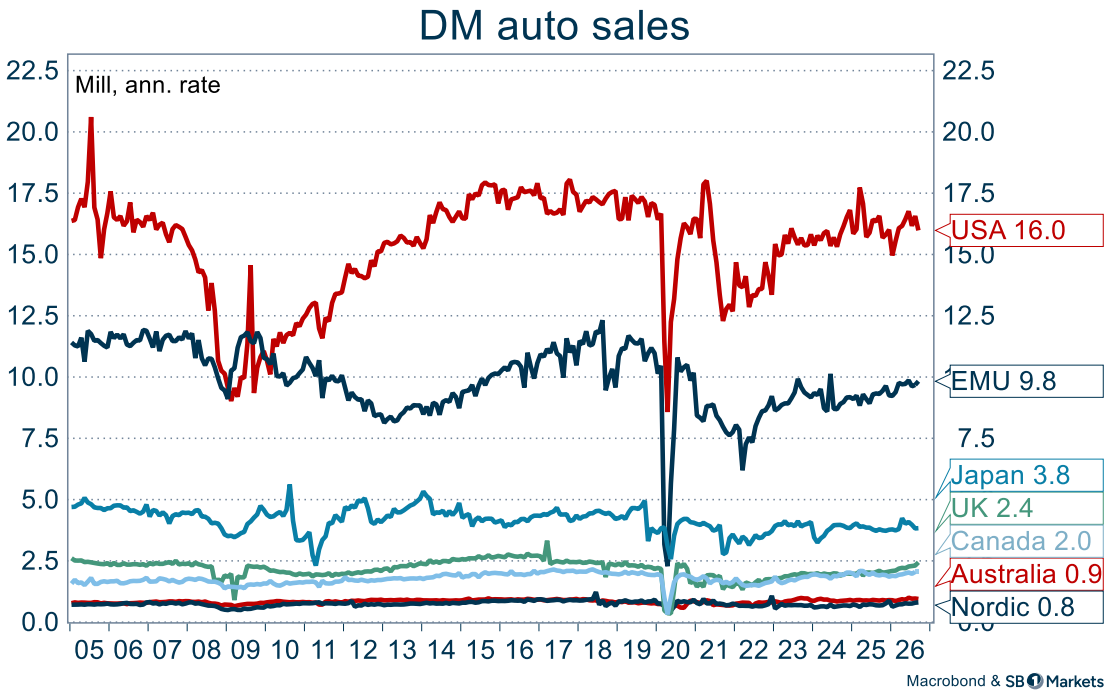
Chinese auto exports have been soaring, as domestic sales have fallen 30% while production has fallen far less. Chinese exports now equal more than 1/3 of Chinese production, and almost 1/7 of sales in the rest of the world, up from close to zero in 2020.

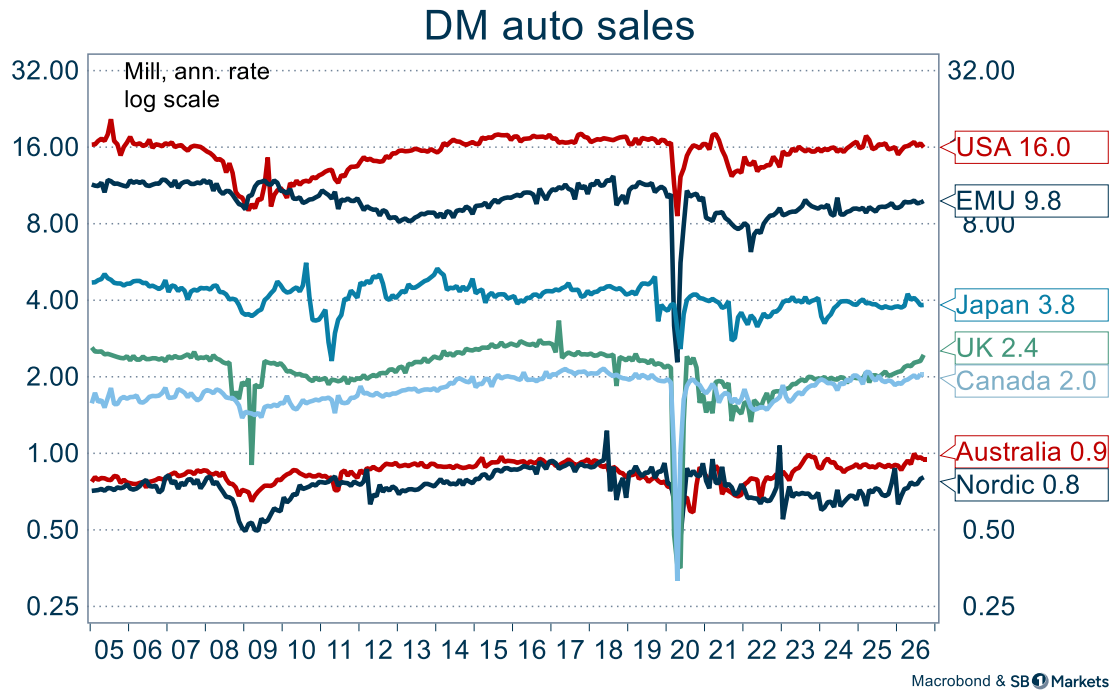


- Auto sales in China have fallen by close to 30%
- Auto imports into China? Close to zero.

DM auto sales trend up: Japan, EMU & UK edge up. US sales slip again

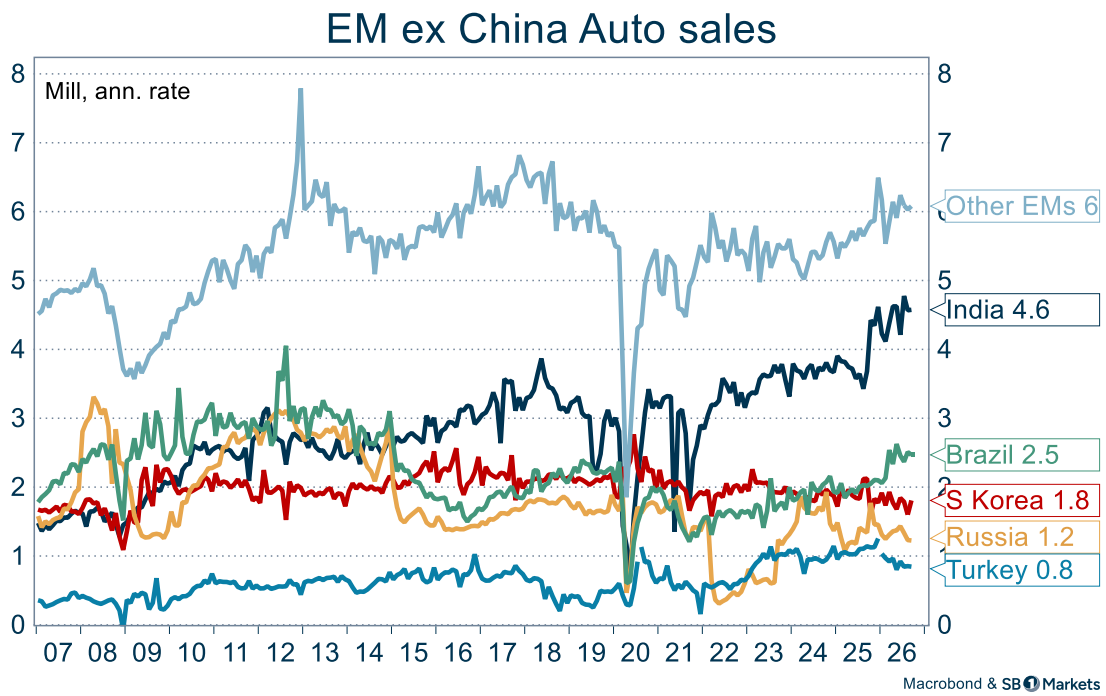
The Nordics are up as well, in aggregate at least.

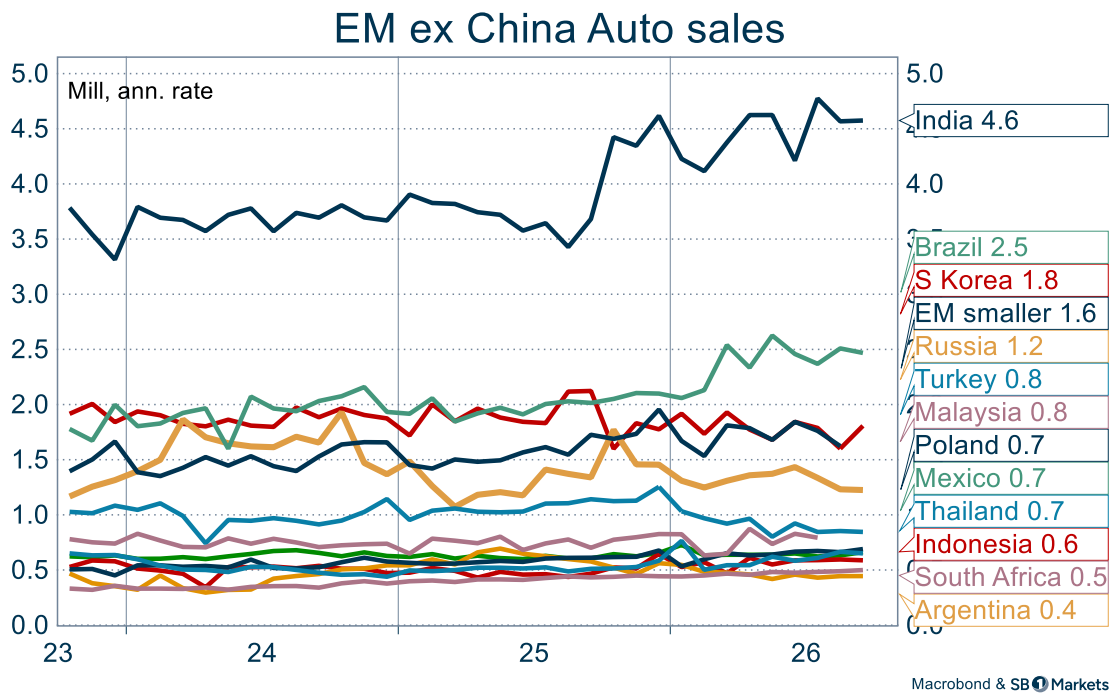




Indian auto sales still trend up and are close to a record high

Sales in Brazil have accelerated in 2026 but are still down 20% from the level in 2011–2013. South Korea trends slightly down. Russian sales are half the level in 2012–14. The war comes at a cost.

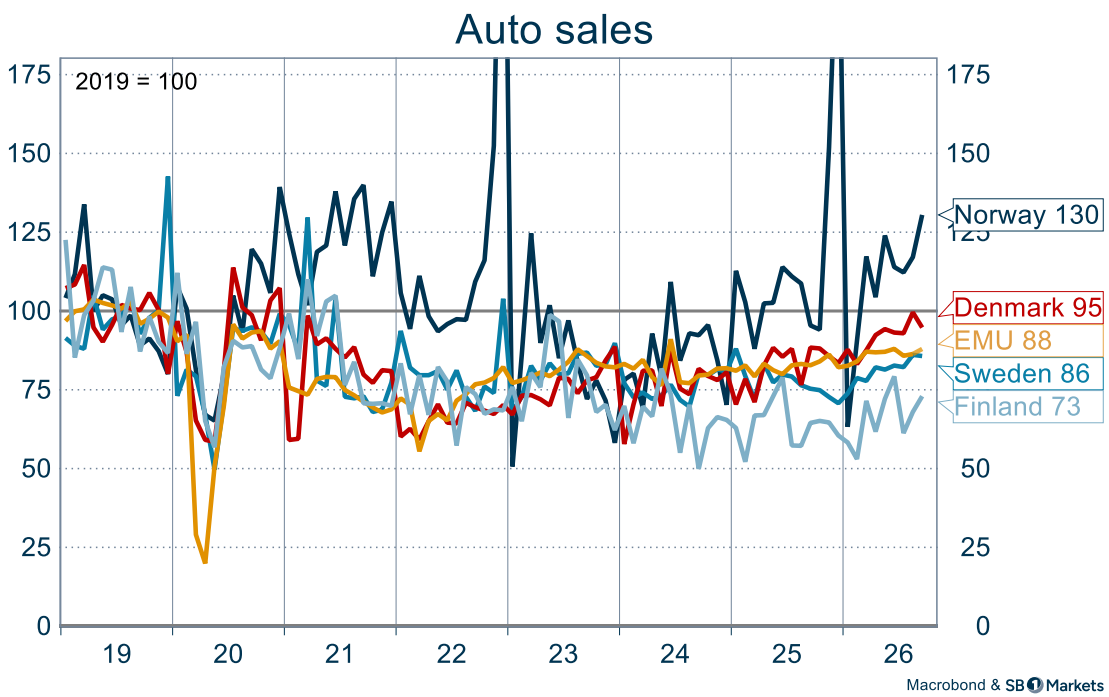




Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

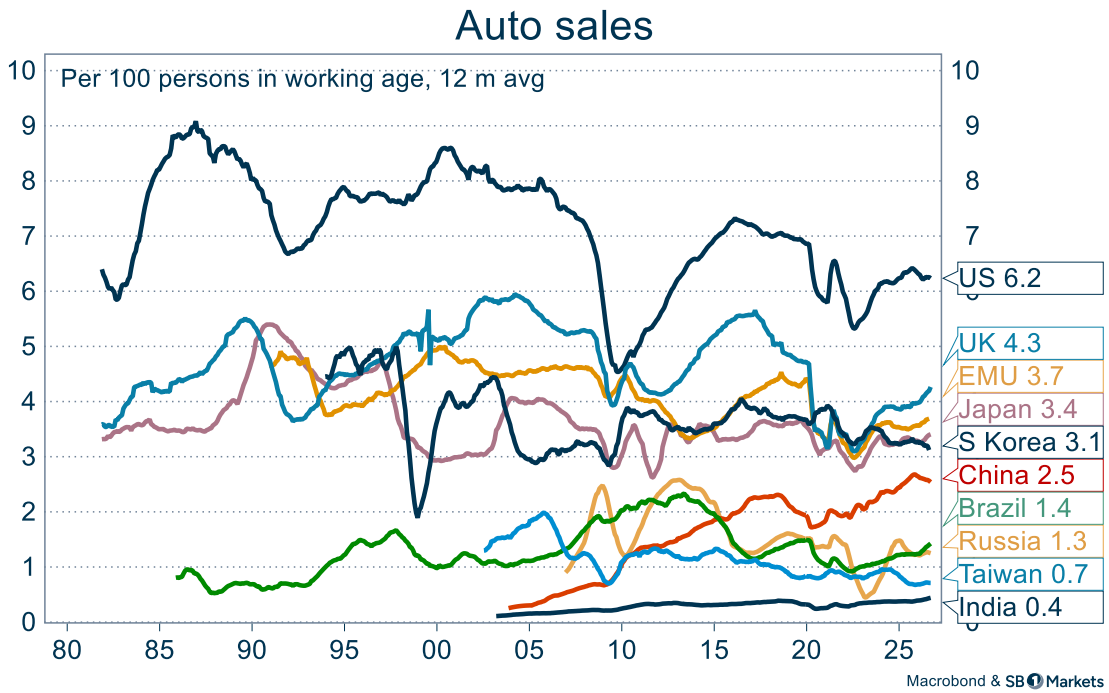
Nordic Auto Sales: Denmark and Norway in the lead, Sweden is below par

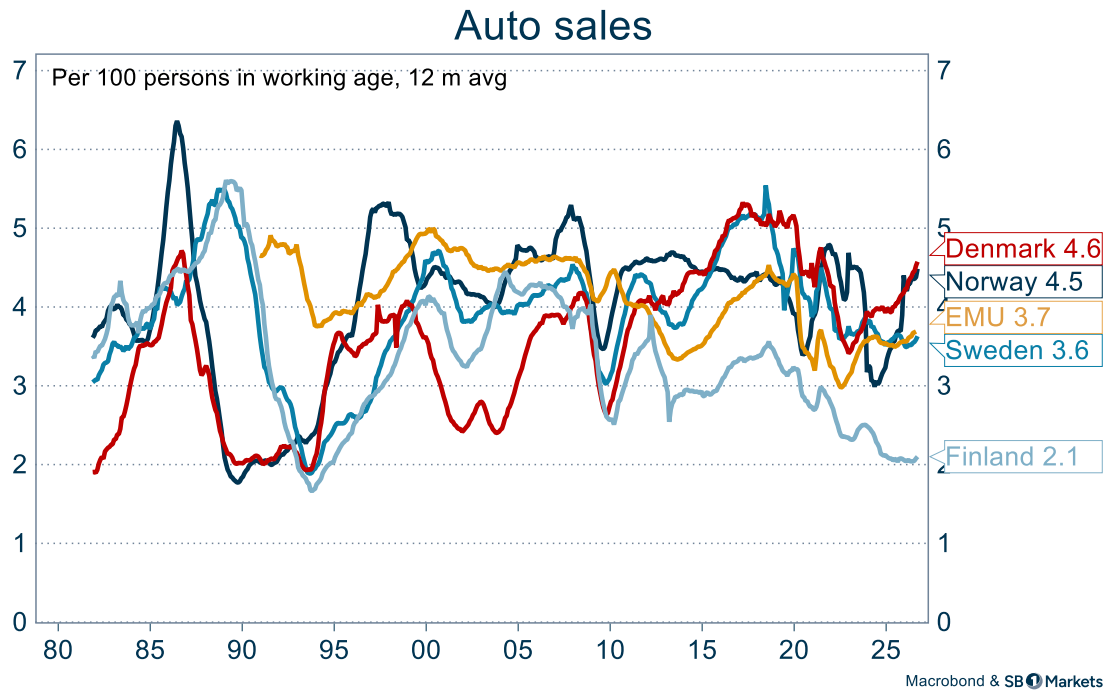
Sales in Finland are recovering from a very low level (*check next page as well*).
Since 2019, Norway is up 30%; Denmark is flat; Sweden is down 14% and Finland 27%.



The long-term trends: downwards in the rich part of the world

Sales per capita in China are not far behind those in rich countries in Asia or Europe, and may of course overtake them, in order to increase the stock of cars to a higher level.





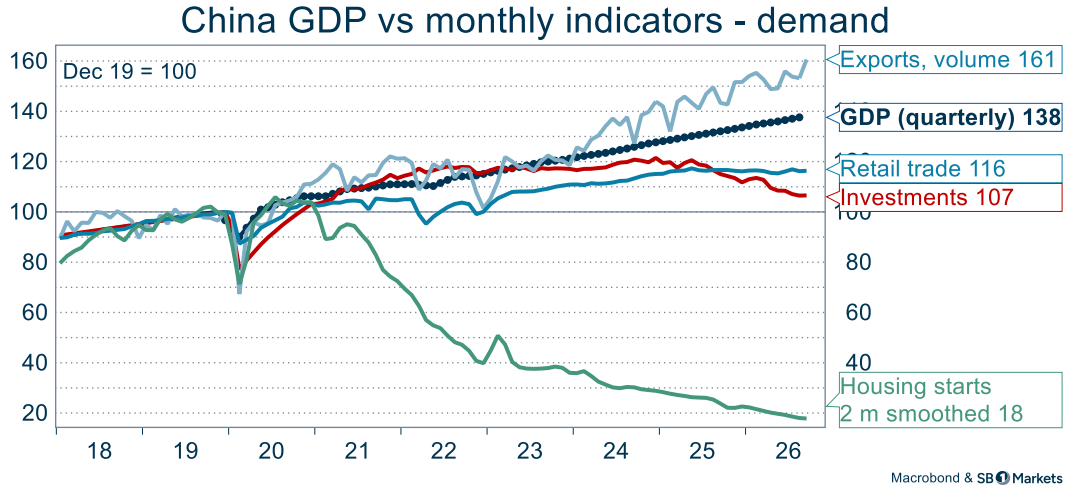
SB1 Markets

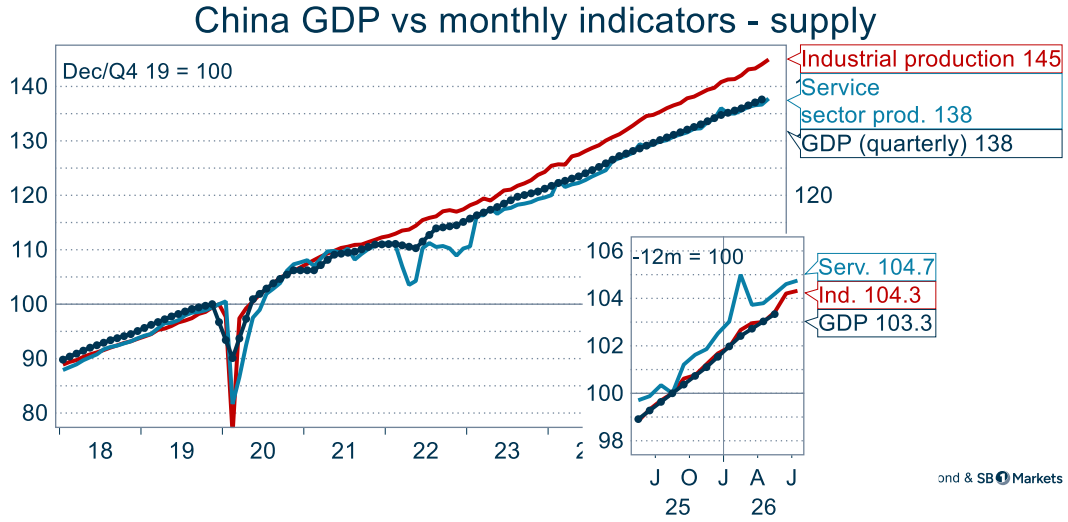


China

China: September and Q3 better than expected across sectors, but still weak

GDP grew at a 4.9% pace in Q3, 1.3 pp above expectations. Industrial production is growing at a 5%+ pace, but retail sales are flat in volume terms. Investment levelled off m/m but is still down 11% y/y in real terms. House prices are falling more slowly. Are net exports the only real boost?

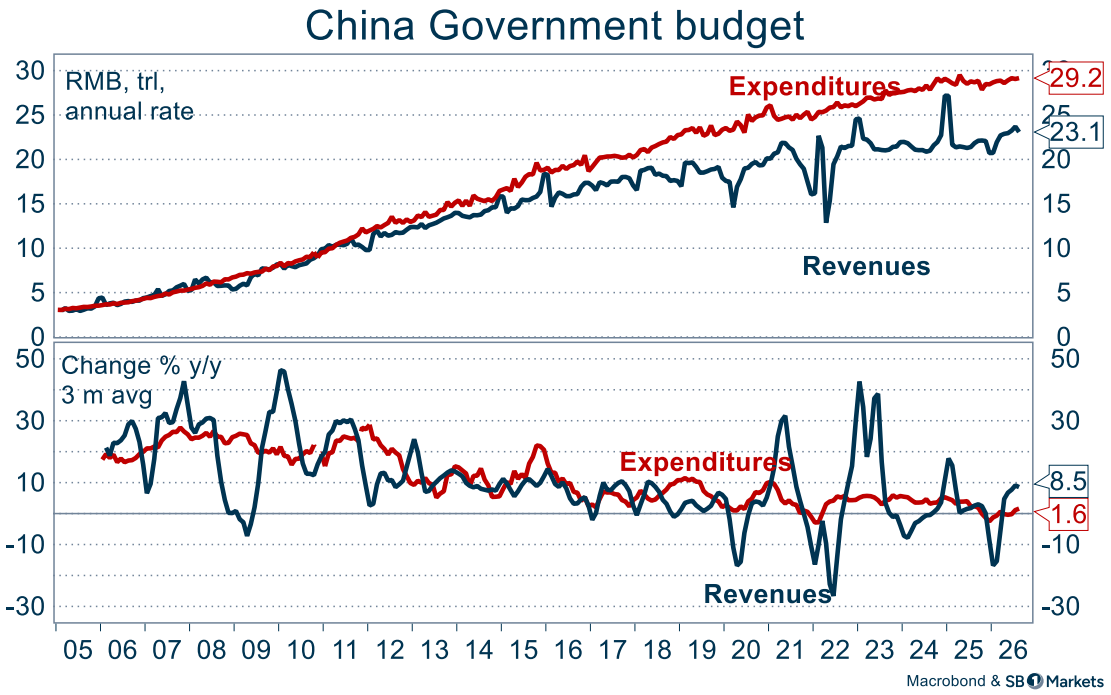


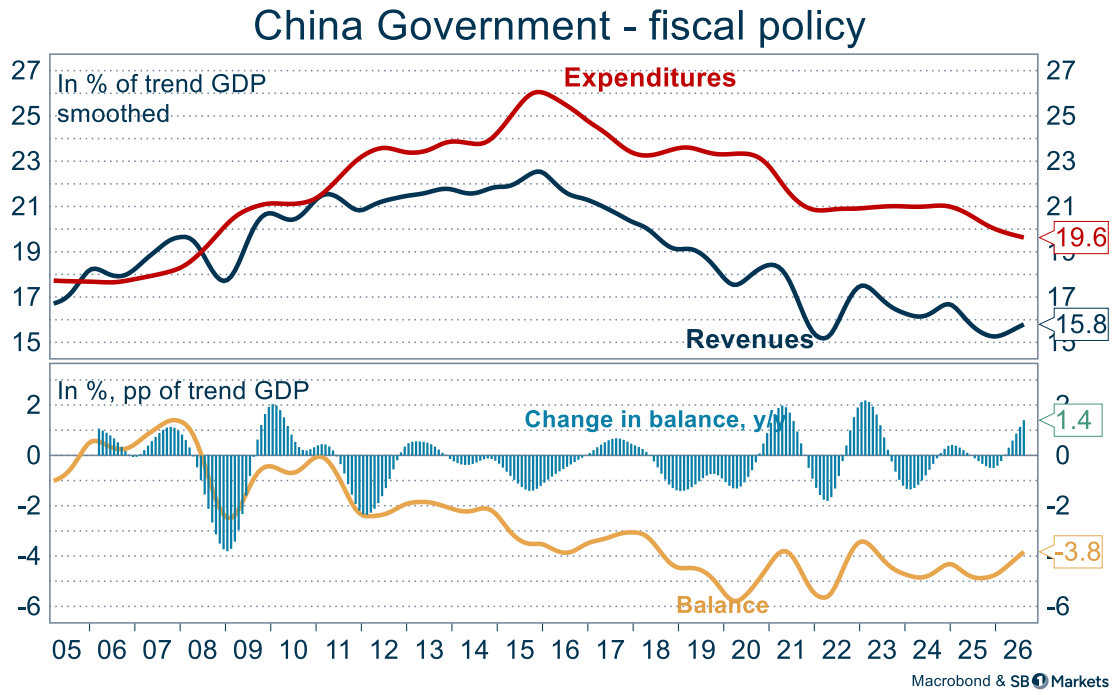


- **GDP** rose 1.3% q/q, not annualised, *0.2 pp above expectations*, and up from 1.1% in Q2. The annual rate accelerated by 0.2 pp to 4.5%, versus an expected 4.4%. Nominal GDP is up 6.0%**.**
- **Industrial production** rose 0.6% m/m in September, and the annual rate accelerated by 0.3 pp to 5.5%, *as expected*. While growth is still below 'normal', it has accelerated marginally lately, and the PMIs were upbeat in September. Housing-related sectors are still weak, while high-tech sectors are expanding rapidly.
- **Service sector production** was up 4.8% y/y in Sep., up *0.7 pp* from 4.1% in Aug.
- **Retail sales rose marginally in September but the trend remains flat in real terms.** Nominal sales were up 1.1% y/y, *0.6 pp above expectations*. Sales are more than 20% below the pre-pandemic trend.
- **Investment** rose marginally in September. YTD growth was *0.1 pp above expectations*. In volume terms, investment is still down 11% y/y (our estimate), but the pace of decline is slowing. Both **new home sales and starts** are still heading down at a rapid pace from very low levels (-80%+ from the peak). **Housing prices declined further.** However, in recent months, prices have turned up in the largest Tier 1 cities, which may signal an end to the five-year downturn. Real prices are back to the 2004 level.
- **Credit growth** *is slowing* but is still higher than nominal GDP growth. Household debt is down 2.0% y/y, while businesses are borrowing at a normal pace, almost +8% y/y. Shadow banking credit has accelerated somewhat (excluding local governments).
- **Exports and imports** are both up more than 30% y/y, far exceeding expectations, but only export volumes are up. The **trade surplus** was at a *record high in September*.
- **CPI inflation** has fallen *below 1% again*. **The PPI** is up *5.0% y/y*, though.
- **Fiscal policy** is slightly contractionary, but a *substantial stimulus plan* was recently announced, especially regarding investments in the high-tech sector.
- No **monetary measures** have been announced since Q1 last year.
- **In sum: Domestic demand remains weak. Net trade is surging, but this model is not sustainable for the rest of the world. *Something will have to give.***

Central government budget deficit narrows but new measures have now been announced

XX The fiscal deficit has fallen substantially, to 3.8% of GDP, according to Chinese data (IMF and OECD say 8%, including local governments). The authorities have announced a 6-point plan to strengthen the economy, as detailed below.



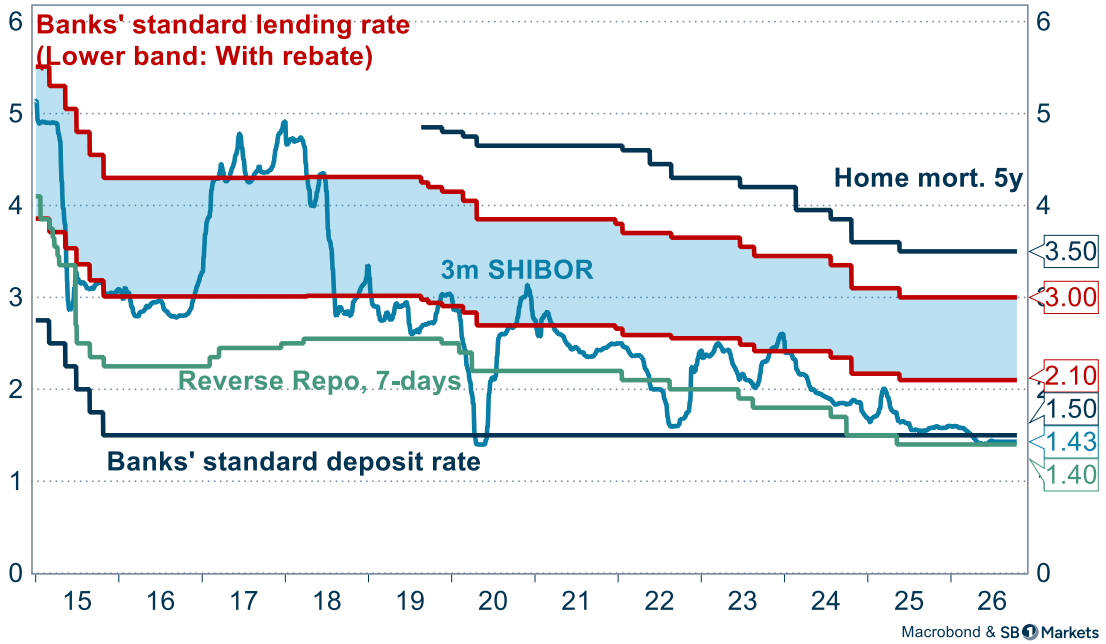


- The central government's expenditure was up 1.6% y/y in August (3m avg.), and is falling as a share of GDP, now at almost 19.6%. Revenues are up 8.5% y/y (but revenue data are very volatile). Still, revenues are trending down as a share of GDP, but more slowly than expenditure – and ***fiscal policy is clearly contractionary***. Disclaimer: *These data are rather volatile, and the seasonal pattern is uncertain*.
- The authorities have recently announced a 6-point plan to stimulate the economy in the short term, and to increase its longer-term growth potential. These plans include measures such as **infrastructure investment, including in power and computing capacity** (the bulk of the money will be allocated here), **consumption support, advanced manufacturing support (AI, robotics, semiconductors), green investments and property-sector stabilisation.** The total amount is around **5% of GDP**, spread over the next five years, a substantial amount, partly funded by government debt.

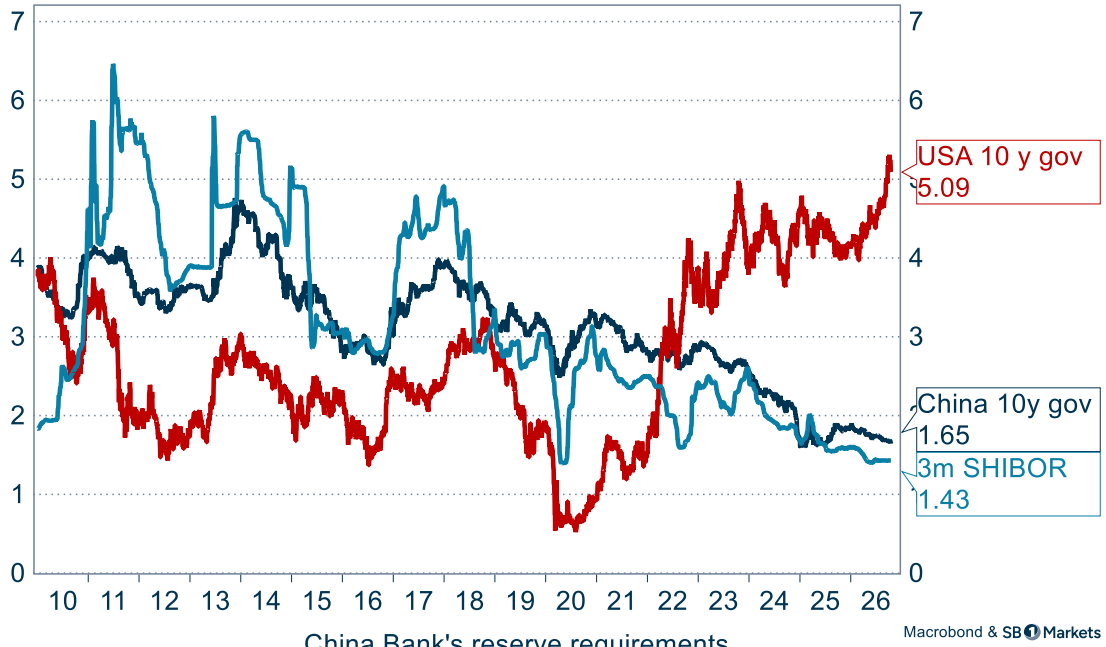
No new monetary policy measures since early 2025, but market rates are falling

Neither policy rates nor reserve requirements have been cut since Q1-25. In recent years, bank margins have been squeezed by lower lending rates and no cut in the standard deposit rate. Should lending rates be cut further, banks will probably need to cut deposit rates as well.

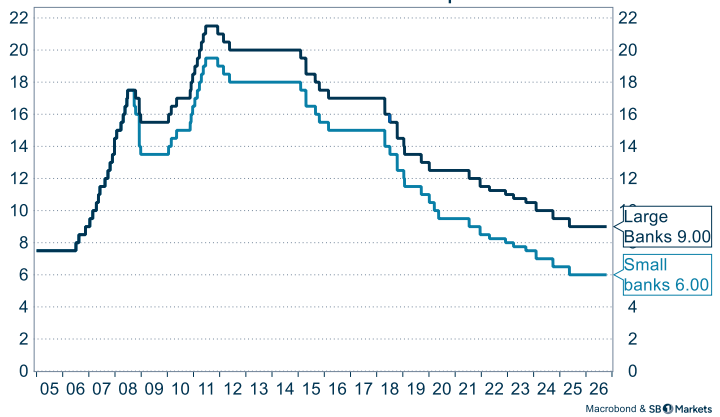
China Interest rates



China (and US) interest rates

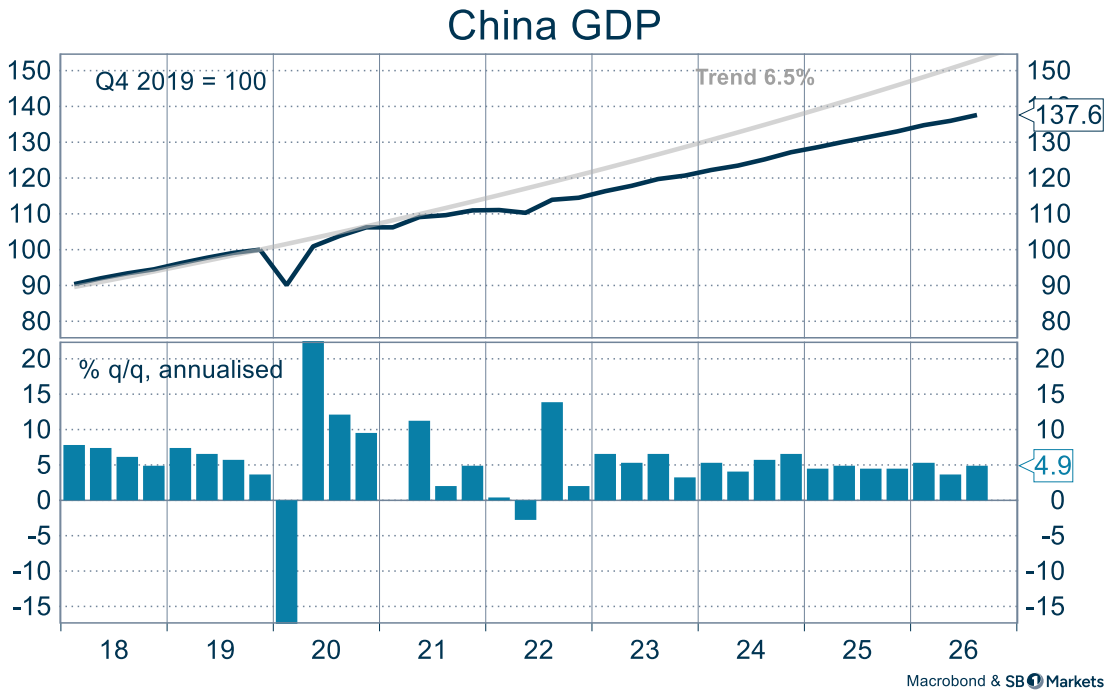


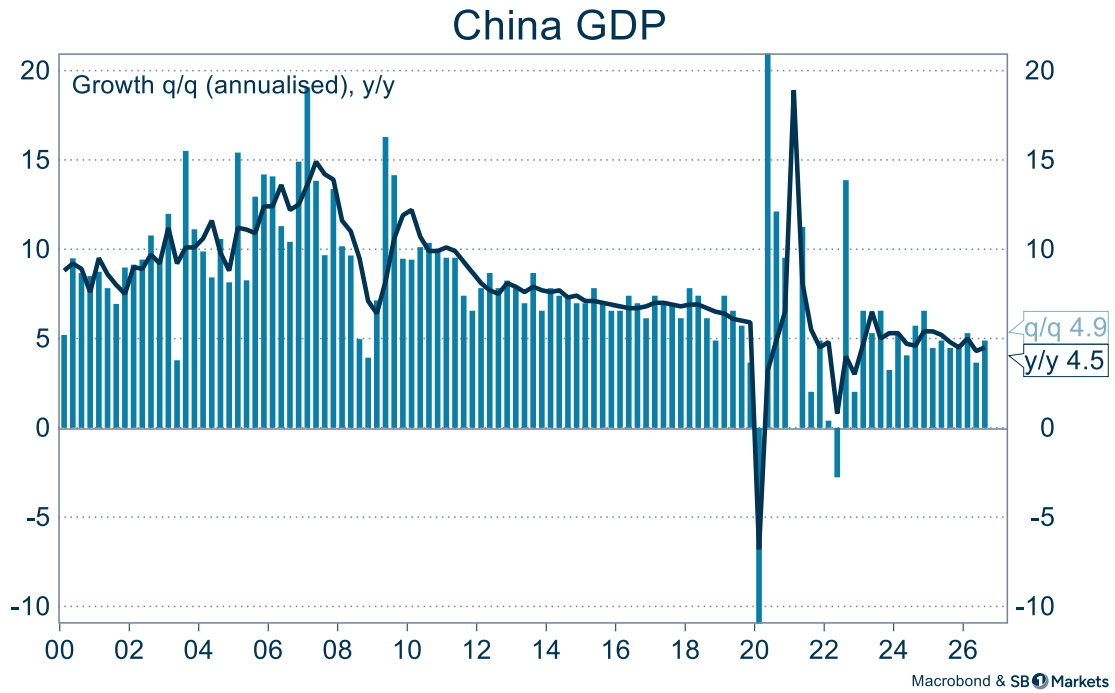
China Bank's reserve requirements



Q3 GDP growth: 4.9% q/q and 4.5% y/y, the latter *0.1 pp above expectations*

… and up from 4.3% in Q2. The q/q growth rate of 4.9% (annualised) was around 1.3 pp higher than expected.
The official 2026 growth target is 4.5–5%, down from "around 5%" in the previous two years. Now, a 4.6% outcome seems reasonable.



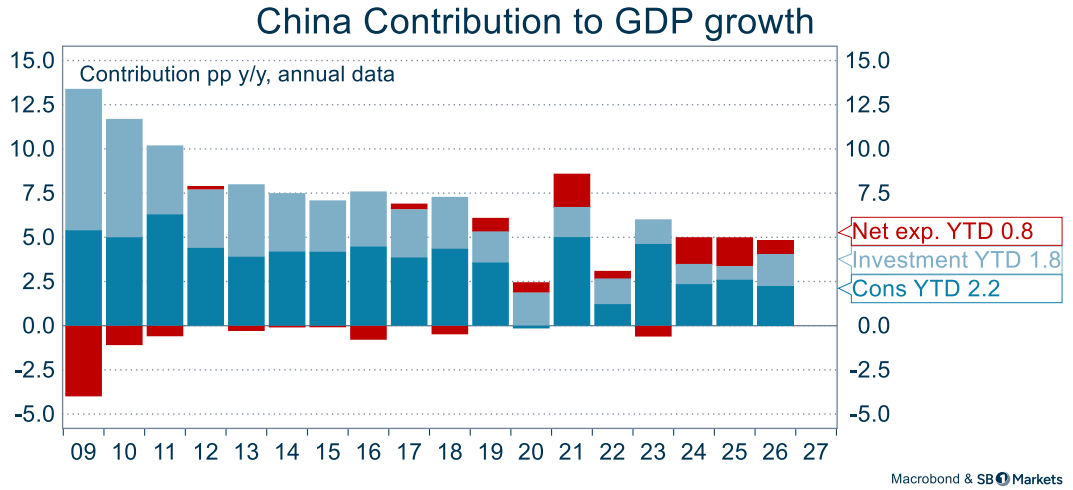


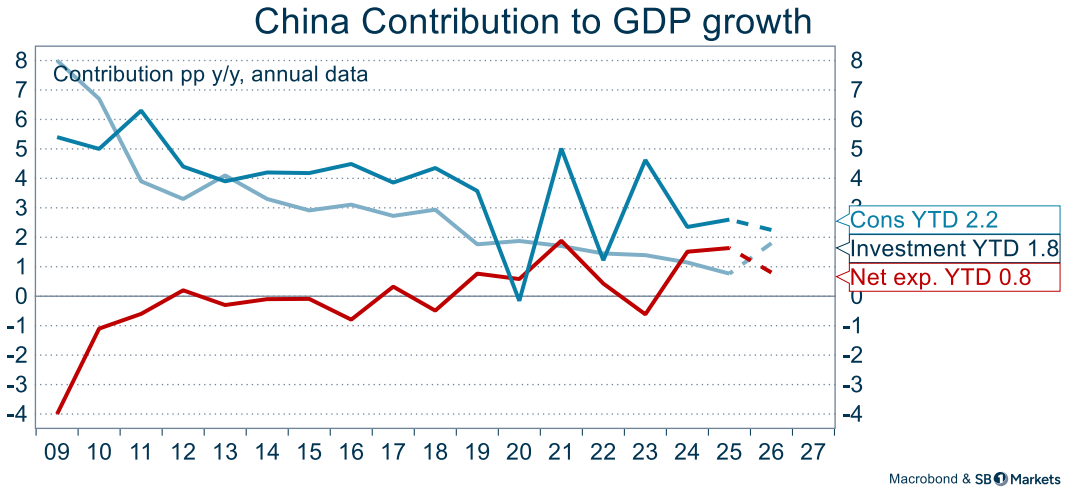
- GDP growth is gradually slowing, from up to 15% before the Financial Crisis down to 6% before the pandemic to some 4.5% now.

Few Q3 details so far but real investment measured in the national accounts probably rose

… which is not the signal from monthly data. In addition, retail sales data suggest little or no contribution from private consumption. Net exports were very likely up in Q3.

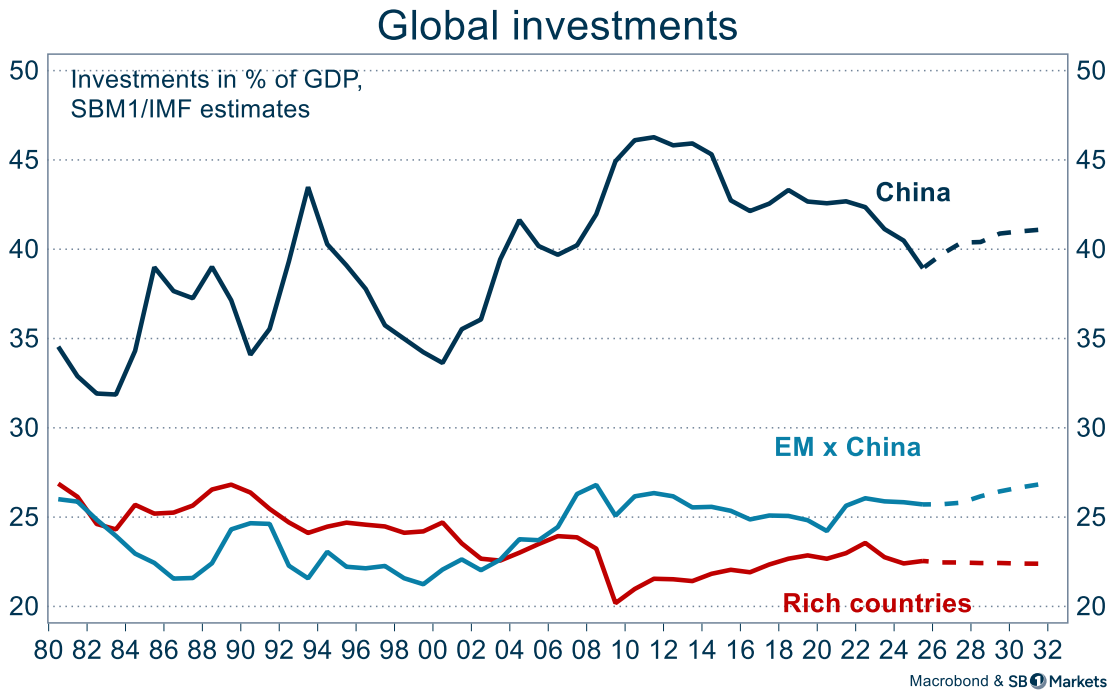






Chinese investment: On the way down, still an outlier

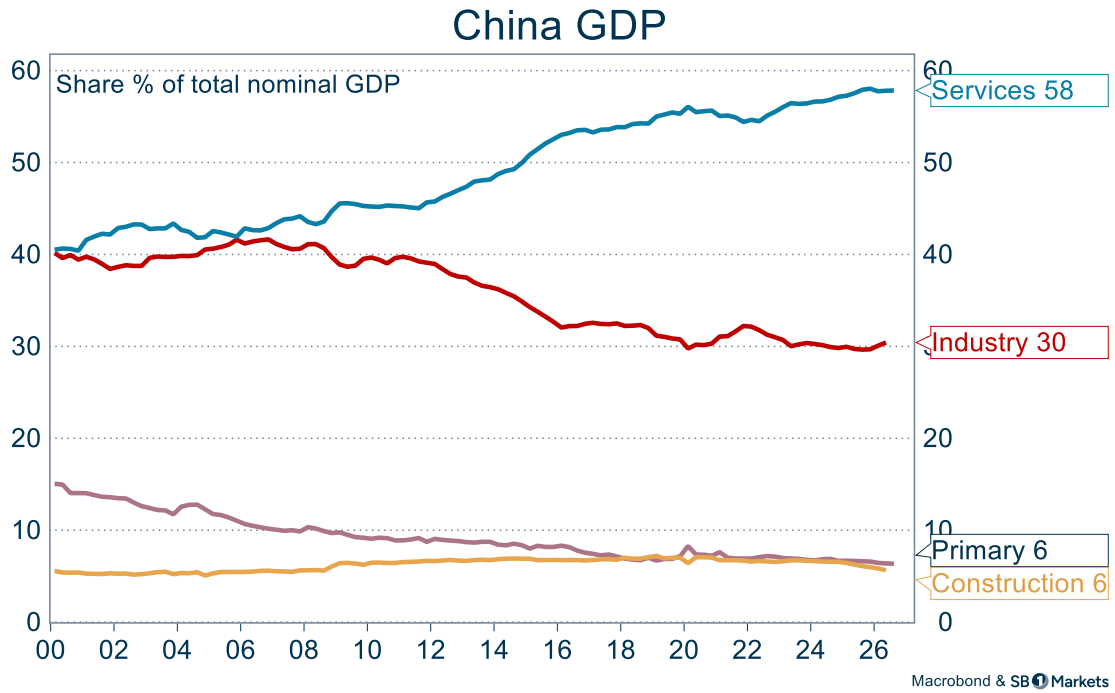
The investment ratio is still extremely high despite slower GDP growth. The IMF expects the investment share to rise in the coming years.



A broad growth slowdown but services growth still above 5% y/y

Construction activity began to decline last year and is now down 4% y/y. Services account for 58% of GDP and industry for 30%, which is still too high a share given the (unsustainable) current account surplus.

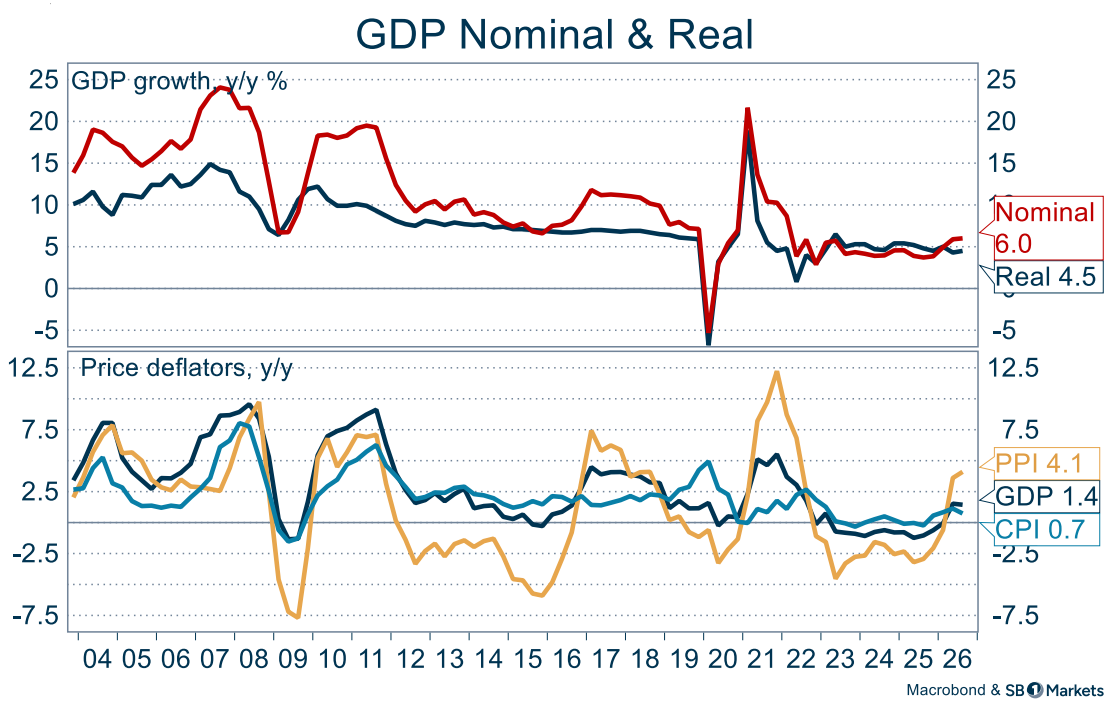




- Value added in construction in Q3 is not yet available.

The GDP price deflator is up 1.4% y/y, and nominal GDP is up 6.0%

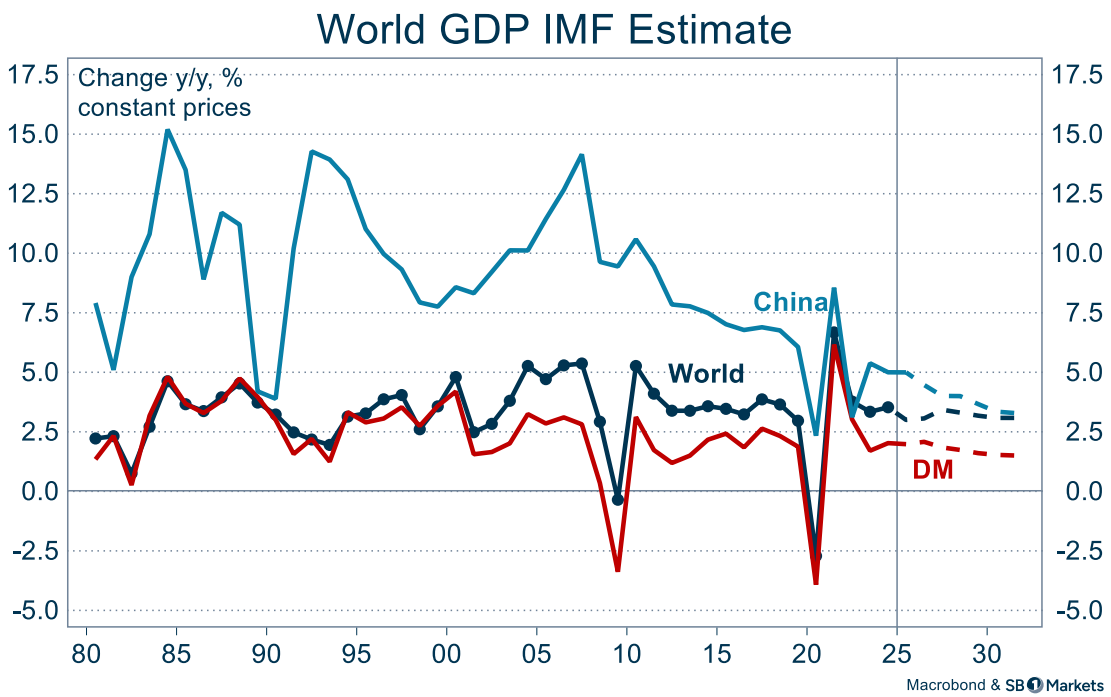
Annual growth in the GDP deflator was negative from 2023 until Q1-26 but has now turned positive, driven by rising manufacturing producer prices.

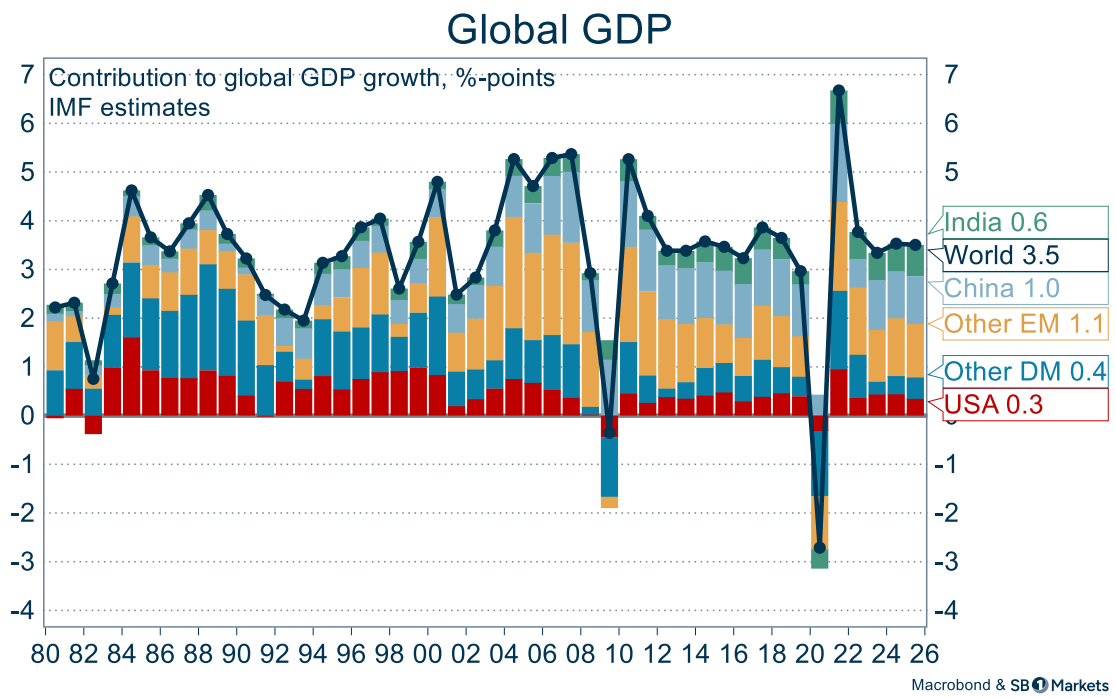


- Manufacturing producer prices (PPI) were up 4.1% y/y in Q3, up from almost -3% in Q2 last year.
- CPI inflation was 0.7% y/y in Q3 and is not accelerating.

A changing world order, I

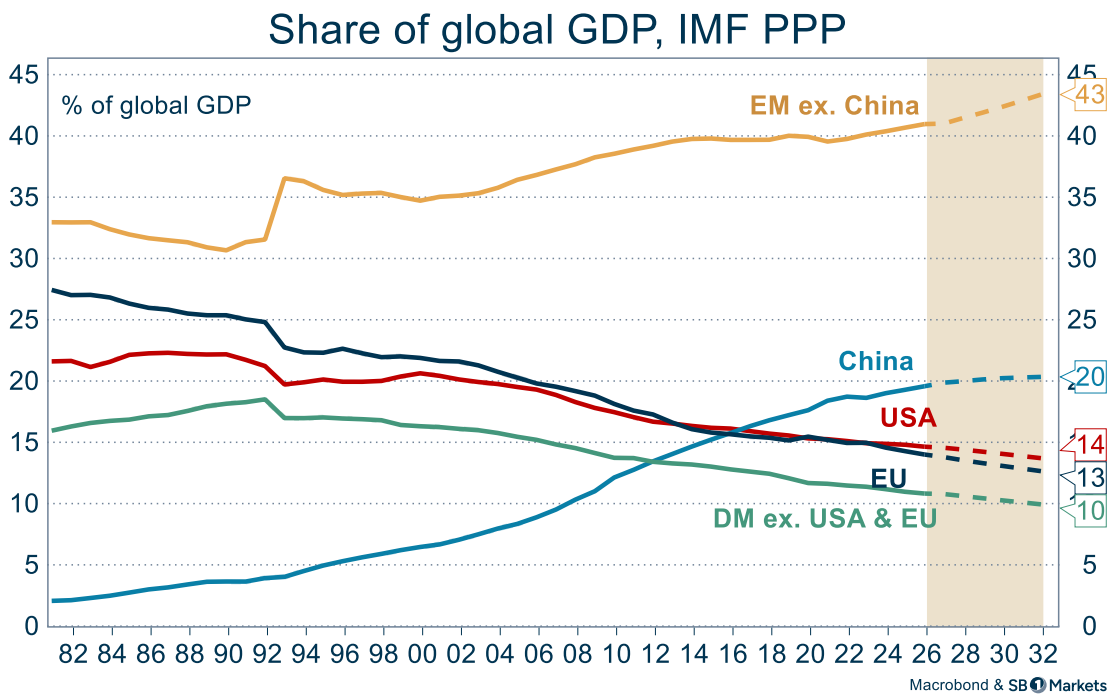
Which economies grow fastest, and which contribute most? DM countries are no longer in the lead





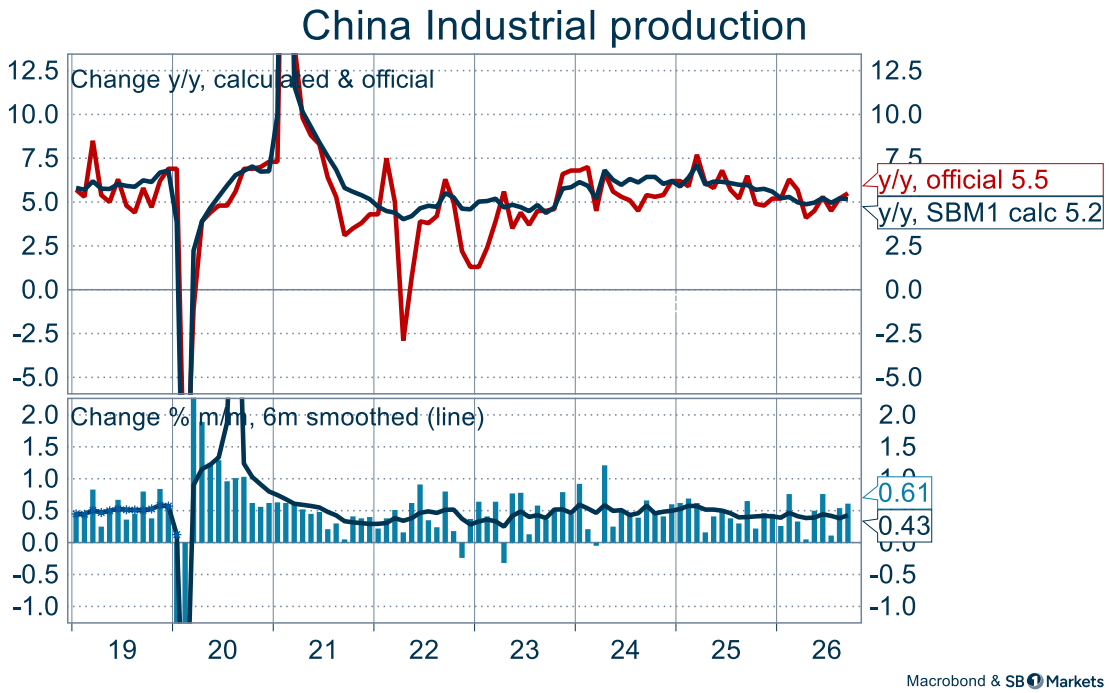
A changing world order, II

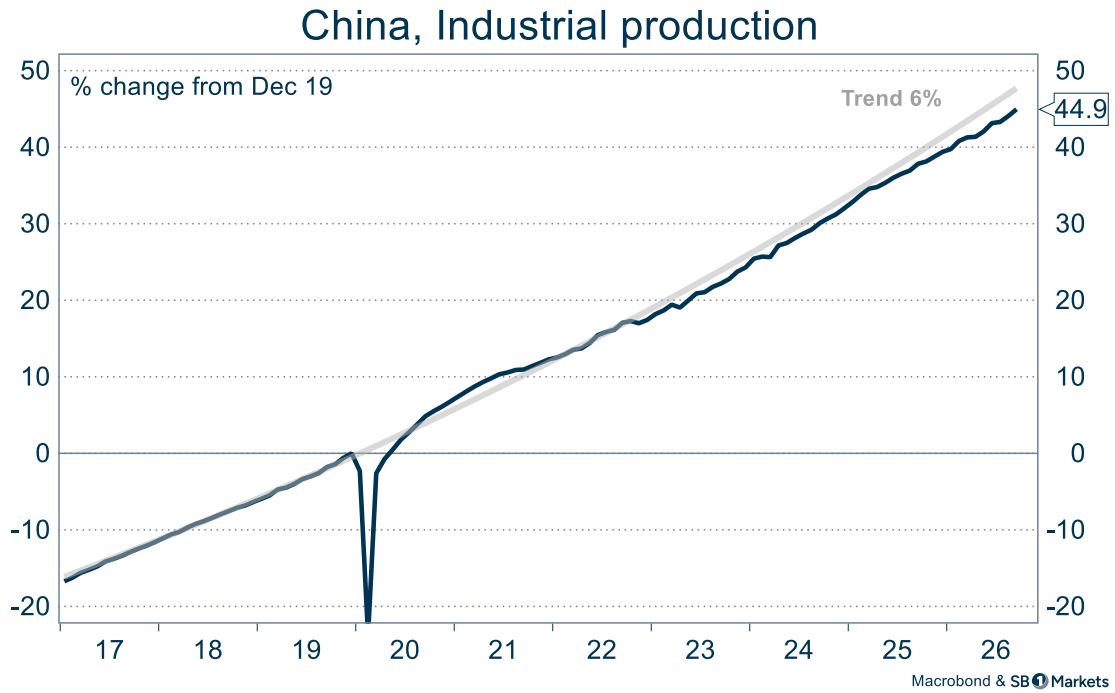
China has been the world's largest economy at purchasing power parity (comparable volumes) for 10 years. It now accounts for 20% of global output. The US contributes 15%, the EU 14% and other DMs 10%, a combined 39%.



Industrial production: the level is not back on track, but is growth?

Production rose 0.6% in September, up from 0.5% in August. The average growth rate over the past 6 months, at 0.43% (5.3% annualised), is not far below the 'normal' growth rate. The annual rate accelerated to 5.5% from 5.2% in August, *as expected*.



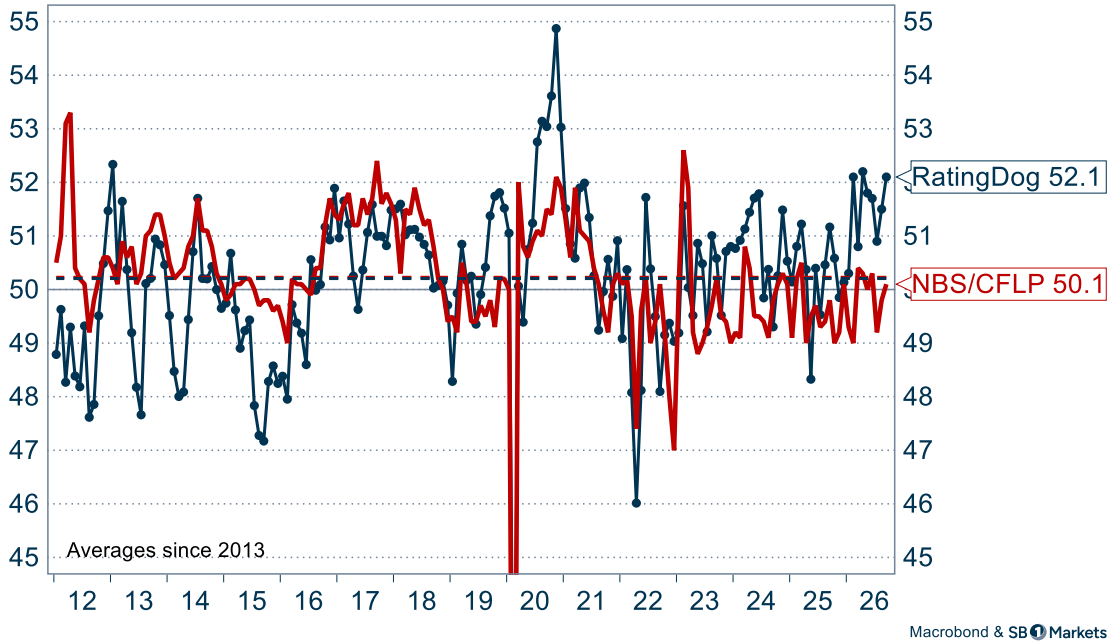


- **Growth has been slowing** since last summer, from above 6% to 5% – but has accelerated marginally in recent months.
- **The outlook**: The **PMI indices** rose further in September and signal more than 'normal' growth. However, the private sector survey (RatingDog) has been very volatile and has very likely exaggerated growth, at least vs. official growth data for the whole manufacturing sector. The NBS PMI remains at a modest level, but not far below its average (see next slide).

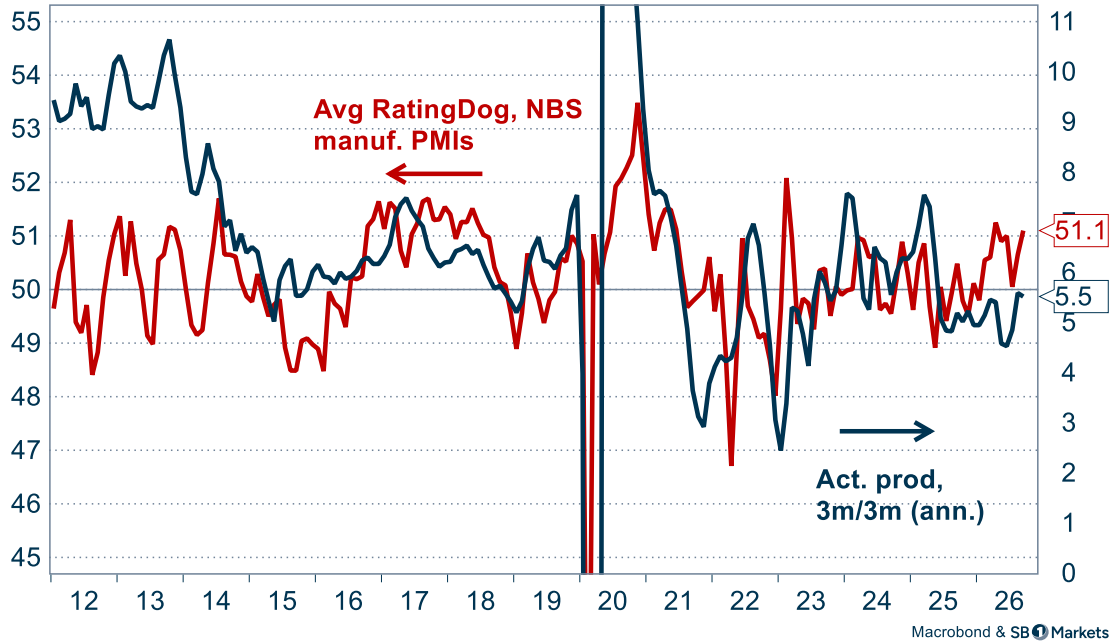
Volatile manufacturing PMIs signal faster growth rather than a slowdown

The average of the two PMI indices, at 51.1 in September, signals normal growth (but the correlation is not that impressive, and RatingDog's private-sector PMI looks more than suspicious).

China Manufacturing PMI



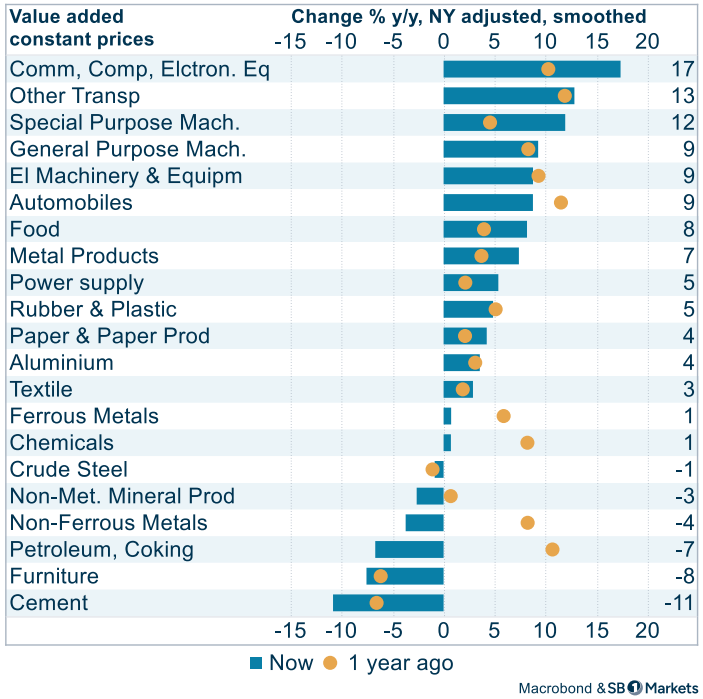
China PMI vs industrial production



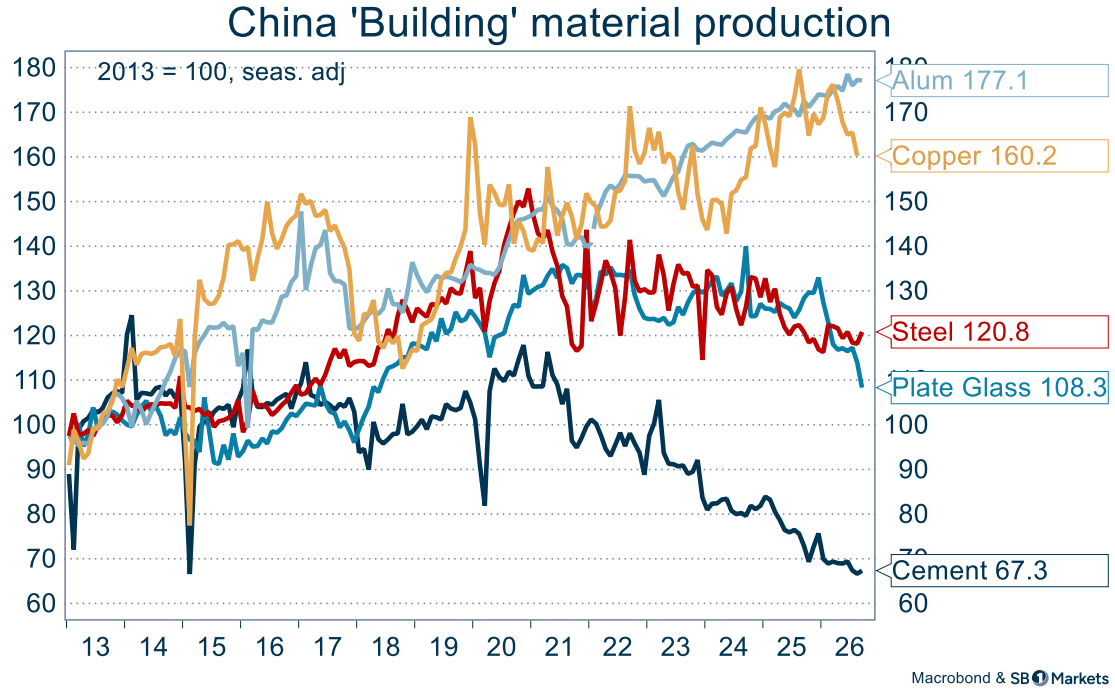
Housing-related cement and furniture production down 8–11% y/y

Production of communications equipment, computers, etc. is up 17%, and autos 9% (even if domestic sales are falling rapidly). Other transport equipment is up 13% as well. Other main groups are up 2–8%. Steel production is down 1% y/y and has flattened recently but is down 20% from the pea[illegible]

China Industrial production



China 'Building' material production

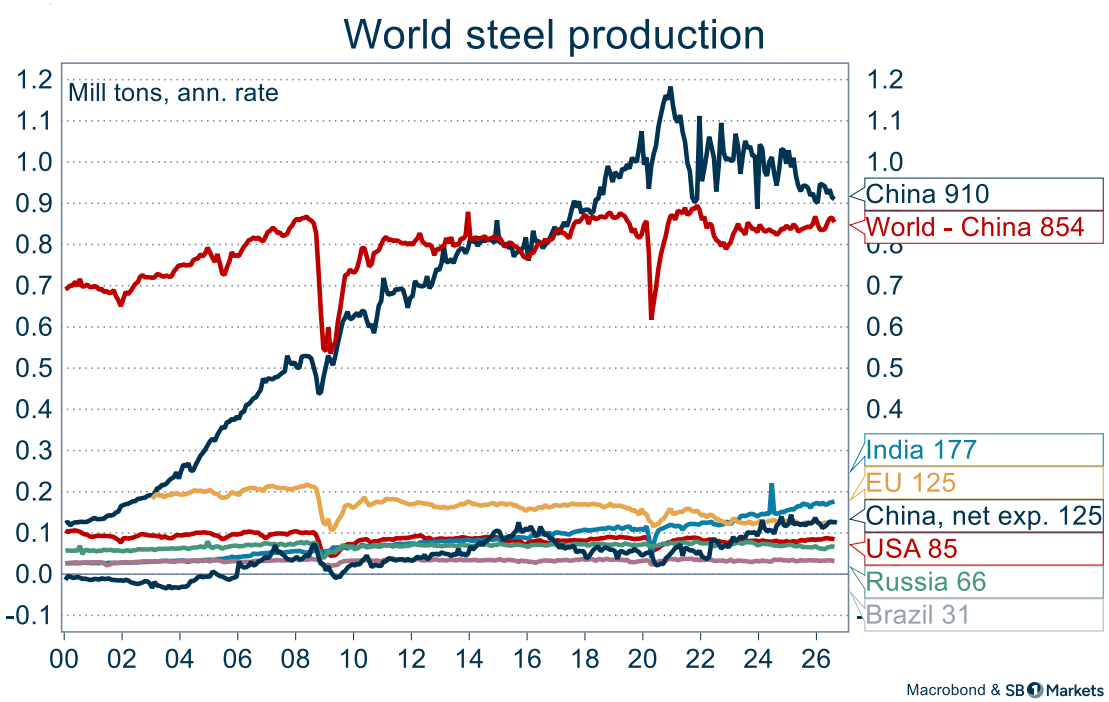


- **Mixed growth trends:** 10 sectors report lower growth or a faster decline than a year ago, and 10 are accelerating!
- **High-tech sectors** are generally still growing strongly.

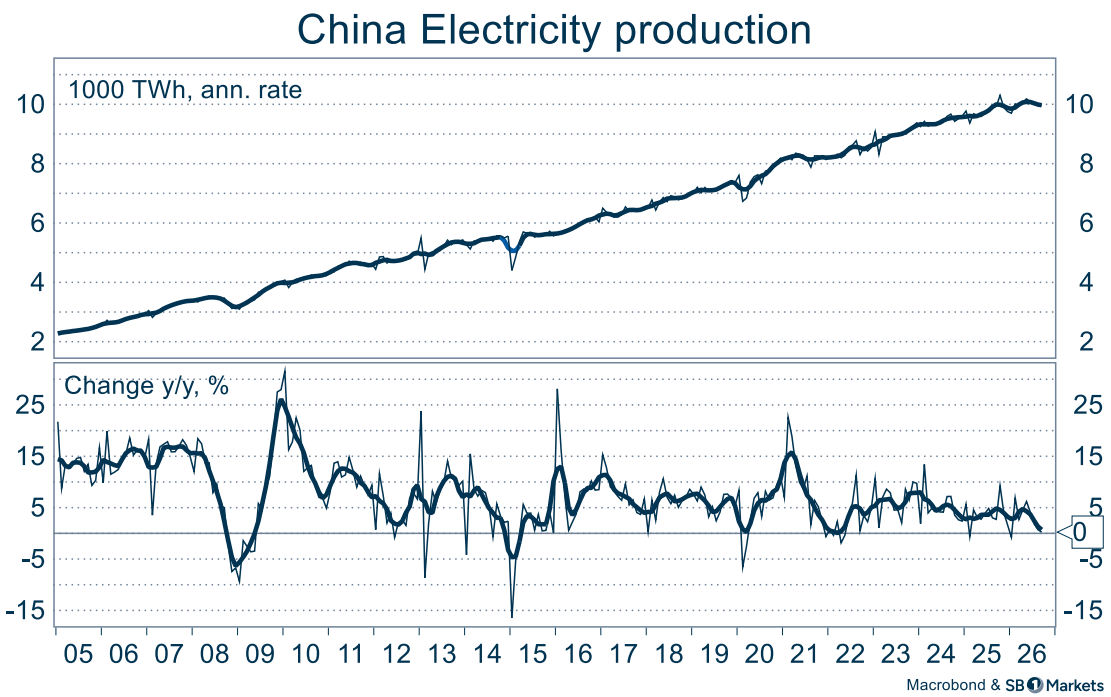
All annual growth rates are smoothed and based on data adjusted for the Chinese New Year and seasonal effects

Steel: China vs. rest of the world, just a reminder

Chinese net exports are the 2nd largest 'producer' in the rest of the world. Only India is ahead. India's production equals 18% of China's steel production. The US? 9%.



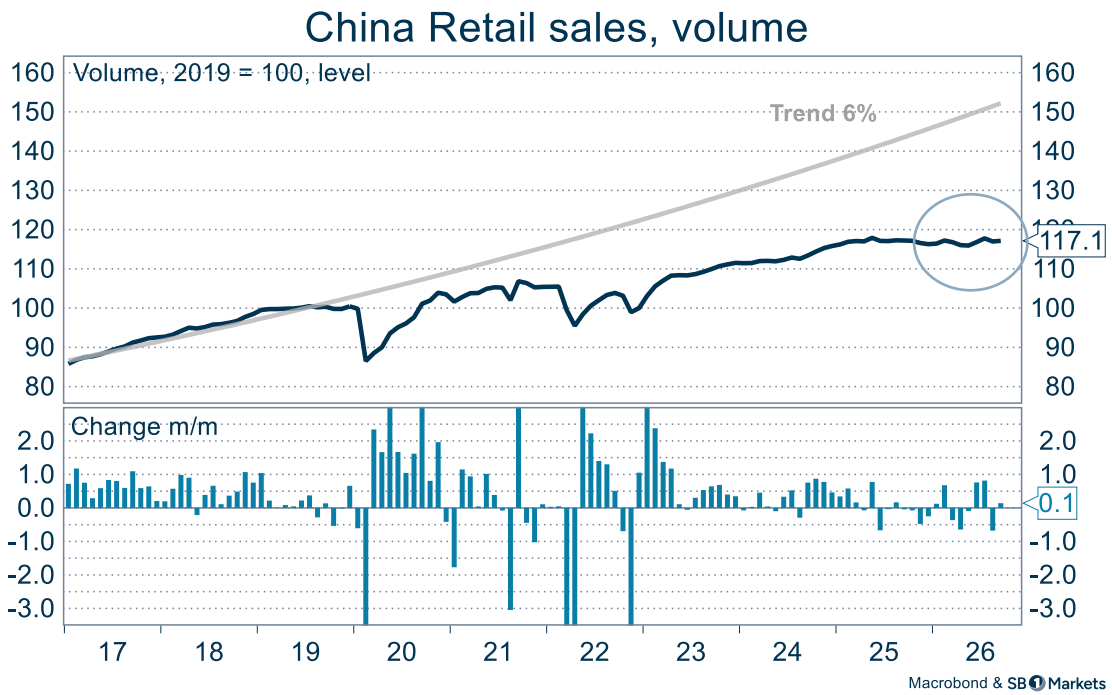
Electricity production is trending up, but y/y growth hit zero in September



Retail sales rose 0.1% in September, but the trend remains flat

Nominal sales (including many services) were up 1.1% y/y, *0.6 pp above expectations*. We estimate a 0.1% decline y/y in real terms. These growth rates are far below normal levels for China. Sales are more than 20% below the pre-pandemic trend – still up 17% from 2019.



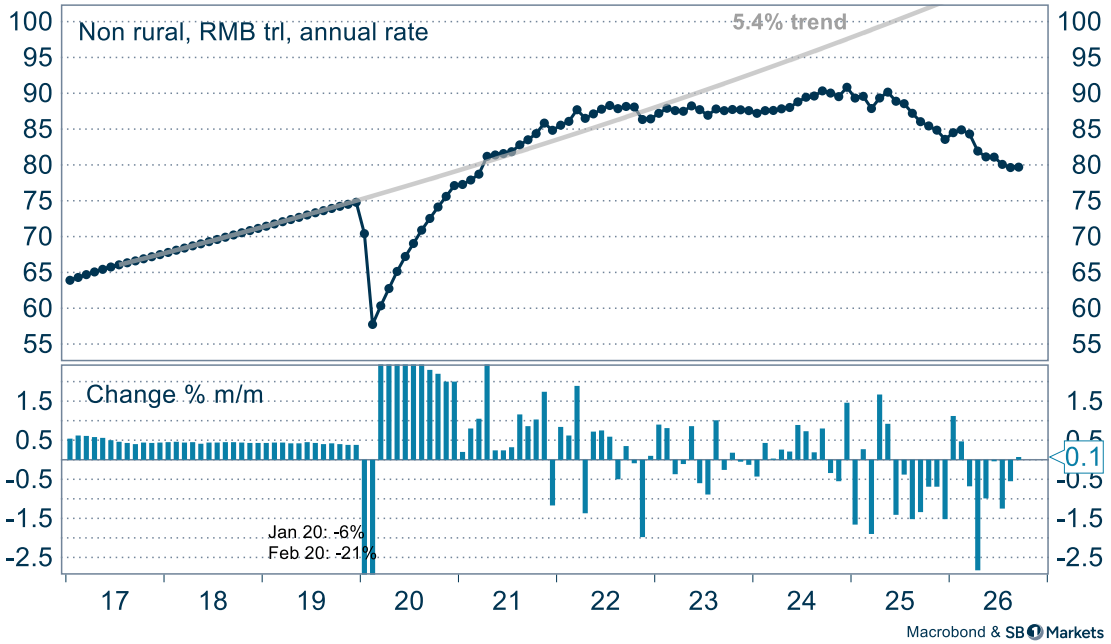


- Disclaimer: Chinese retail sales are notoriously difficult to decipher, partly due to extreme revisions, both up and down, but the official growth (or rather lack of growth) data are more than telling.

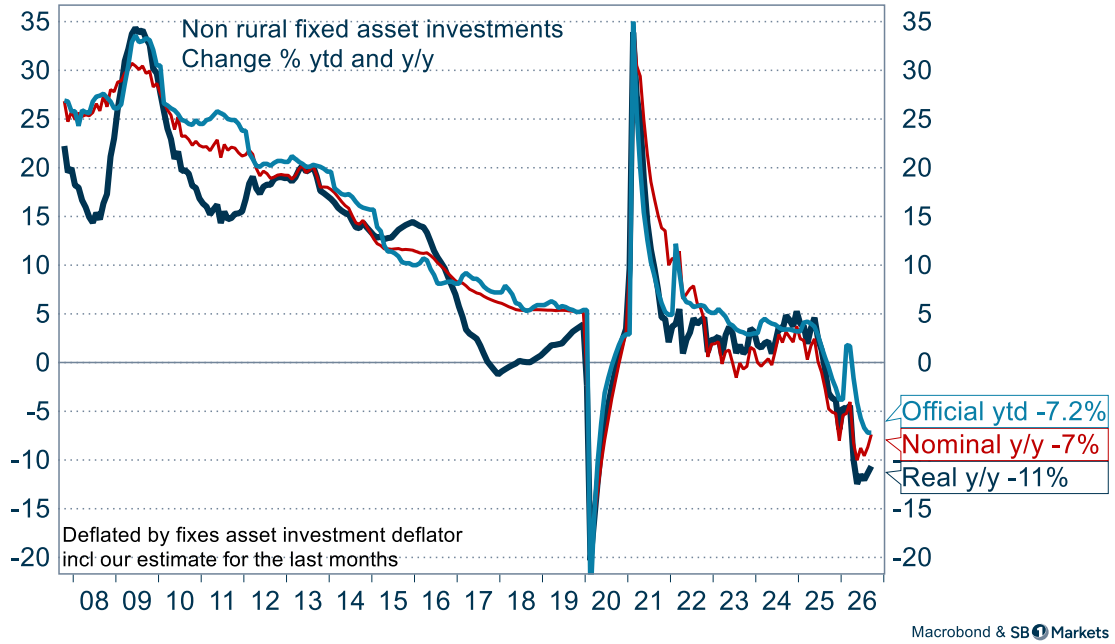
Is total investment levelling off? At least the pace of decline is slowing

The official nominal growth rate was unchanged at -7.2% YTD in September, *0.1 pp above expectations*. We estimate a 7% y/y decline in September alone, following a 0.1% m/m increase. In real terms, we estimate an 11% y/y decline, which is unusual for China.

China Fixed investments



China Investments - nominal & real

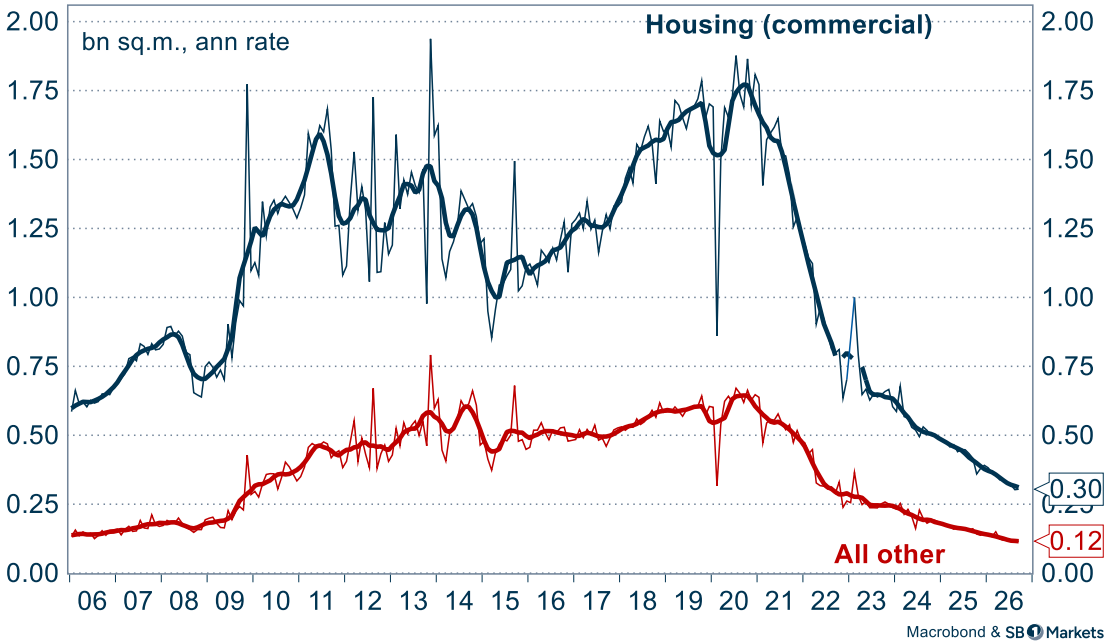


- **Investment** has fallen since early 2025, in a way we have not seen before (except for the 'sudden death' when the pandemic hit in Feb/Mar). The sudden stop at the start of the pandemic was very short-lived.
- **Investment in real estate** is down 21% YTD (versus a 20% decline in August), while other investment is down 4.2% (unch.). **Infrastructure** is down 4.2% and **manufacturing is down 2.7%. High-tech** is still up 5% (down from 20% a few months ago), and some sectors, such as aircraft production, computer manufacturing and information services, are up 8–29% (up from August, but growth has slowed substantially here as well).
- **As with other Chinese data**, inconsistencies as well as heavy revisions mean that our analysis must be taken with more than one grain of salt, and the charts above must be regarded as one of several possible interpretations of these data. However, the unadjusted official YTD data alone show broad, unprecedented weakness in 'normal' times.

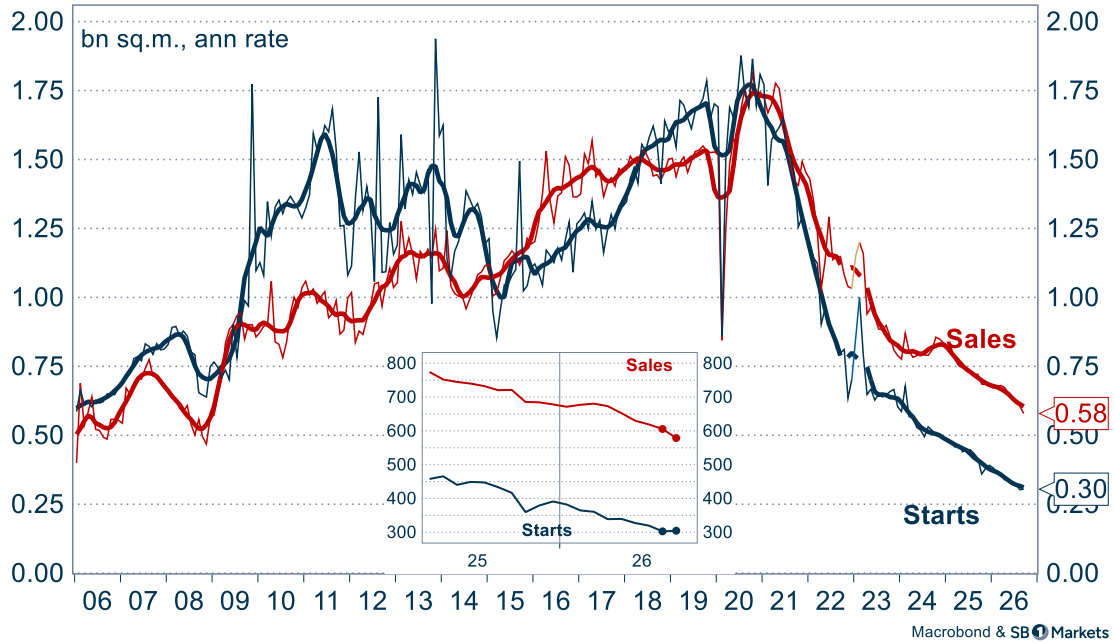
New home sales & starts are still heading down

These numbers are staggering. Construction activity has been falling since 2020, by more than 80%, and housing starts are down 30% y/y. Surveys do not signal that the market has stabilised. Fortunately, the downside risk is limited, at least in sq. m.!

China Construction starts



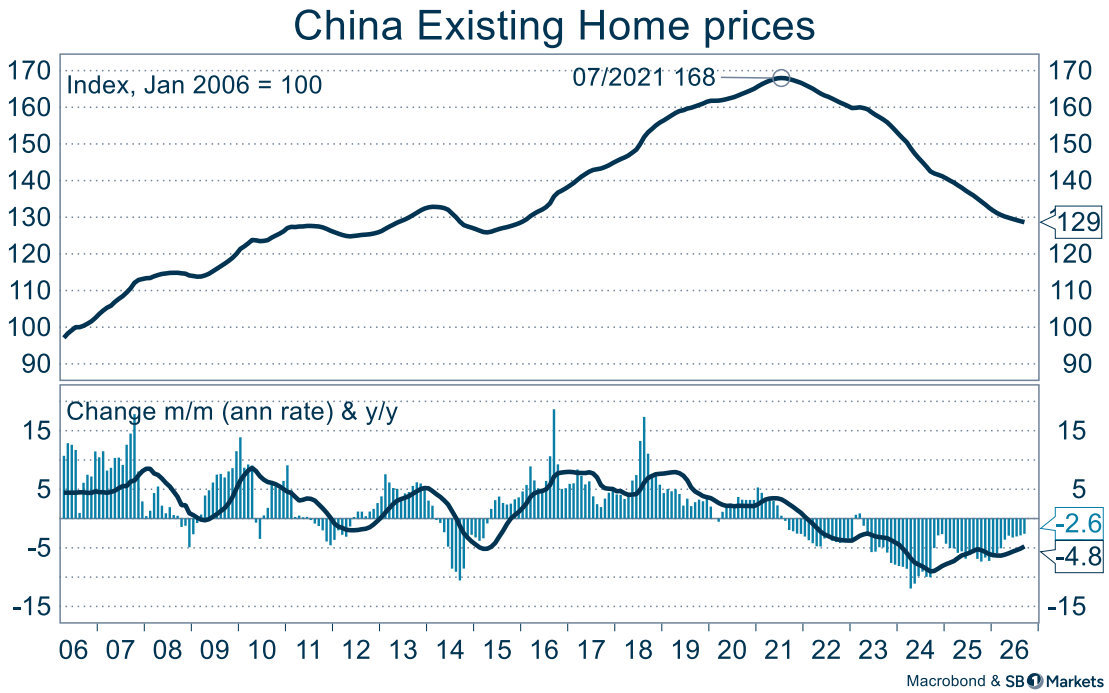
China Housing sales & starts

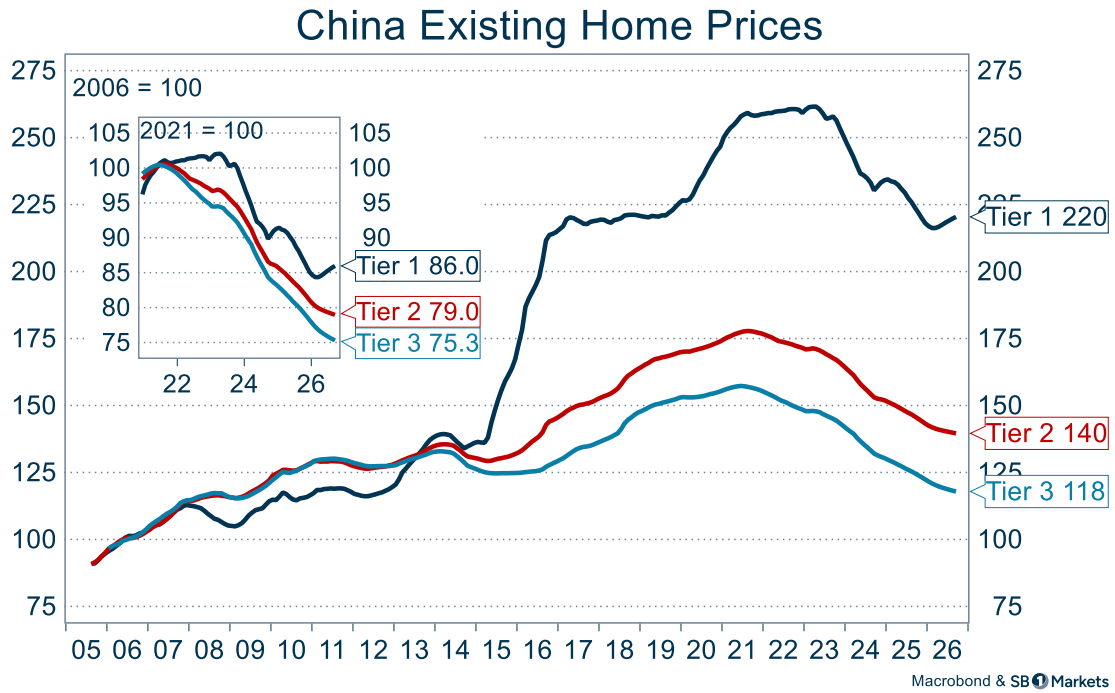


- **Sales** have been running higher than starts for a while, but we have not seen any reports of lower inventories, and prices are still falling (but at a slower pace).
  - **Housing starts** are almost half the level of sales and are still falling rapidly. These sales figures seem to be rather optimistic.
- **Other construction starts** are usually closely correlated with housing starts. In September, they fell 20% y/y. Non-residential starts are also down more than 80% from 2020.
- The **economic impact** of the decline in construction starts is spread out over time, but activity in the building sector must have fallen by almost the same amount.
  - **Production of cement and steel** is down but less than suggested by the decline in construction starts, as higher demand from other sectors has partly offset the decline.
- Some of the adjustments in the real economy may still lie ahead, but most of the decline in construction must be behind us. There is undoubtedly some 'financial clean-up' ahead, which of course may affect activity both within the construction sector and beyond in the coming quarters and years.

Existing home prices are still falling, but more slowly as prices in Tier 1 cities rise

Prices fell at a 2.6% pace m/m in Sep., the slowest pace since 2023. Prices are down 4.8% y/y. In the largest Tier 1 cities, prices have turned up lately (but are still down 1.5% y/y). The national avg. is down 23% from 2021, and it is back to the 2011 level, nominally. In real terms: 2004!

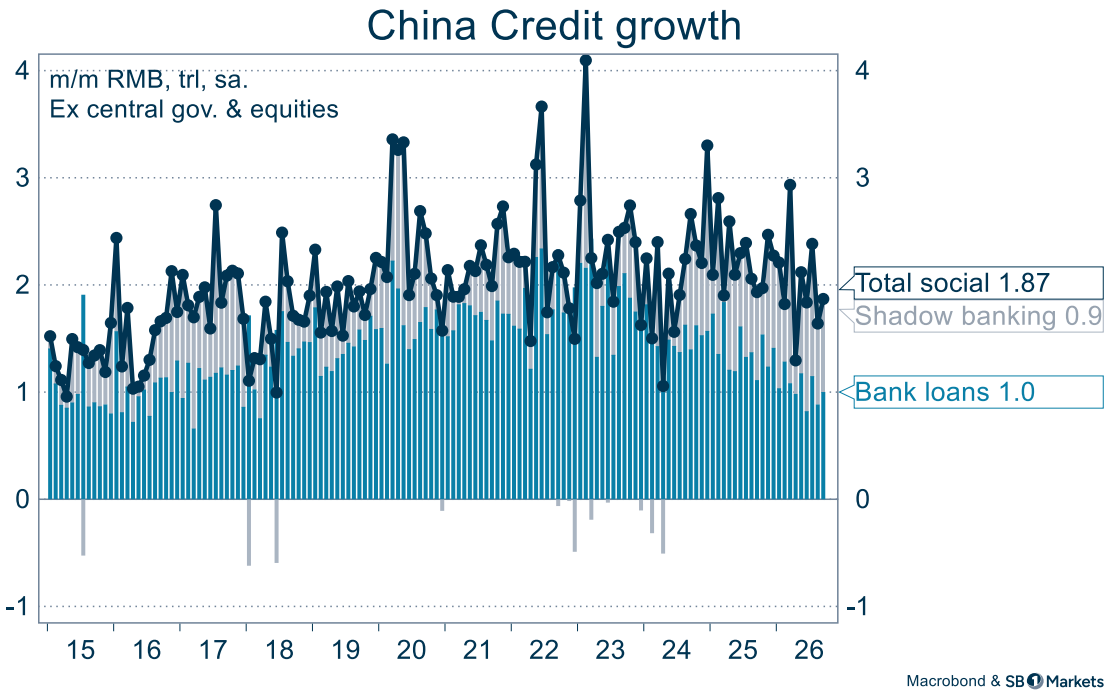


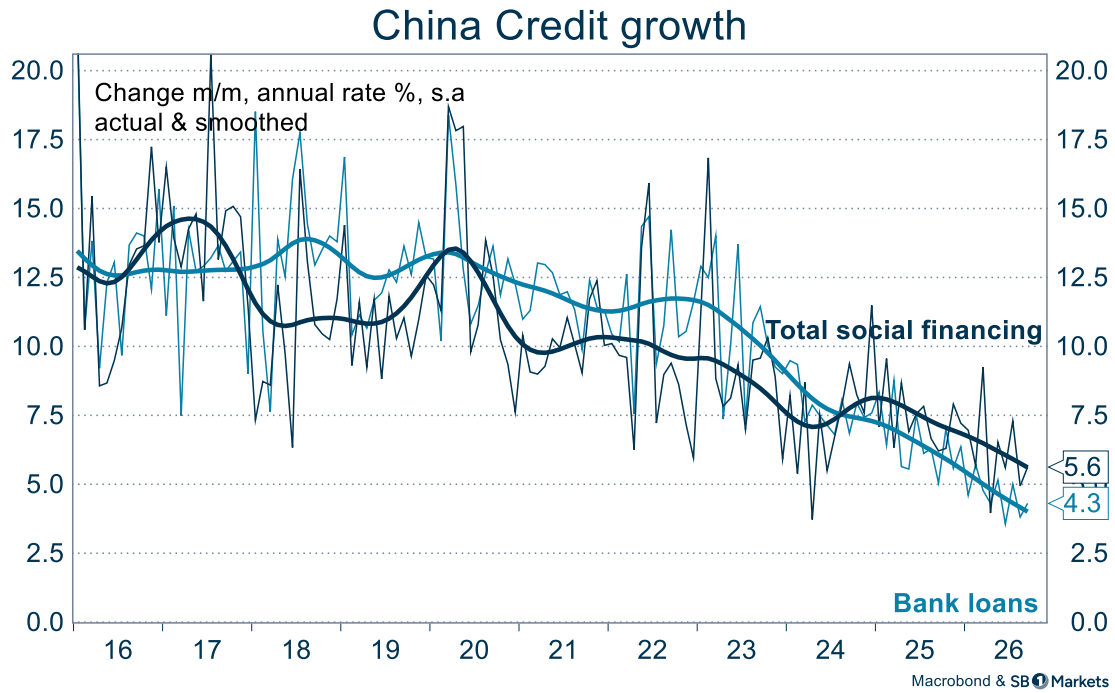


- **Existing home prices** have fallen in 58 of the past 60 months!
- **New home prices** fell at a 0.6% pace in September and are down 3.1% y/y and 12% from the peak – according to the official statistics. Trust in these data is low, as sellers in many places are forbidden to cut their (official) prices.
- ***The price and construction data suggest that the housing market has not stabilised, although prices have found a footing in the largest cities***.
  - In the 'smaller' Tier 3 cities, housing prices are back to the same level as in 2009, in nominal terms.

Chinese credit growth is slowing, as households repay their debts and save more

Businesses are borrowing at a normal pace, even if real estate loans are declining. In September, total credit rose at a 5.6% annualised growth rate, a very modest growth rate by Chinese standards.

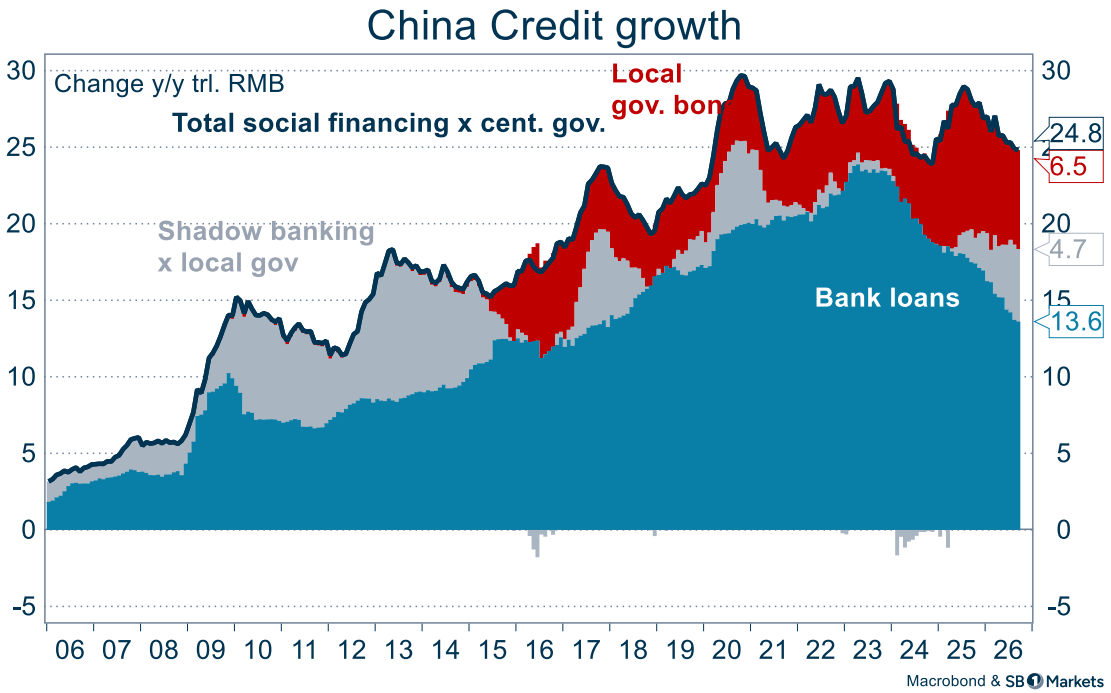


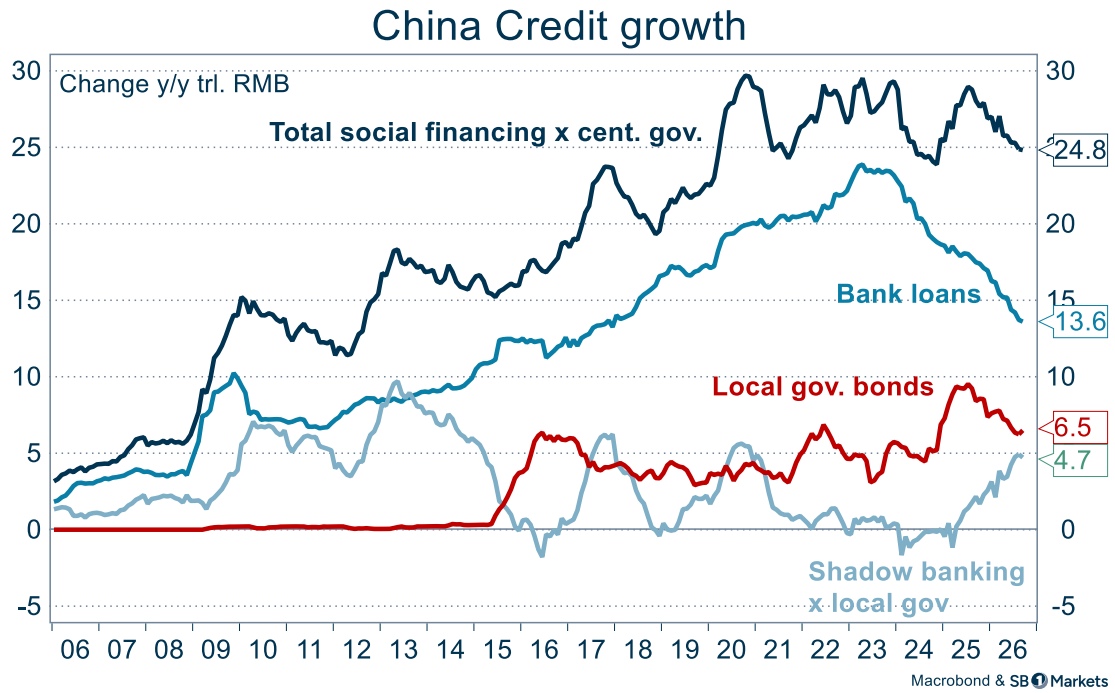


- **Total social financing** grew by RMB 3.37 trillion in September, close to expectations. Seasonally adjusted core credit (excl. central government and equities) rose by RMB 1.9 trillion, or 5.6% annualised. Annual credit growth slowed to 6.5%, a 25-year low, still above nominal GDP growth of 6.0%.
- **Bank loans** grew by just RMB 1.0 trillion (SA), somewhat less than expected. Bank lending is up just 5.0% y/y, the lowest growth rate since 2001.
- **Shadow banking credit** rose by RMB 0.9 trillion m/m, partly due to local government bonds. Other non-bank credit growth has accelerated.
- **Household borrowing fell** at a record monthly pace in both RMB and percentage terms, taking y/y growth to -2.0%. Business borrowing grew steadily at 7.6%.
- **Household deposits** have increased rapidly for the 5th consecutive year, and the deposit/income ratio is sky-high. Will households start spending again at some stage?

Credit growth is cooling, as growth in bank lending & local gov. bond borrowing slows

However, borrowing through other shadow banking channels is accelerating, dampening the decline in total credit supply.

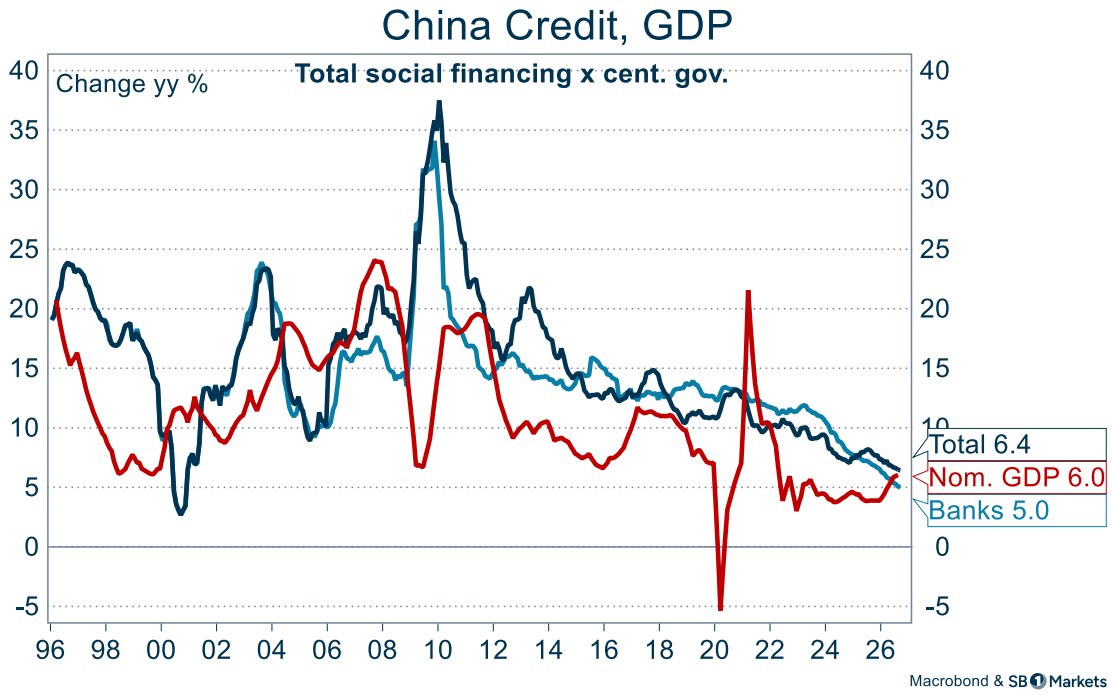


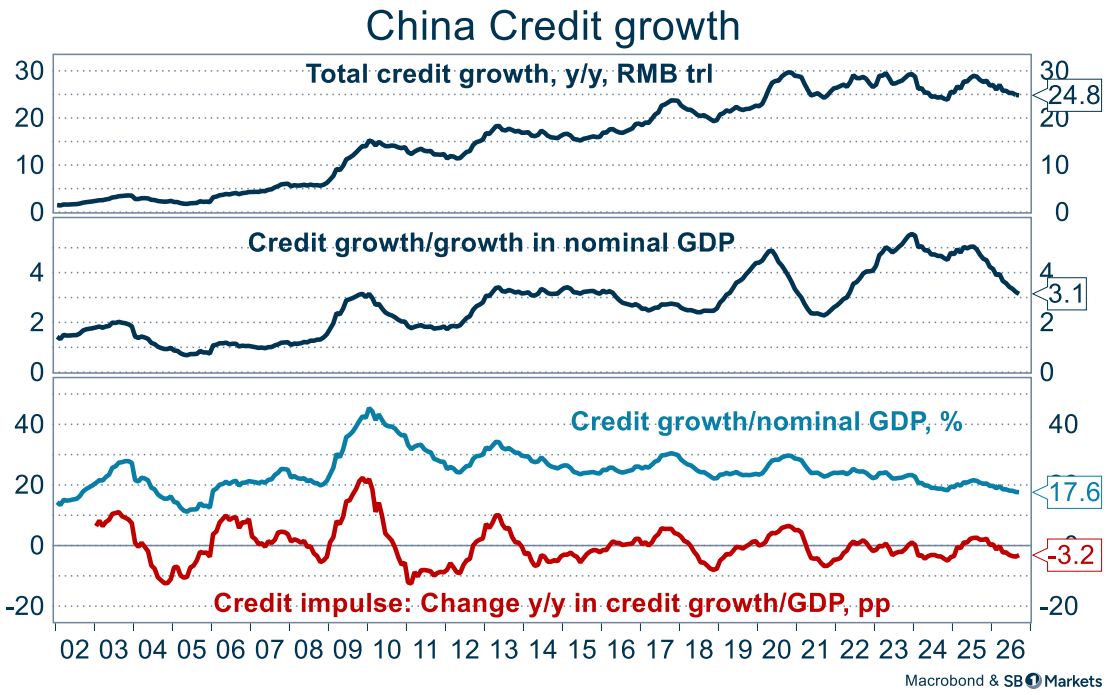


- Over the past year, **total credit** expanded by RMB 25 trillion, equalling almost 18% of annual GDP!
- **Banks** supplied RMB 14 trillion of the y/y increase. This contribution has been rapidly declining since the peak in early 2023 (RMB 23 trillion).
- **Local governments** accelerated their borrowing until mid-2025, but growth has now slowed to RMB 6.5 trillion, or 13% (from 23% at the peak). Local governments have been allowed (or forced?) to increase their borrowing in the bond market to refinance their off-balance-sheet lending activities, and to clean up the troubled market for new homes.
- Other credit via the '**shadow credit market**' (excluding local government bonds) is up RMB 5 trillion y/y, or by 7%, up from a decline in 2024 and zero growth early last year. The late 2020 local peak was annual growth of RMB 6 trillion (10% y/y). This acceleration is by itself probably a positive sign as it suggests that demand for credit persists. On the other hand, lack of debt is not China's main problem…

Big picture: the y/y credit impulse is negative, and credit growth is approaching GDP growth

Total credit is up 6.4% y/y, and the growth rate is falling rapidly. Bank loans are up 5.0%. Both growth rates are the lowest since 2001. GDP is up 6.0% y/y, and the total debt/GDP ratio is still (marginally) increasing, from a very high level.

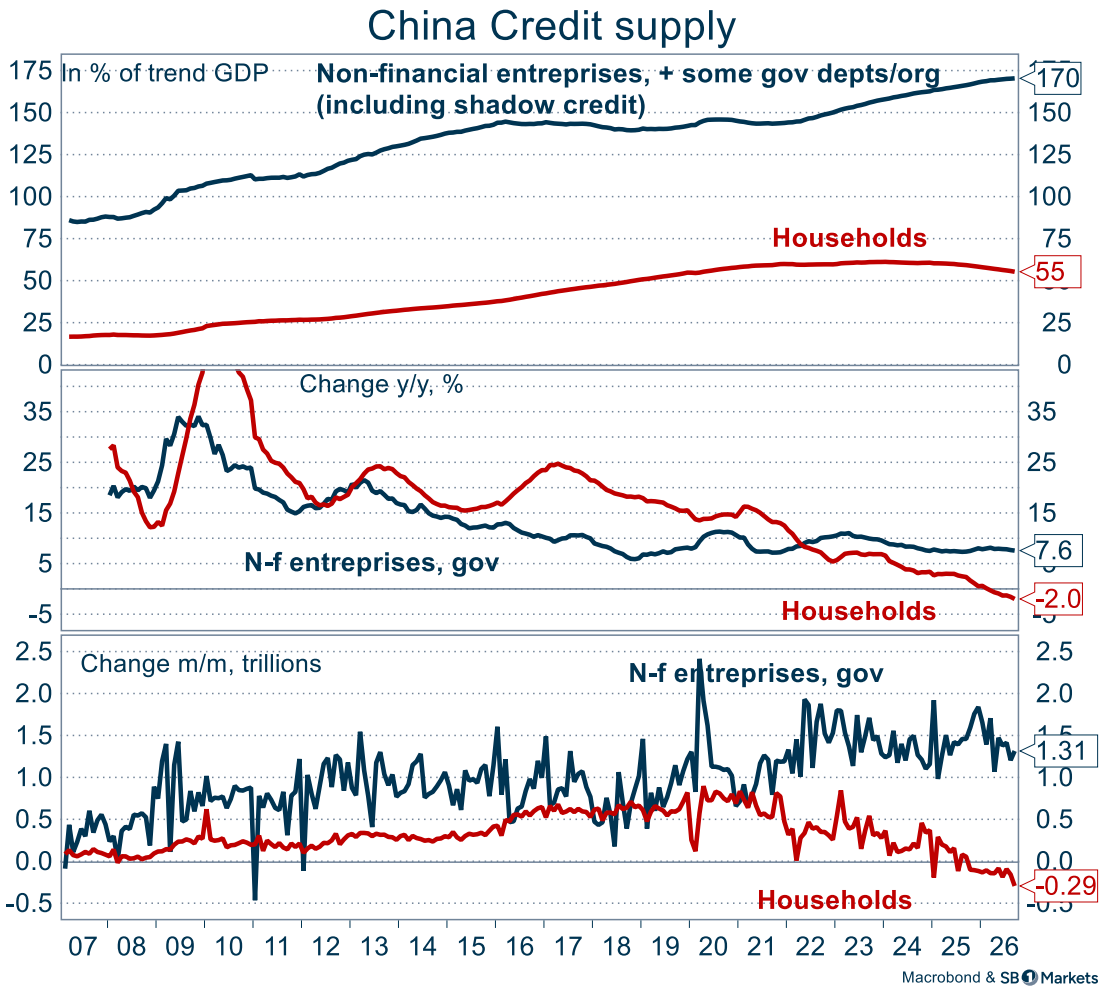


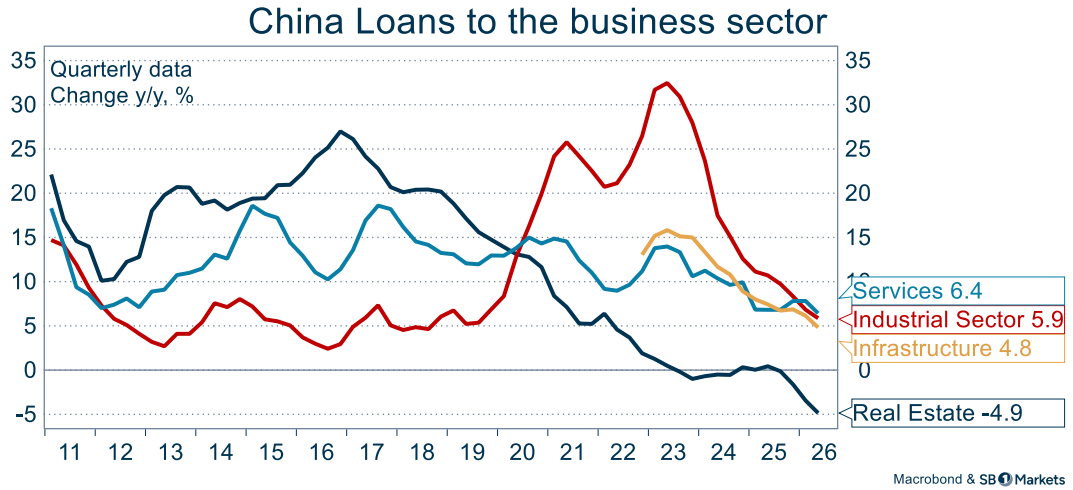


- **The credit impulse** is conventionally measured as the change in credit growth over the past 12 months versus the previous 12 months, relative to nominal GDP.
  - The impulse can also be measured over other horizons. It has been negative in recent months as well.
- **Credit growth** (in RMB) is ***3.1 times* growth in nominal GDP,** the lowest 'gearing' in four years, but still an ***unusually high ratio*** (RMB 3.1 in extra credit is associated with RMB 1 of additional value added (GDP)). A 'normal' gearing is far lower. Annual **growth** in credit (in RMB) equals 18% of the annual GDP **level!**
- These ratios have been persistently high. Thus, the ***debt/income ratio is still increasing – but growth is slowing.***

Households are paying down their debts! Businesses are borrowing as before

Since last autumn, households have reduced their outstanding debt m/m, and the annual growth rate is -2.0%. Corporate debt growth (bank and shadow banking credit) is 8%, which is not low – and remains far higher than growth in any measure of corporate income.



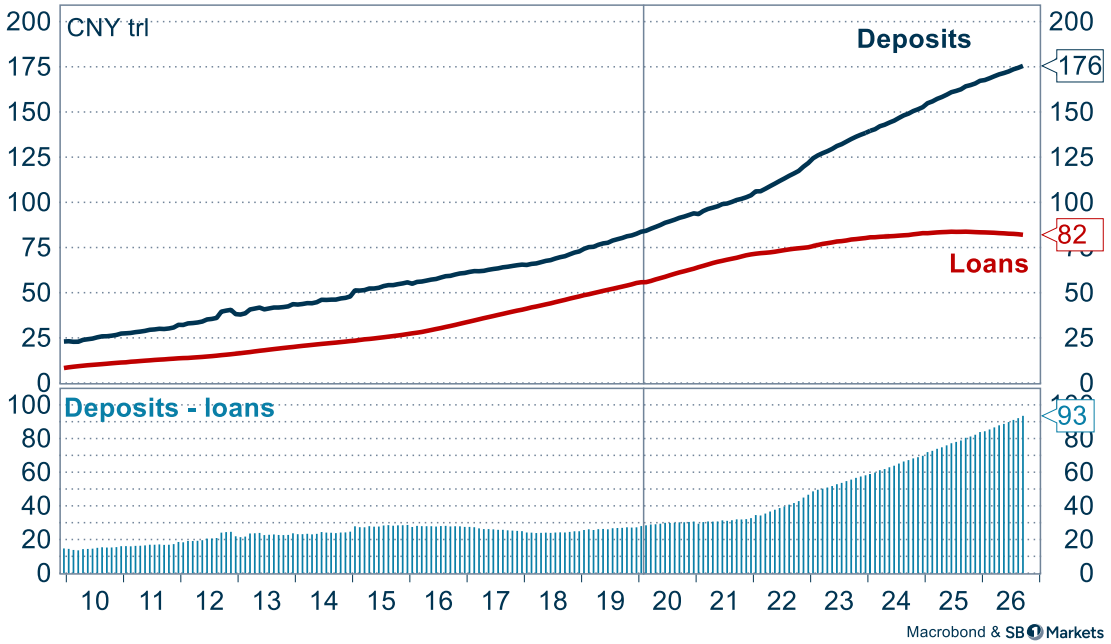


- Within the business sector, real estate loans are declining (but slowly vs. the downturn in real estate investment?)
  - Only bank loans are included in the chart above. Thus, shadow banking credit is excluded.

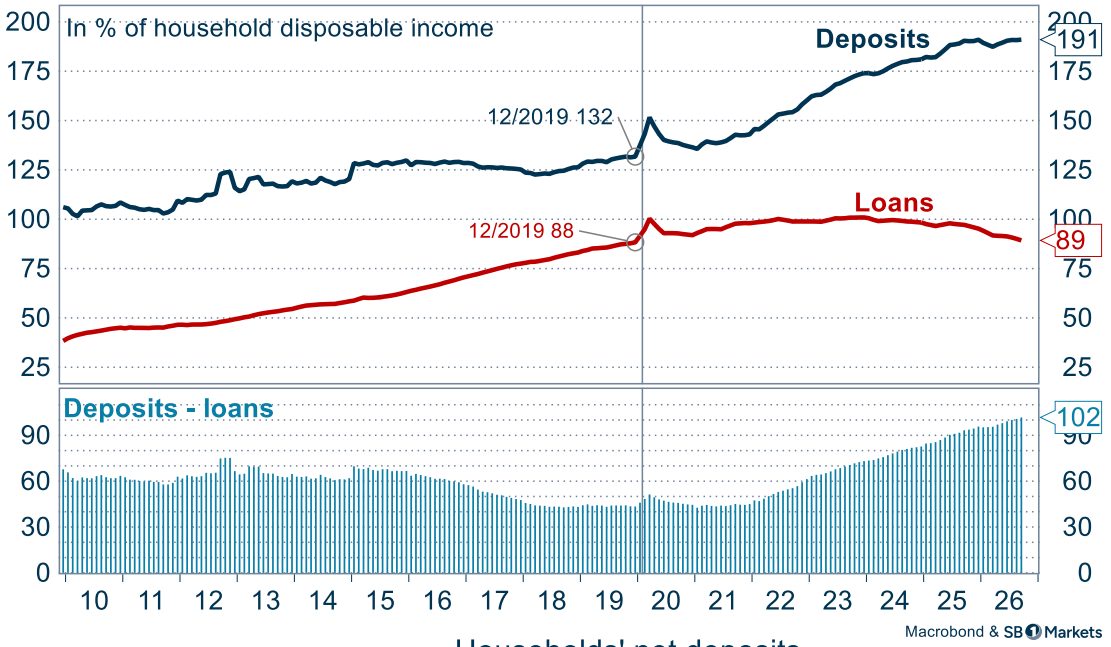
Is growth in savings slowing? Household debt is falling faster

Deposits equal 191% of disposable income, up from 132% in 2019. The loan-to-income ratio fell to 89%, and is steadily declining! Growth in deposits is slowing somewhat, a positive sign for household spending.

China Households' bank deposits & loans

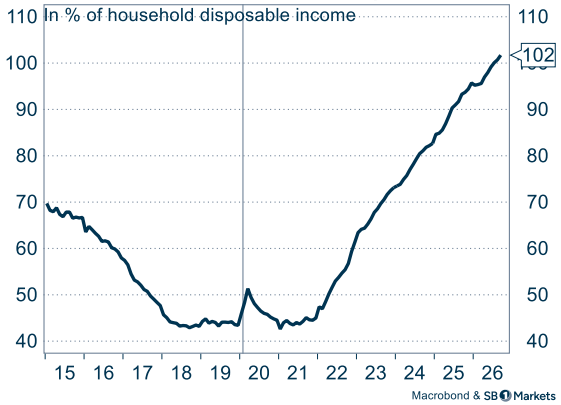


China Households' bank deposits & loans



- **Net deposits** (deposits – loans) equal 102% of households' annual disposable income, up from 45% in mid-2021! Bank deposits appear safer than investments in empty homes.
- If these (extra) funds had not been saved, households could have increased their spending by around 15% of their income or around 9% of GDP (which is more than twice the surplus on the current account, if you want to compare).

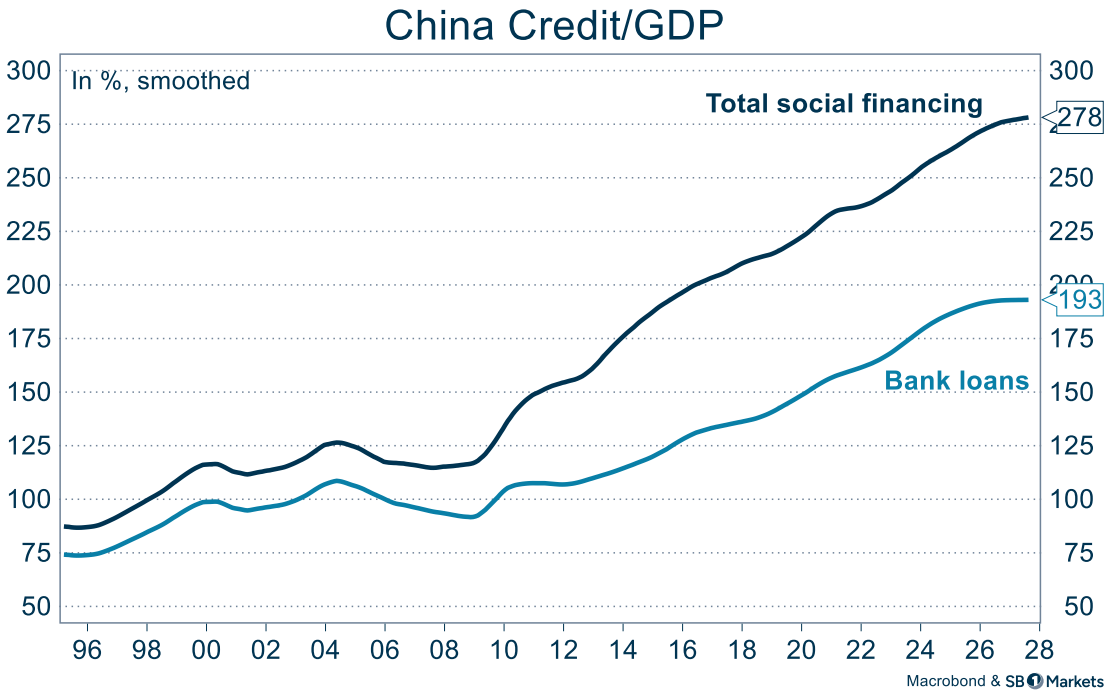
Households' net deposits

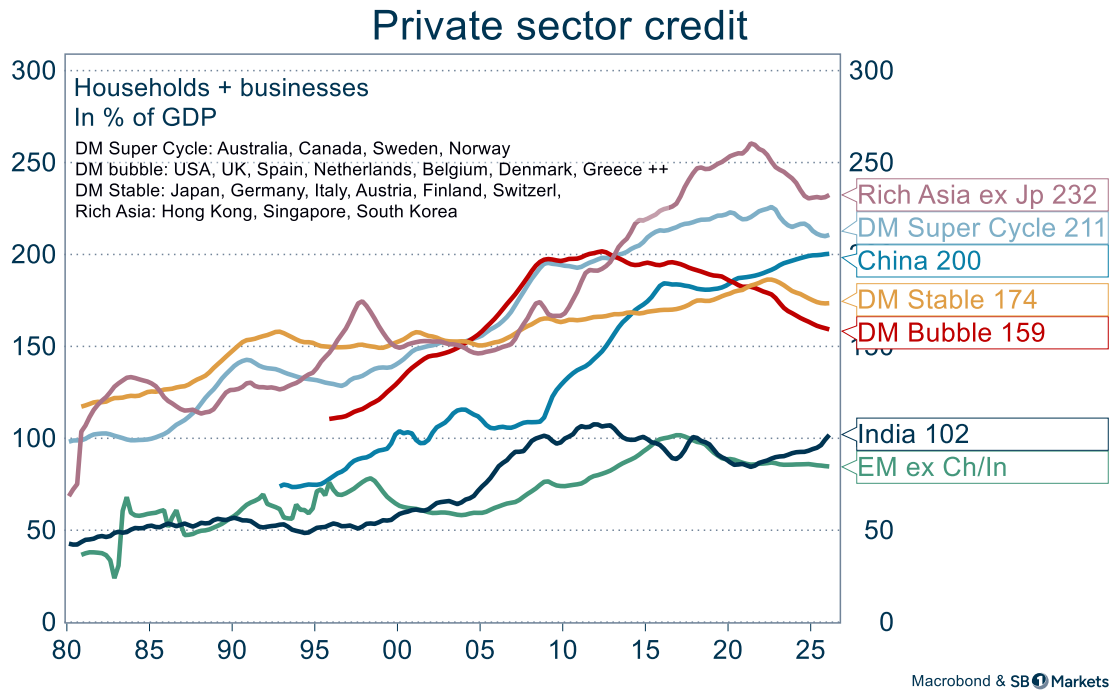


We assume a constant household disposable income/GDP ratio in 2025 and 2026.

China remains a credit outlier as debt ratios fall in much of the rest of the world

The 'global' private sector debt bubble is a Chinese credit bubble. See the chart below on the right. However, the overall Chinese debt ratio is finally growing more slowly.



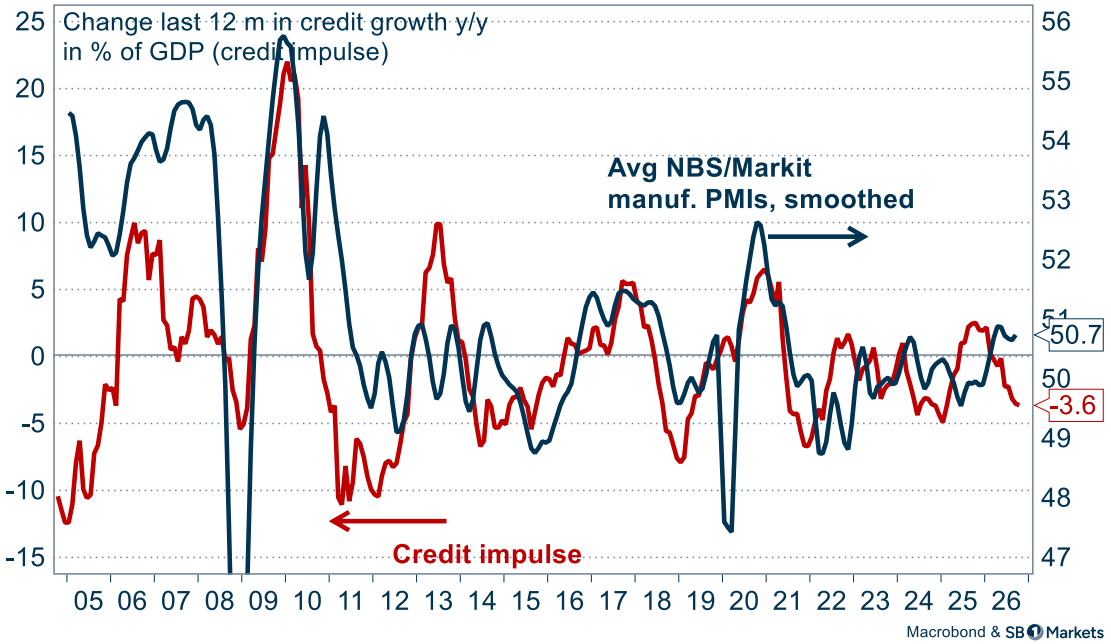


- There have been some other outliers as well: **DM Super-cyclicals** (Australia, Canada, Norway and Sweden) and wealthy Asian countries, which have borrowed quite extensively. These countries have now been reducing their debt burdens for a few years, although their debt levels remain substantial.
- However, most other **DM** countries are not that exposed, particularly compared to their positions when the bubble burst 15 years ago. Their debt levels are decreasing, but some remain high.
- **India and other EM countries excluding China** have deleveraged (debt vs. GDP) over the past 10 years or so. However, Indian debt growth has accelerated somewhat recently.

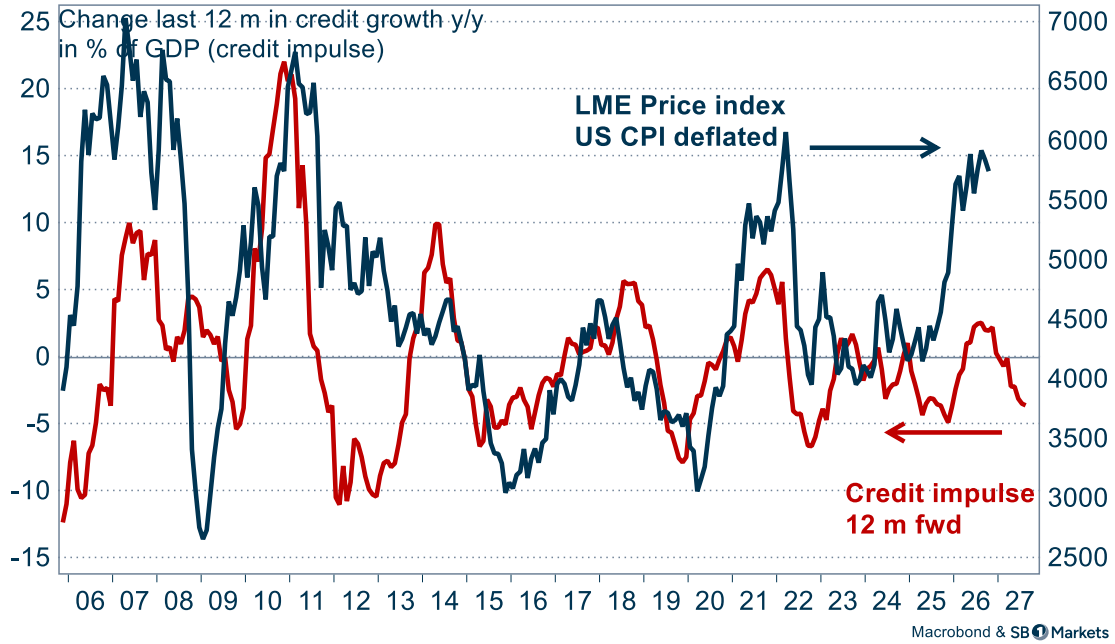
Credit cycles and economic cycles are correlated, so some caution is warranted

Chinese credit growth has peaked, and the credit impulse has fallen well into negative territory.

China Credit vs growth

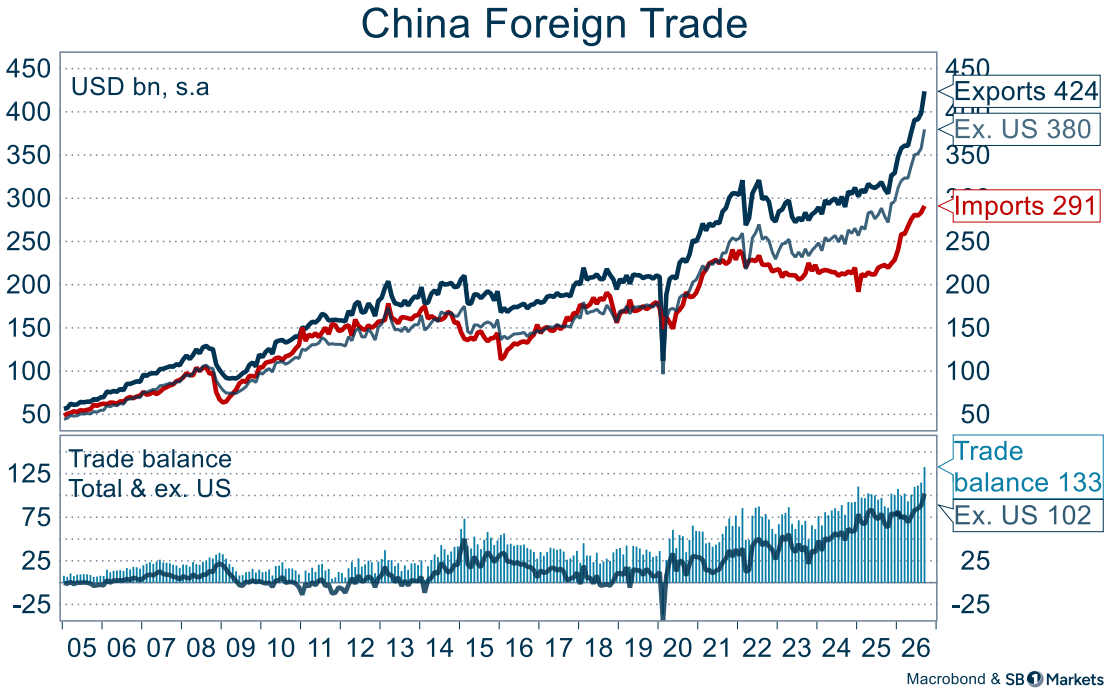


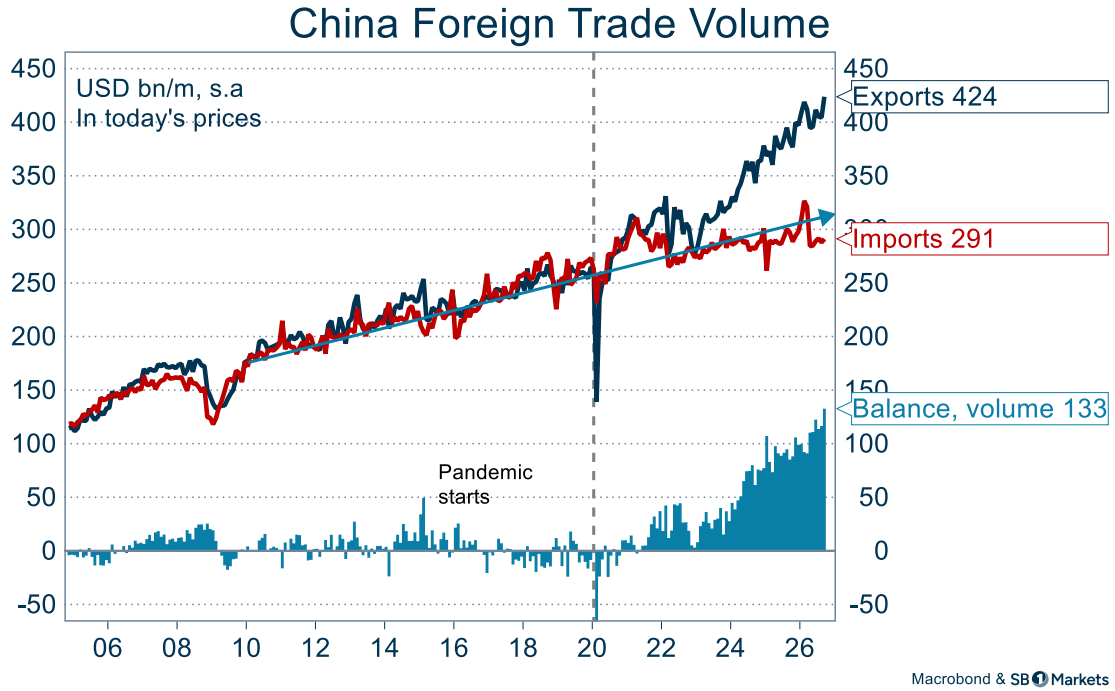
China Credit vs metal prices



Exports are surging faster than imports. The trade surplus hit another all-time high

Exports rose 36% y/y in Sep., 11 pp more than expected! In volume terms, exports are up 'just' 12%. Imports were up 31%, 7 pp above expectations, but are down 2% y/y in volume terms! The trade surplus reached USD 133bn, by far the highest on record! Is that too much for the rest of the world to absorb?

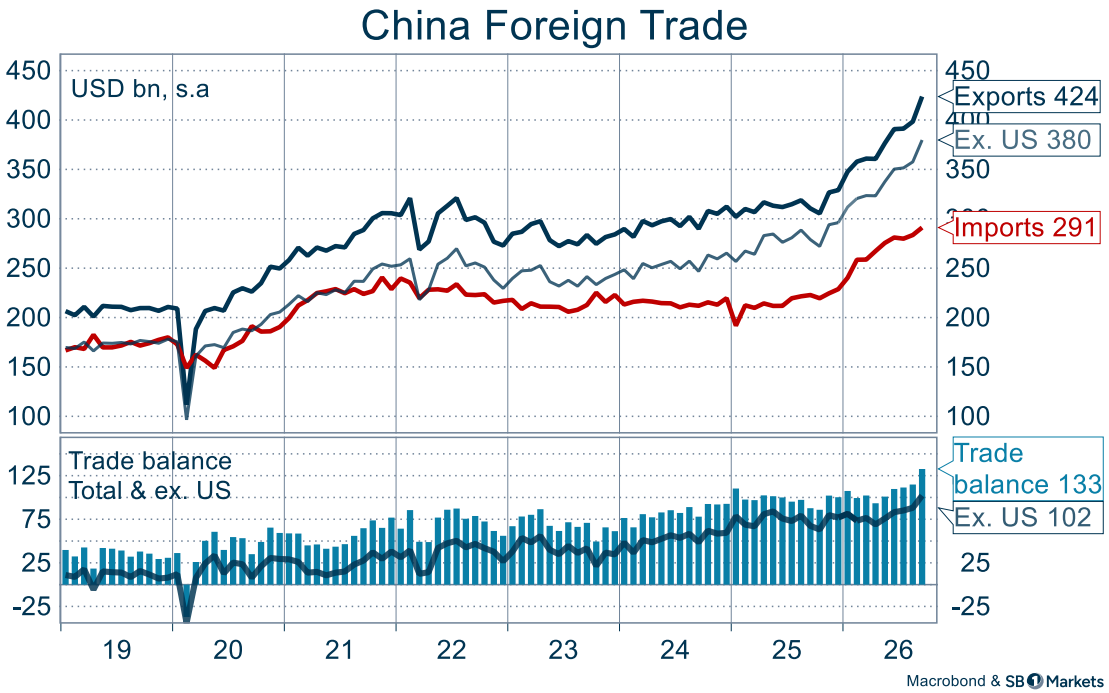


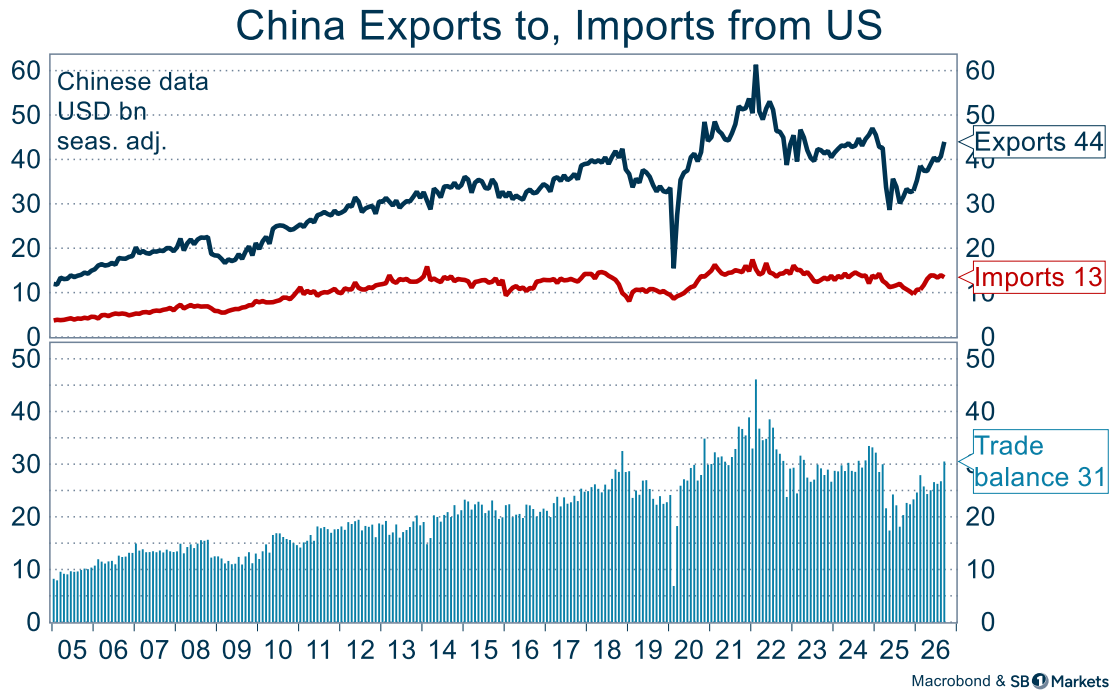


- **Exports** were up 6% m/m in September. Export volumes are less impressive, but also reached another all-time high and are trending up. Export volumes (and even more so export values) are way above any previous longer-term trends – and are up 70% since 2019!
- **Imports** rose 3% m/m. Import volumes have fallen sharply since early 2026 (oil), and the long-term trend is not much better than flat, even though exports, which also require imports, are up sharply. Thus, imports for domestic use have fallen significantly, confirming sluggish domestic demand.
- **The trade surplus** was far higher than expected, at USD 133bn (s.a., up from 112bn last month), and the trend is upwards, even if import prices have increased much faster than export prices. The surplus has also increased in volume terms, supporting growth in production in China.
  - In value terms, the surplus is above 6% of GDP, up from 2.5% before the pandemic. However, China runs deficits in both services and net income from abroad, and the **current account surplus** was 'just' 4.2% in Q2 (at the peak in 2007: 10%). This surplus, measured as a percentage of global GDP, is also lower than 20 years ago. But it is still far too large for the rest of the world to accept. ***The current Chinese growth model is not sustainable.***

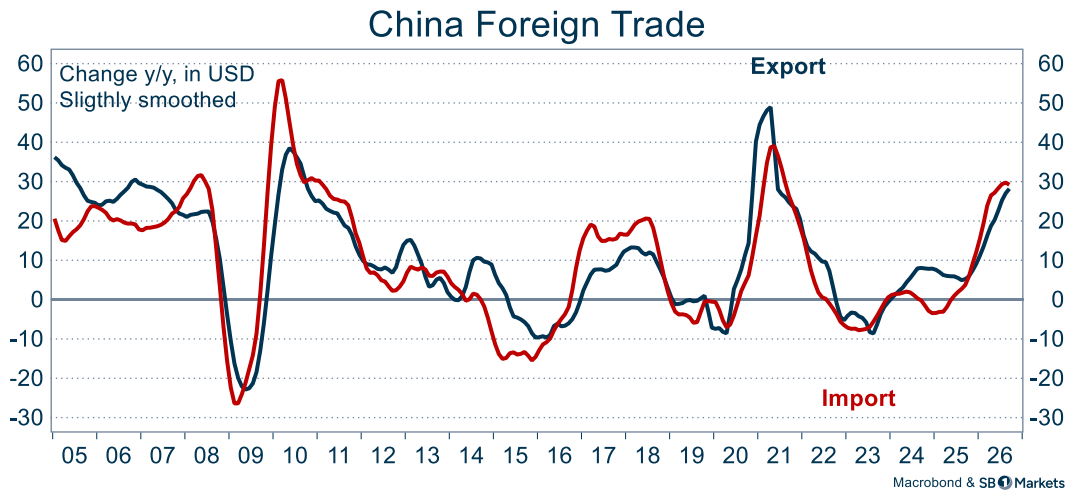
A closer look: exceptionally strong trade data over the past year, at least in value terms

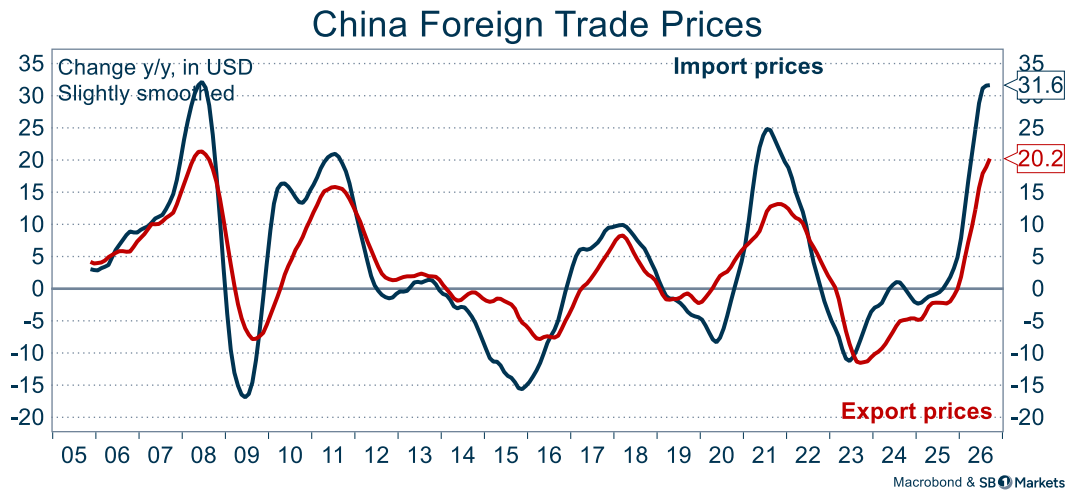
Exports to the US are below their level before the escalation of the trade war last spring, but most of the decline has been reversed since late last year – even before adjusting for re-exports of Chinese goods (or goods with substantial Chinese content) via other countries.

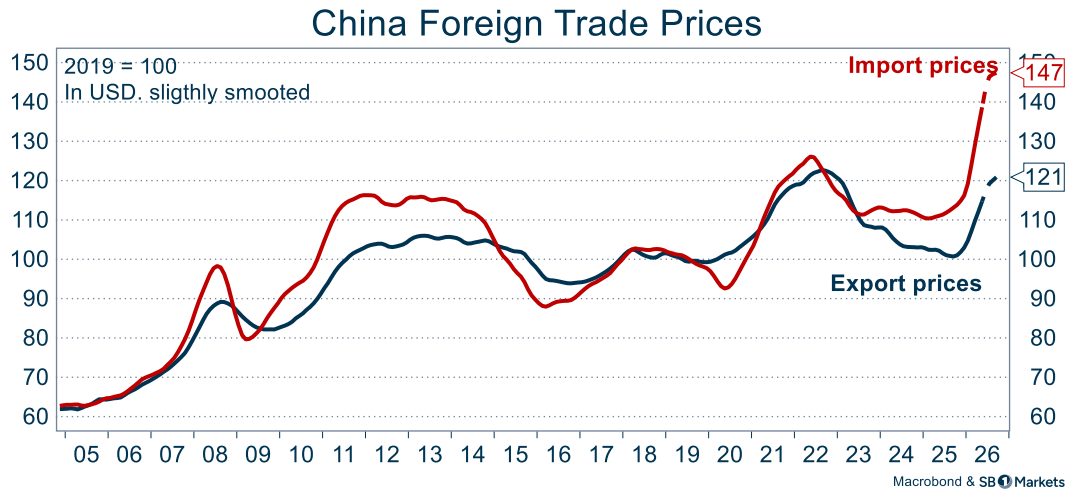


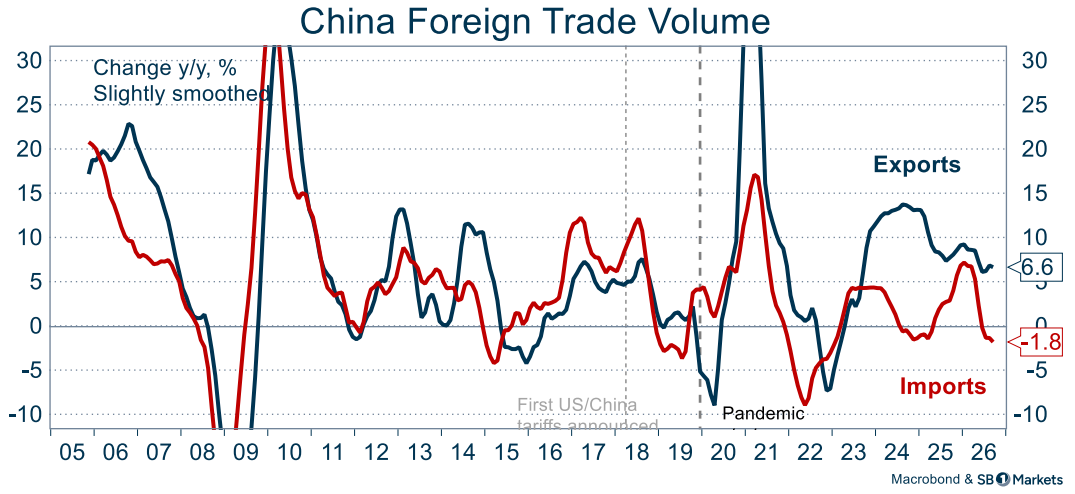


The trade cycles: values, prices and volumes







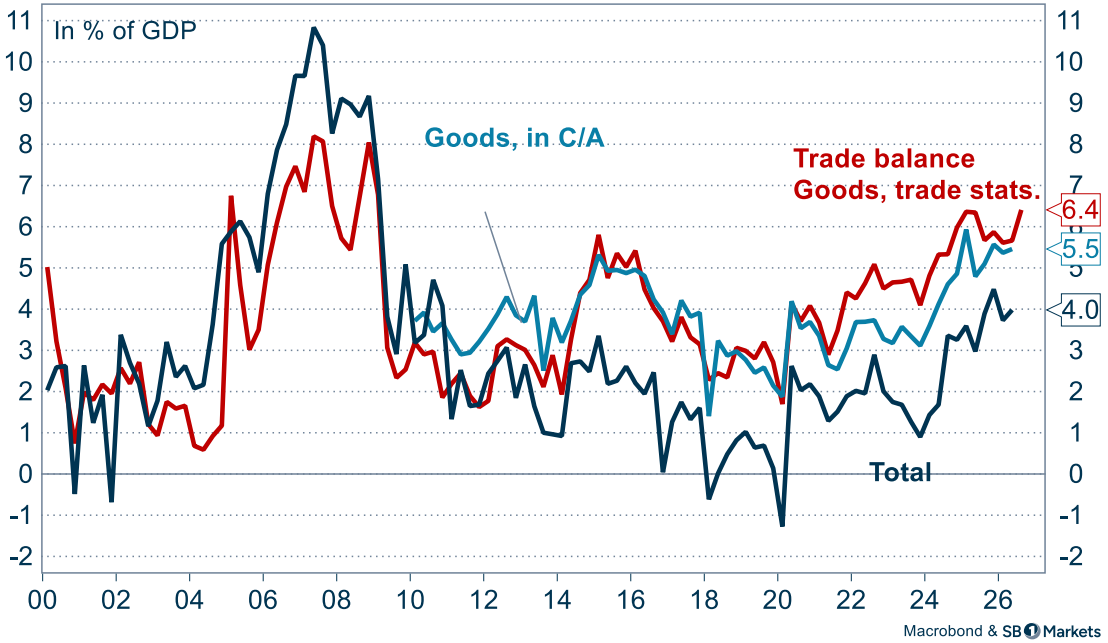


SB1 Markets

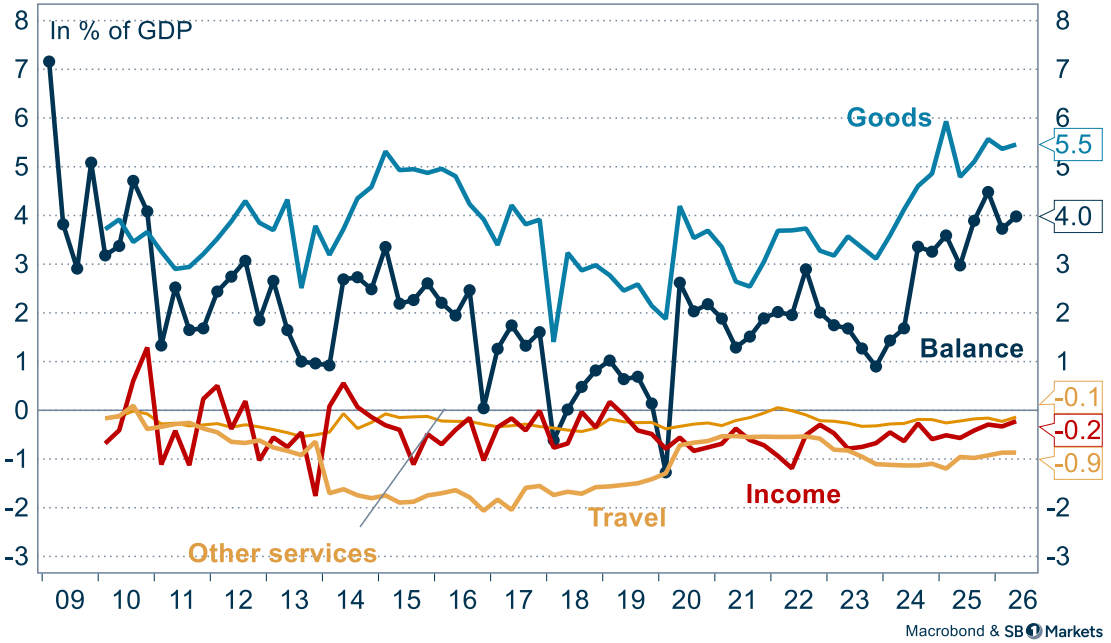
The surplus on the Chinese current account was 4% of GDP in Q2, and is trending up

The goods surplus was 6.4% of GDP in Q3 (trade data). Services were at -0.9%, mostly due to a deficit in travel. The income balance (mostly net capital income) is also negative, at -0.2% (even if China has a large (low-yielding) net foreign asset position).

China Trade & current account surplus



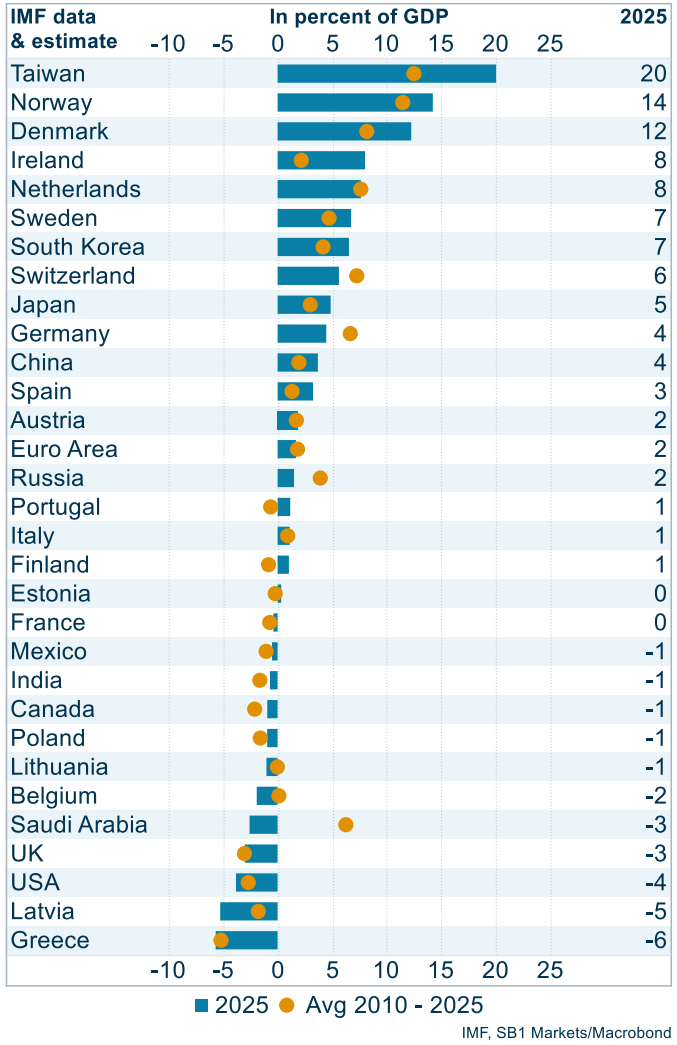
China Current account



Global current account imbalances are smaller than before the financial crisis

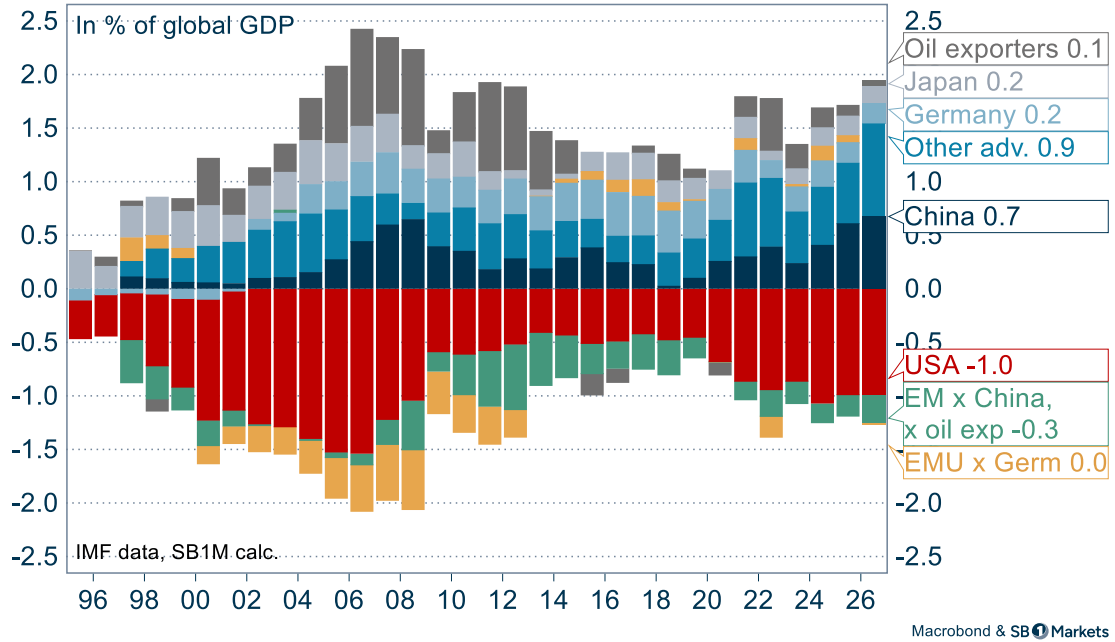
… but are widening again. China and Germany are the two largest surplus countries (in USD), and the US has the largest deficit (by far). The UK is also running a large deficit, in % of GDP. The EMU has a consolidated surplus of 2% of GDP. DM countries are broadly in balance overall.

Current account



IMF, SB1 Markets/Macrobond

Current account balances



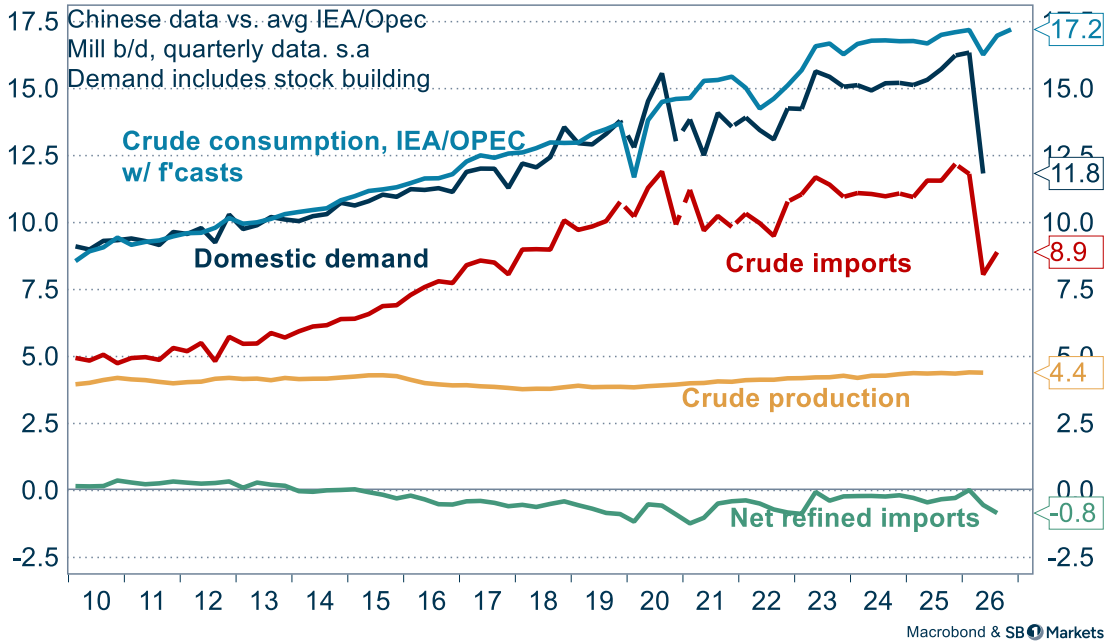
Macrobond & SB1 Markets

- Back in 2009, the Chinese current account surplus equalled 0.7% of global GDP. It is now 0.5%, still a substantial amount. However, over time, the Chinese model has not been purely 'export-driven', in the sense that a steady lift in the current account surplus has explained growth in GDP.

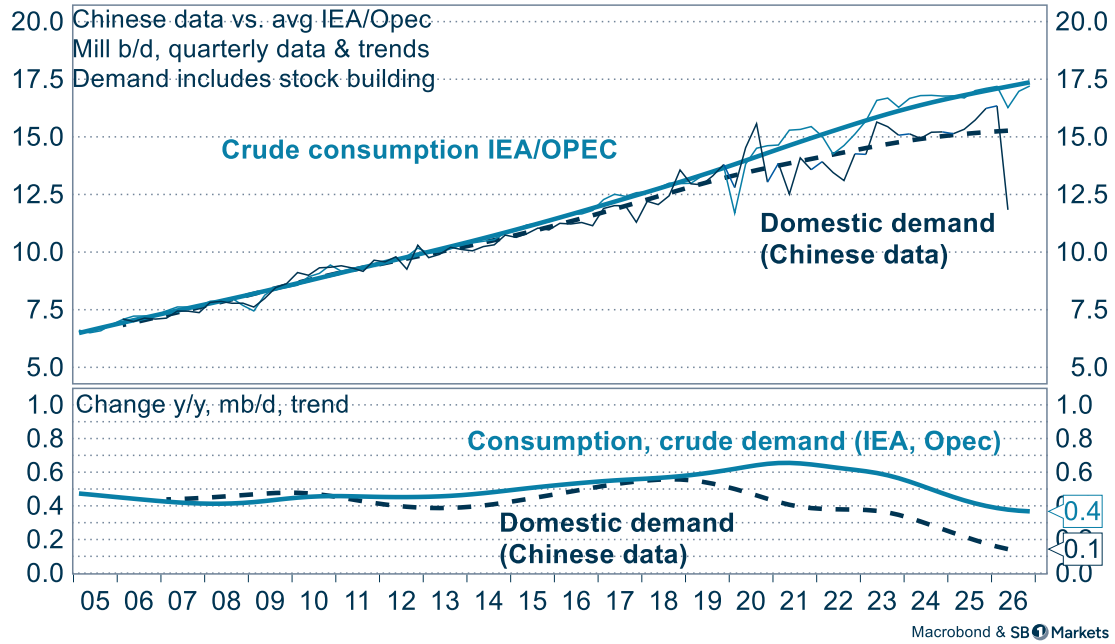
Oil imports remain well below a normal (and very likely sustainable) level

Imports were flat at 8.9 mb/d, 3 mb/d below the early 2026 level. China is drawing down inventories, as final demand has not fallen by 30%. Most likely, imports will pick up as oil is shipped out of the Gulf again.

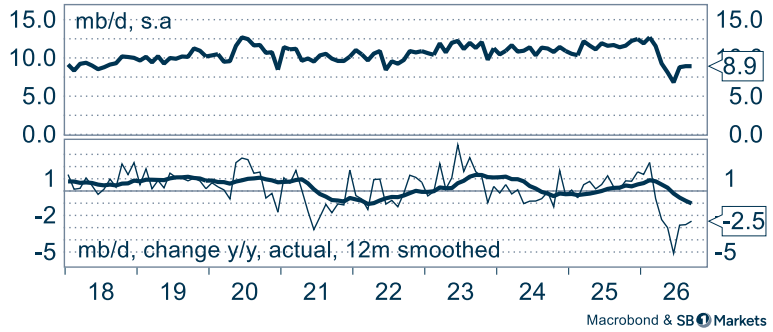
China Oil Production, Imports, Demand



China Oil Demand - Trends



China Crude oil monthly imports

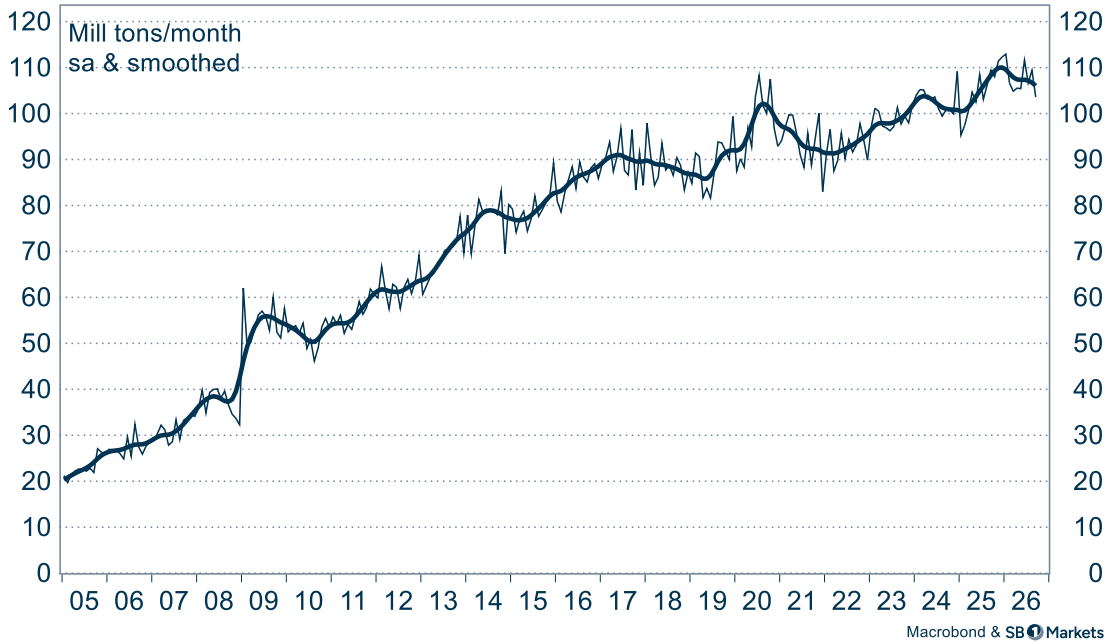


- Chinese **oil demand** has been trending up, at least until now. See the trend lines in the right-hand chart. Underlying long-term growth is still at 0.4 mb/d y/y.
  - In both charts above, Chinese demand data (including changes in inventories) are compared with the IEA's and OPEC's estimates of Chinese oil consumption/crude demand (the charts show their average, as the estimates are similar).
- China is tapping its **inventories**, probably both commercial and strategic. These inventories will very likely be replenished as soon as possible once exports from the Gulf resume.
- Going forward, the rapid increase in **the share of EVs** will soon reduce Chinese demand for oil, according to research conducted by our colleagues.

Chinese net steel exports: 12%+ of ROW production. Iron ore imports flat

Domestic steel demand has fallen 28% from the peak in 2020, and net exports have surged as production has fallen less than demand. Demand may have been flattening lately, as has production – and net exports have flattened (at a very high level).

China Iron ore imports

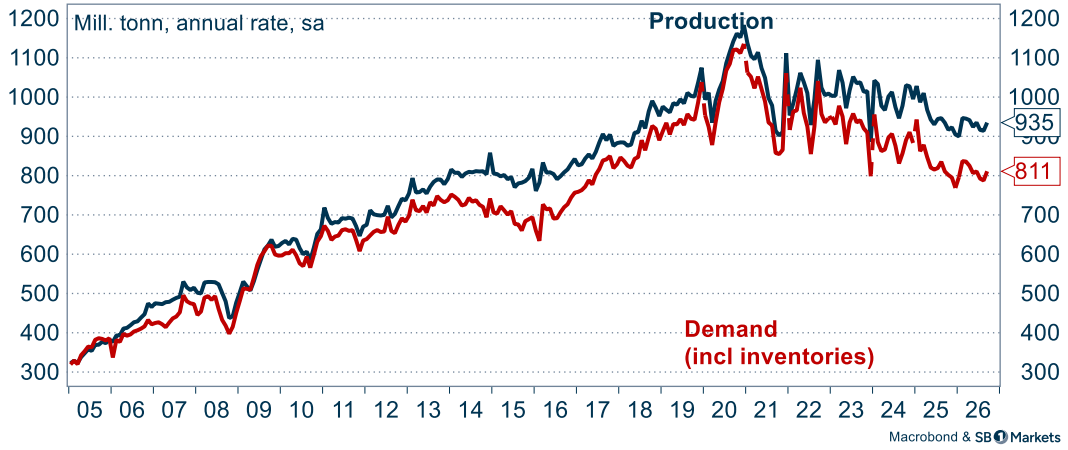


- **Net steel** exports are more than twice their early-2022 level, at 12% of production in the rest of the world.

China Net steel exports

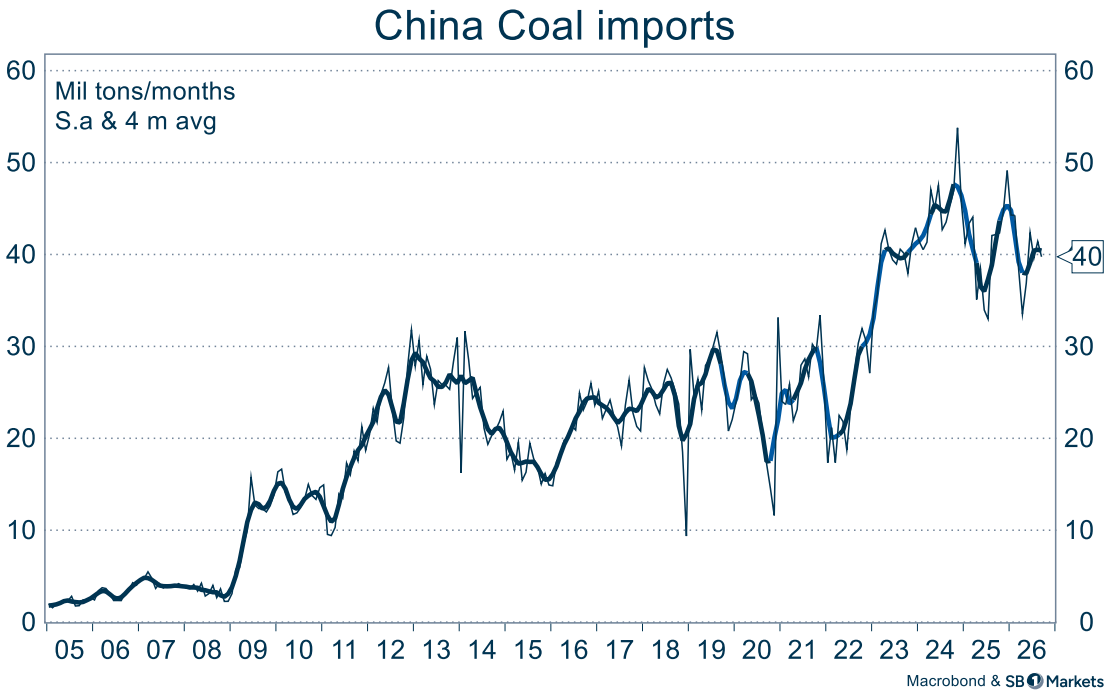


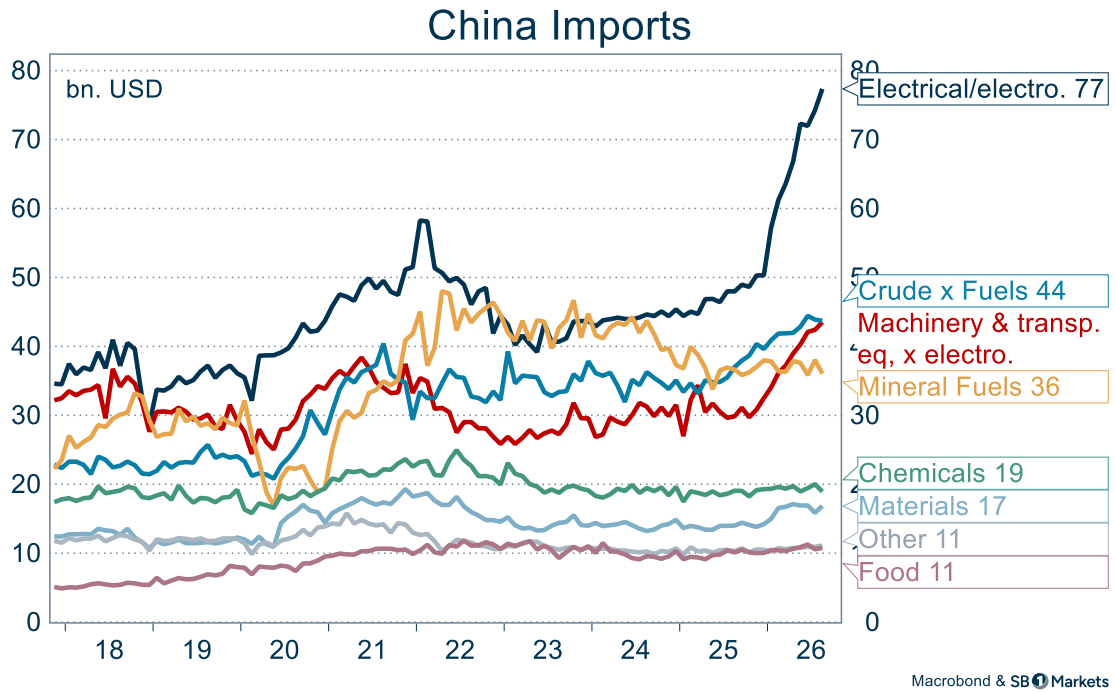
China Steel



Coal imports fall. Electrical, electronic and machinery imports surge

The value of oil imports has increased but far less than the oil price as import volumes have fallen sharply.

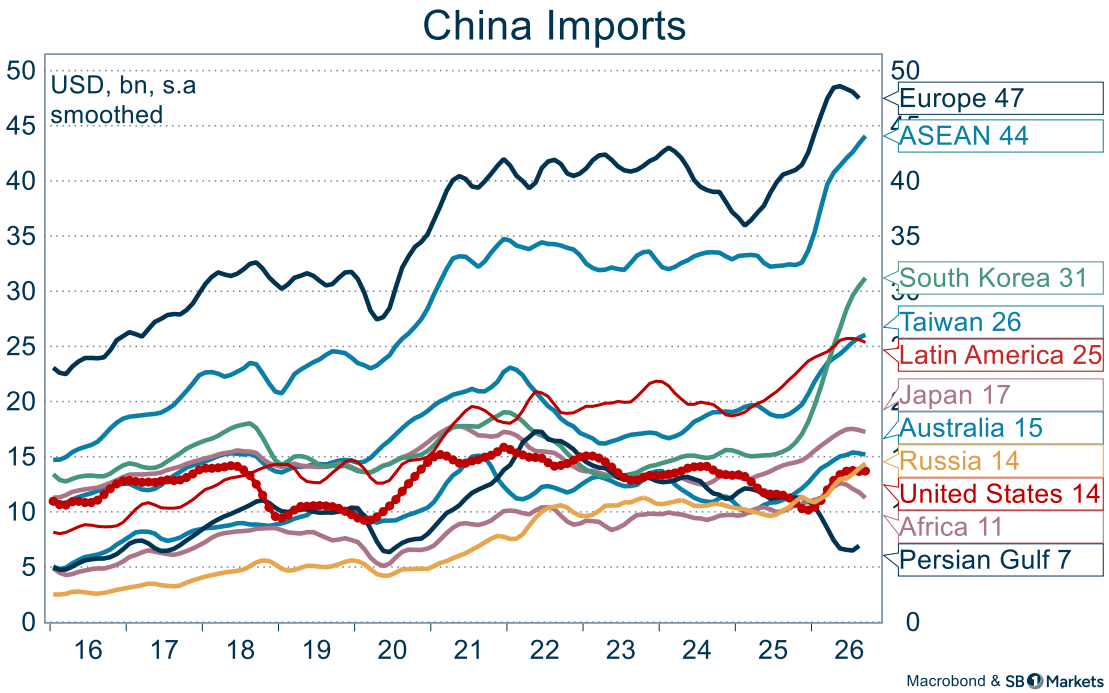


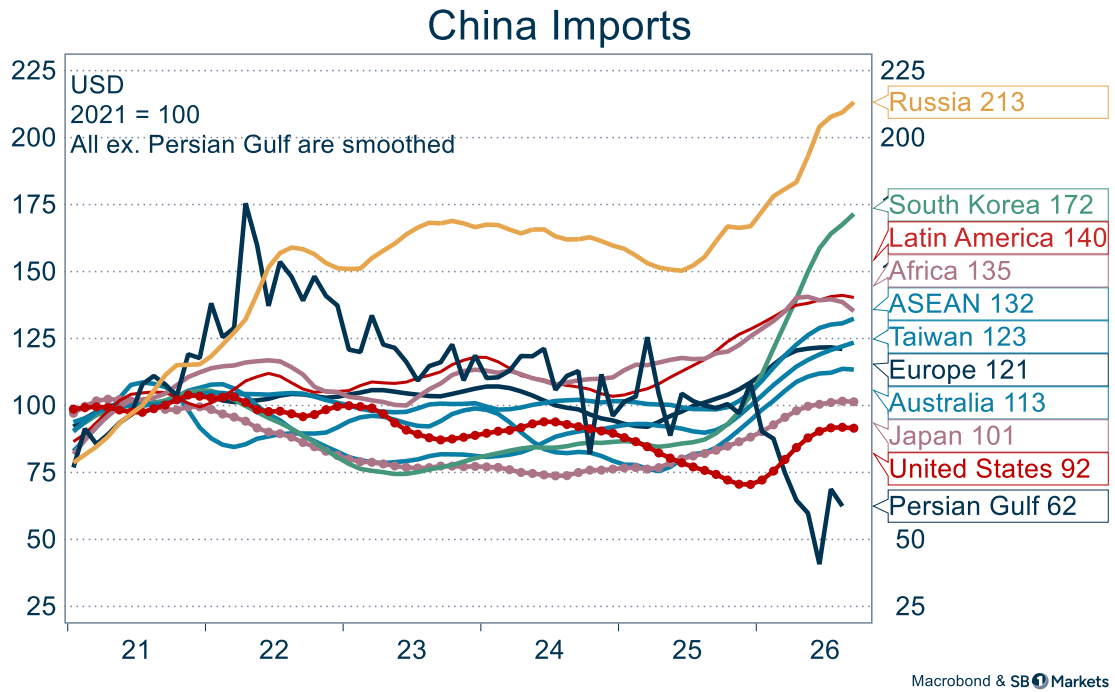


Latest observation: August

More imports from most corners of the world, except the Gulf, for obvious reasons

Imports from other Asian countries as well as from Europe are surging. Even imports from the US have recovered recently and are higher than when Trump restarted the tariff war last spring.

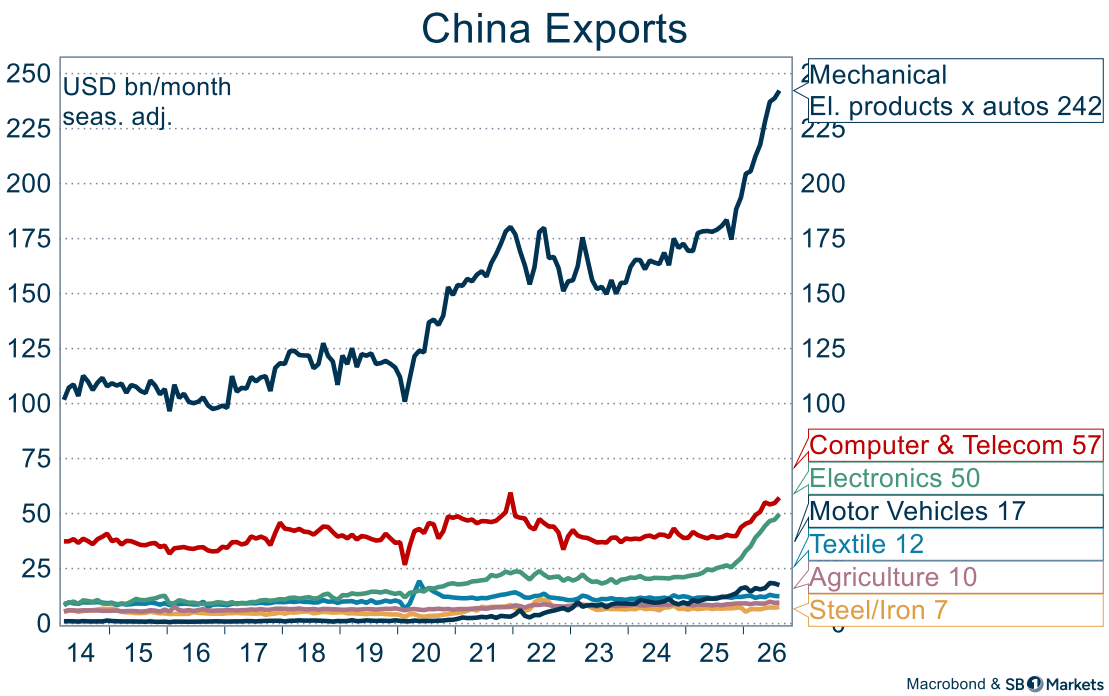




- **Europe** is still the biggest source of Chinese imports, and these imports surged into 2025, but have flattened recently.
  - Imports from Europe ***are 3½ times*** imports from the US (which may explain some 'nuances' in trade policies?).
- Imports from **ASEAN** countries have shot up since late 2025 – following the period of zero growth in 2022–2025.
- Imports from **Taiwan** are surging, and imports from **South Korea** are rising even faster, due to imports of semiconductors and electronics.
- Imports from **LatAm** are increasing rapidly, and are almost twice as high as imports from the US.
- Imports from **Russia** have risen most since 2021, but its share is just 3%, the same as the US or Africa.

Mechanical/electrical, computers/telecom and electronics exports are surging, but that's all

… at least in value terms. Exports of computer and telecom equipment are not far above the previous 2021 peak, while electronics exports have doubled from the 2021 level. Exports of mechanical and electrical products are up 1/3 over the past year.



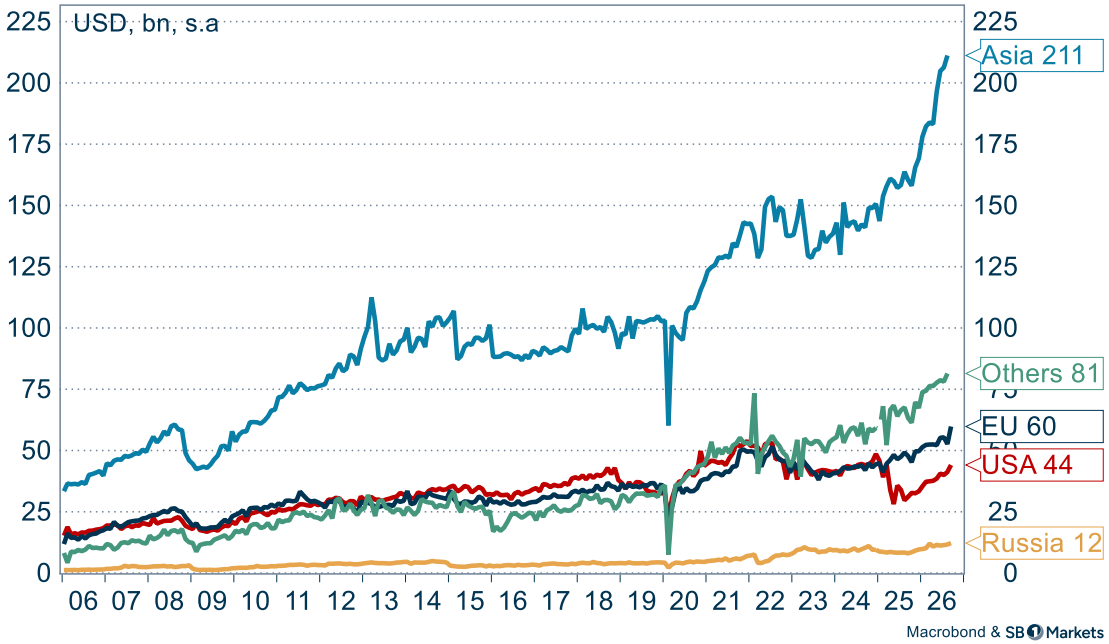
- *Latest observation: July*

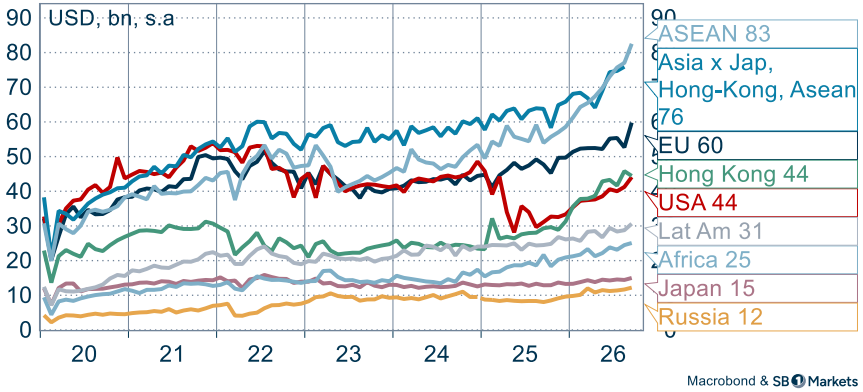
- **Auto exports** are trending rapidly upwards but amount to just 5% of total exports.
- Steel: 2% of total exports

China reports a rebound in exports to the US after a drop of more than 25%

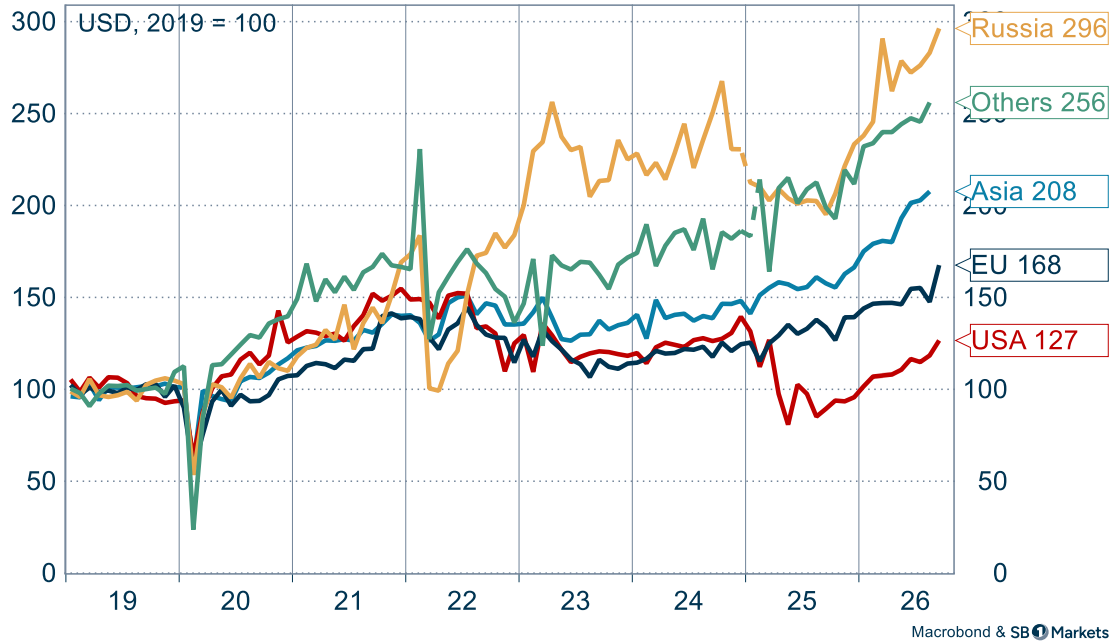
Exports to other Asian countries have surged recently, now at USD 211bn, 52% of the total. Exports to the EU are also rising rapidly, to USD 60bn (imports USD 47bn). Exports to LatAm and Africa total USD 56bn, close to exports to the EU and above exports to the US (USD 44bn). Russia? USD 12bn. 3%.

China Export markets



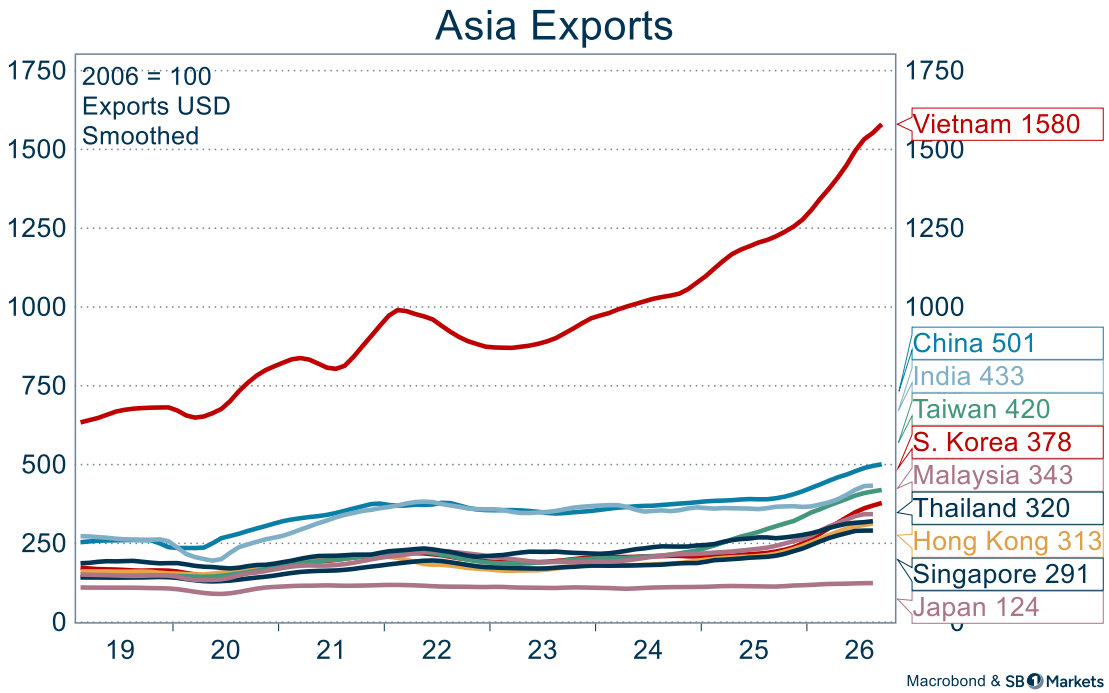


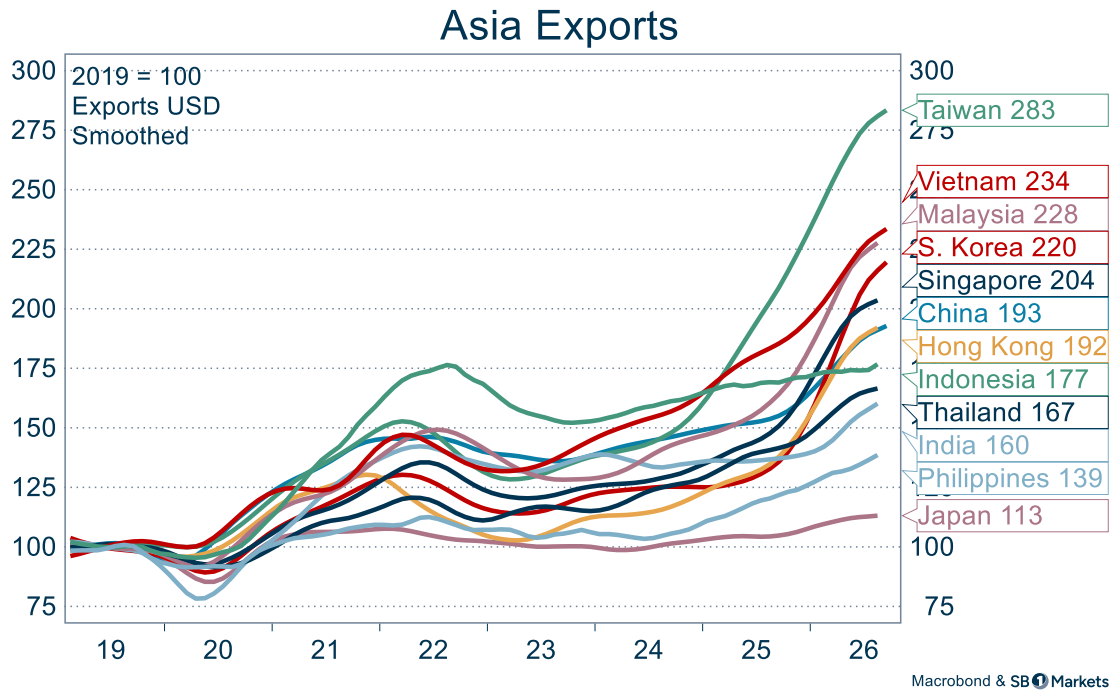
China Export markets



Asian exports: Strong, but growth is slowing

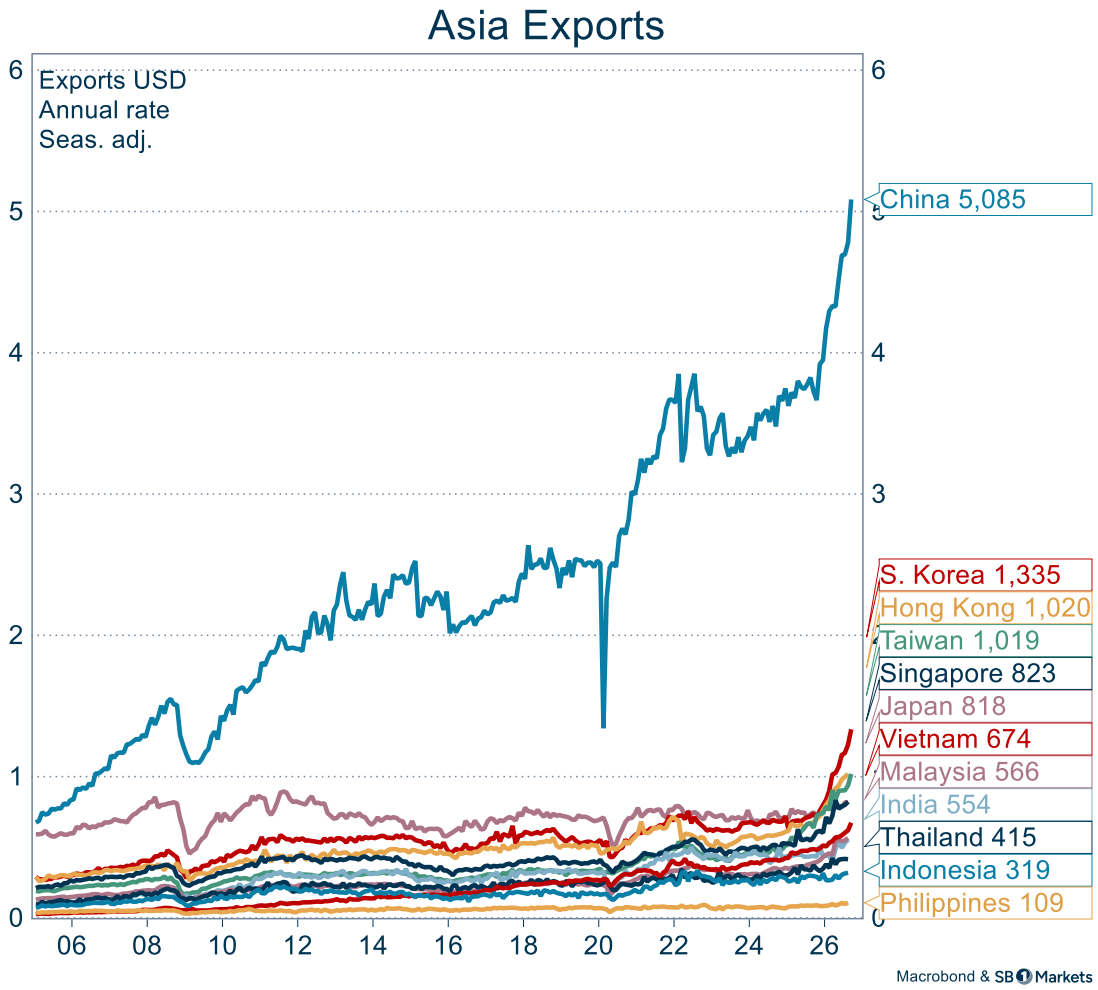
South Korea and Taiwan have reported astonishing export growth recently, mostly in semiconductors and computers. Vietnam has led over the past decade (or two), while Taiwan led last year. The laggards among Asian EM in recent years: Indonesia and India.

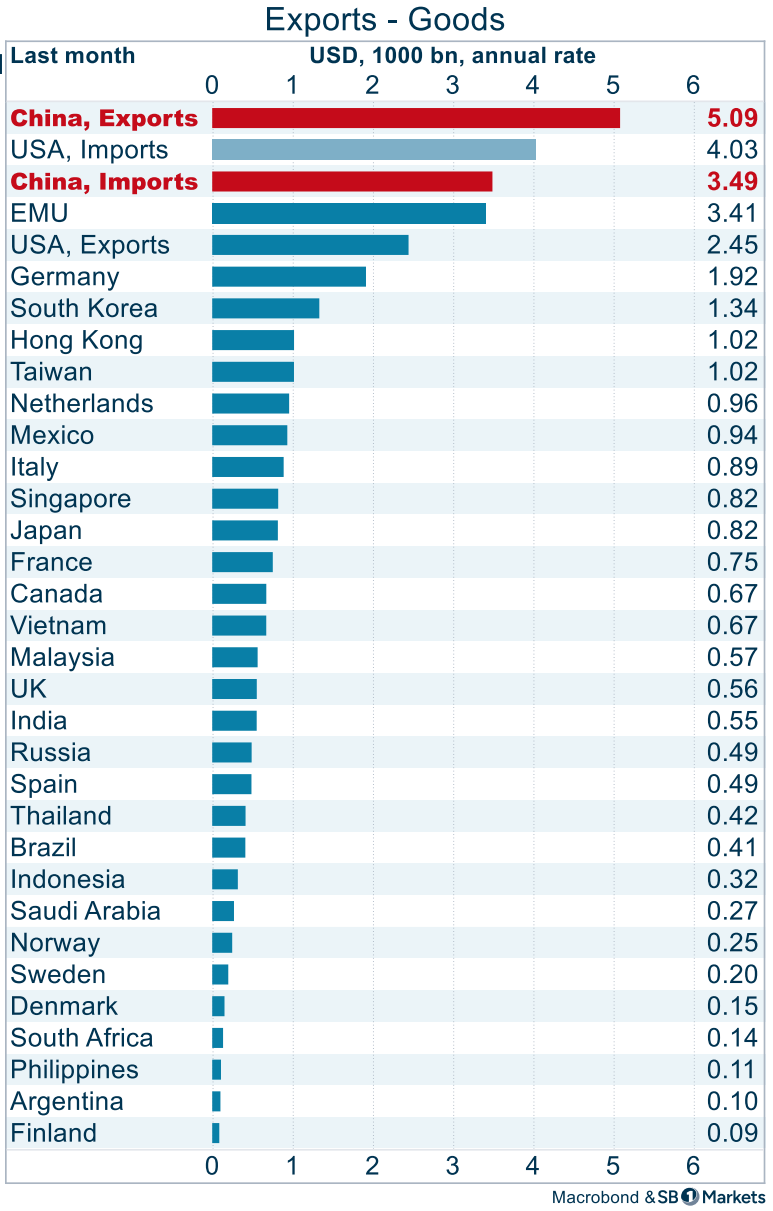




Two cross-checks on trade flows: China vs. the rest of Asia and the rest of the world

Chinese exports are more than twice US exports, and even 46% above EMU exports!
Chinese exports are almost nine times Indian exports. Chinese imports? 42% above US expo

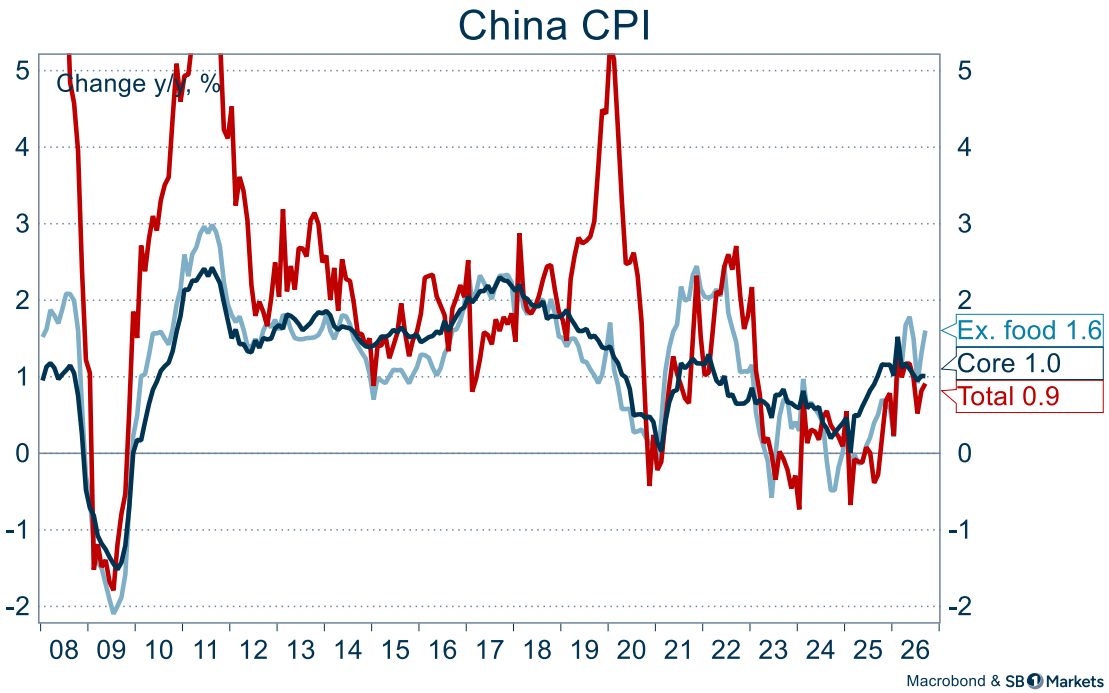


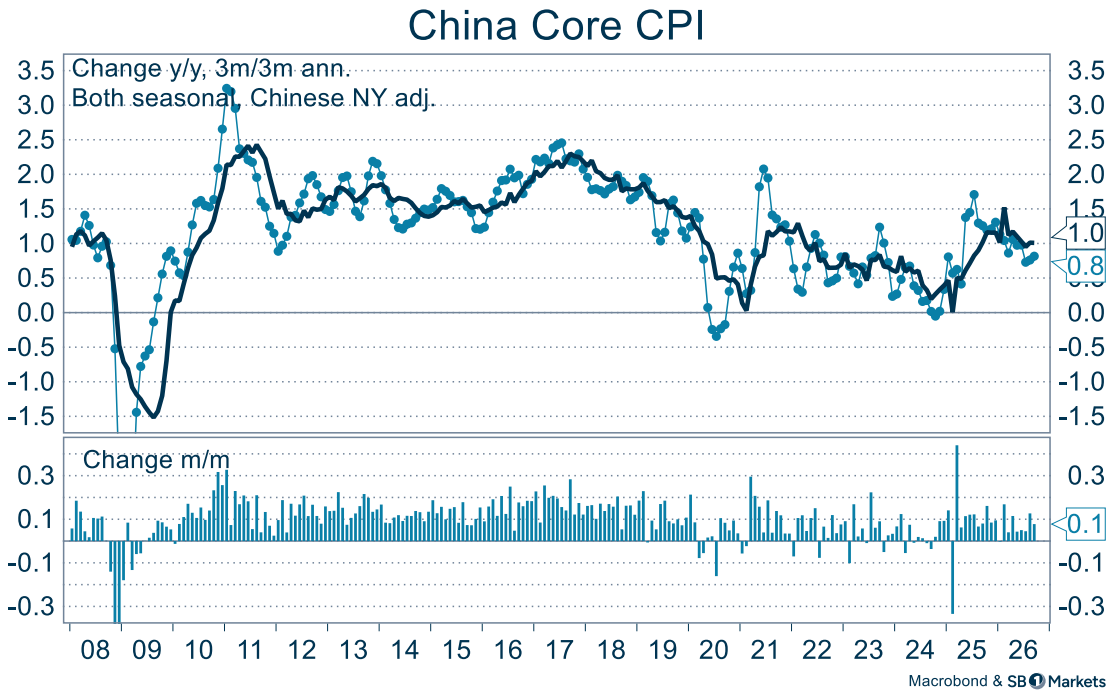


(Several EMU countries are shown separately, and their exports to other EMU countries are included)

Headline CPI inflation still below 1%, core inflation at 1%

Underlying growth in core prices (CPI excluding food and energy) is marginally lower. Slightly too low, but not alarming. Transport fuel prices are still down 8%, which is surprising. Food prices are down as well, by 1.9% y/y. CPI excluding food is up 1.6%.



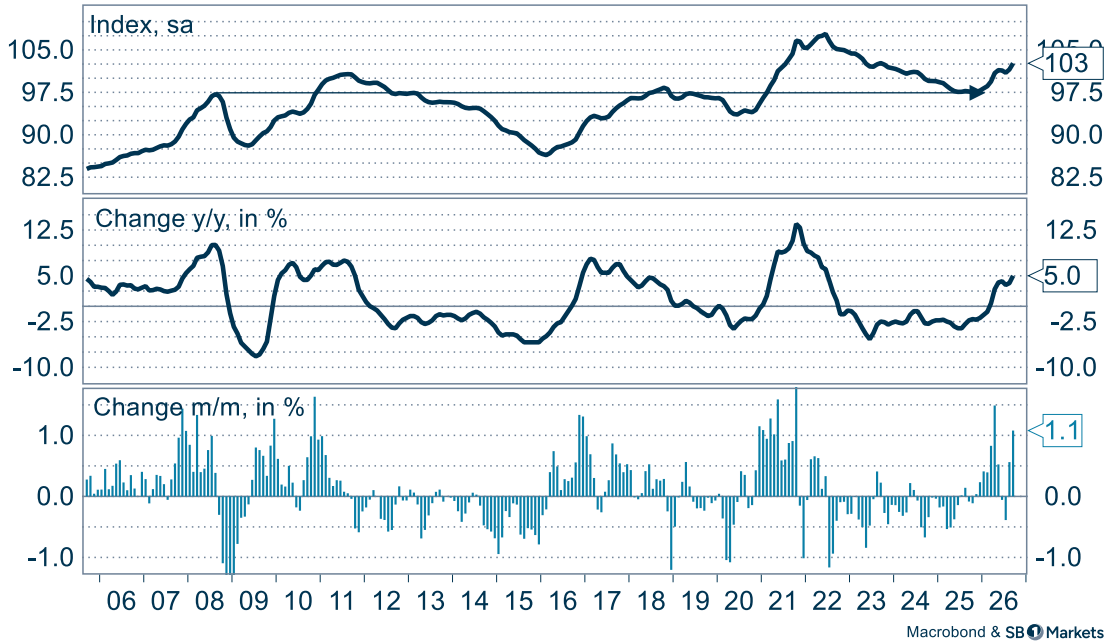


Core CPI: CPI excluding food and energy

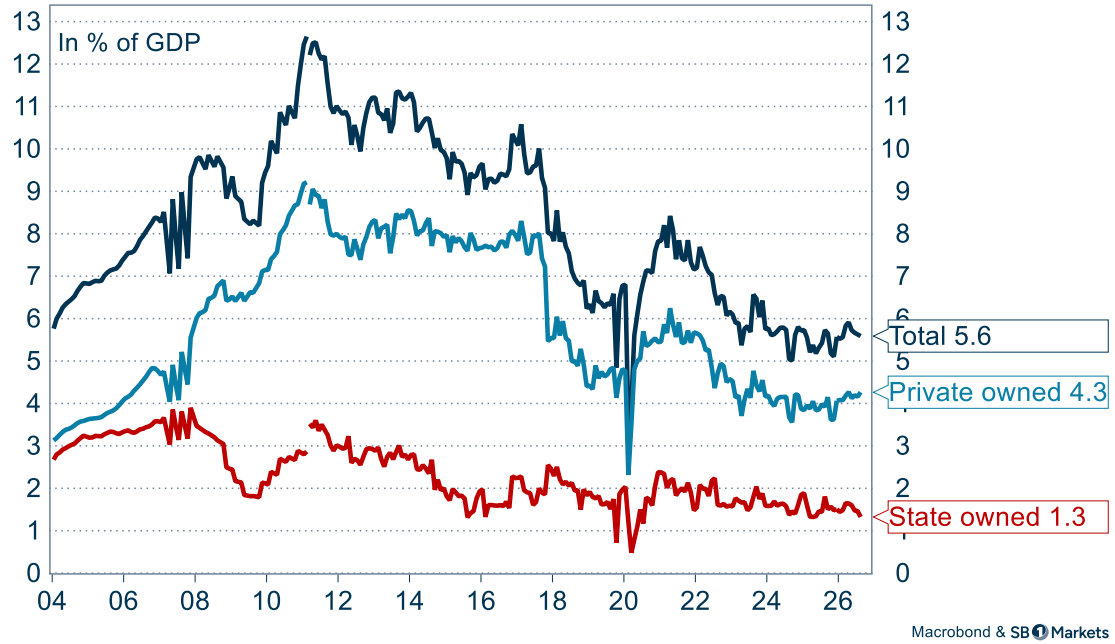
PPI rose 1.1% m/m in September and is up 5.0% y/y!

Including the CNY's 7% appreciation against the USD, the PPI is up 12% in USD terms! Non-ferrous metal prices are among the fastest-rising, up 21%, alongside coal and petroleum. Machinery and electronics are up 6%. Prices of durable consumer goods have risen, but those of non-durable goods have not.

China PPI

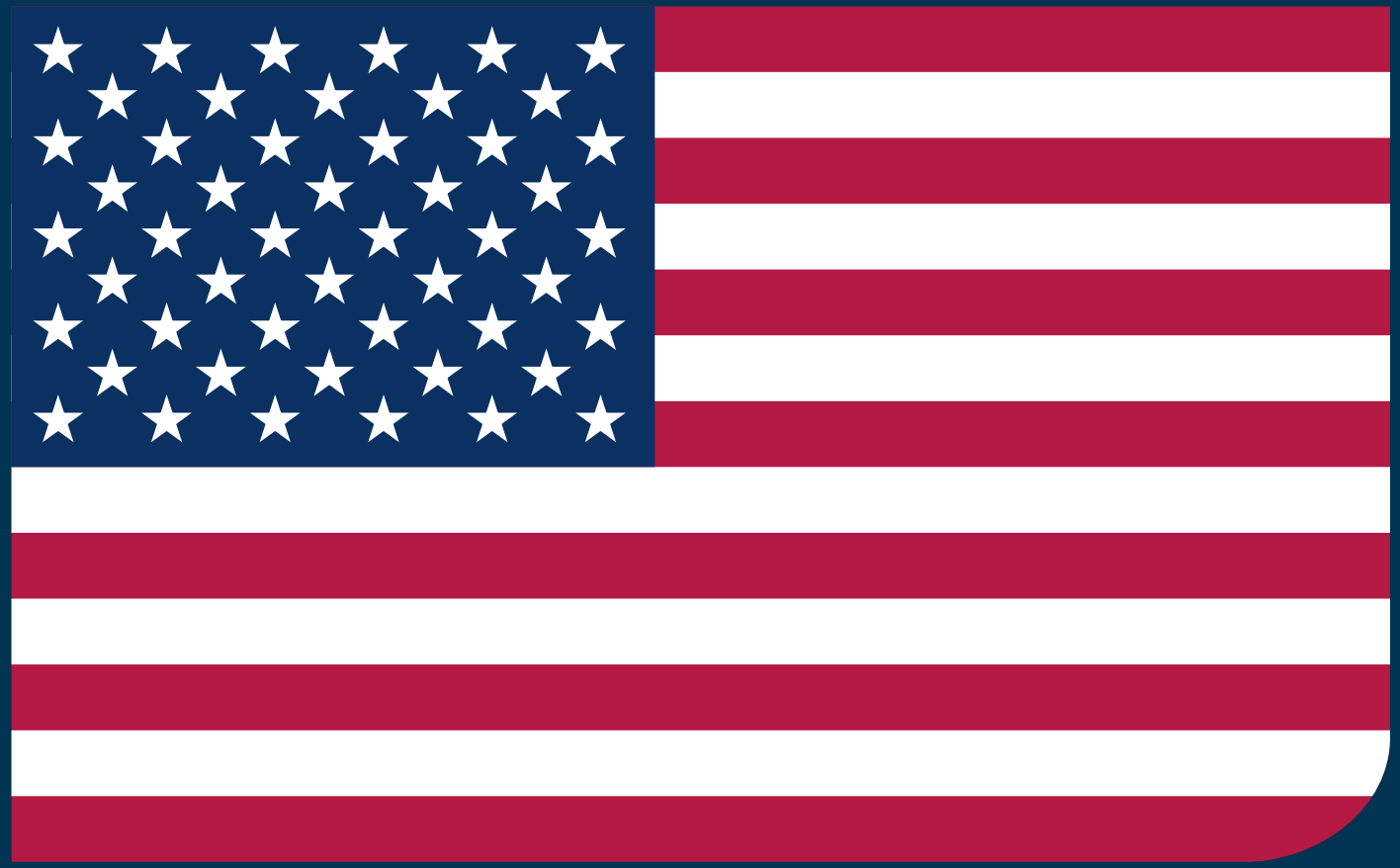


China Industrial profits



- The correlation between PPI and CPI in China is limited (but far better with the US CPI, at least before the tariff cycle ☺).

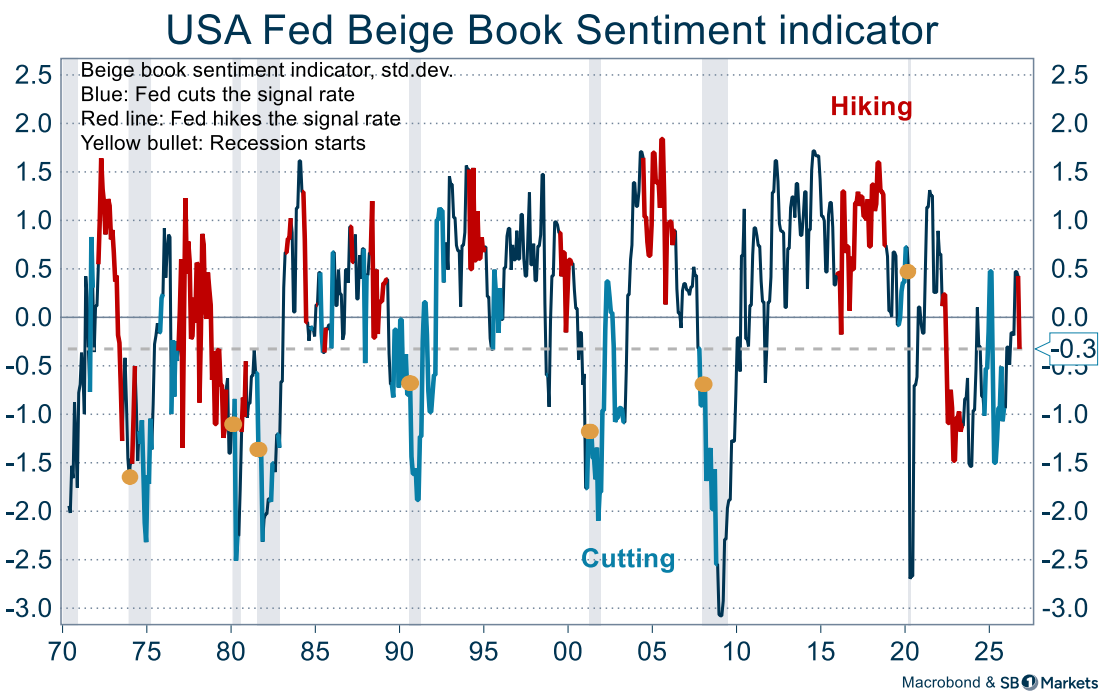
SB 1 Markets



United States

Fed's Beige Book: activity has slowed (but not prices)

9 of 12 districts report growth, vs. 10 in Aug.; 3 report no growth. Manufacturing reports growth, other sectors do not (other surveys disagree). Wage growth is modest, but input cost pressures remain elevated. The BB sentiment indicator fell 0.7 std. dev. to *-0.3 std. dev.*

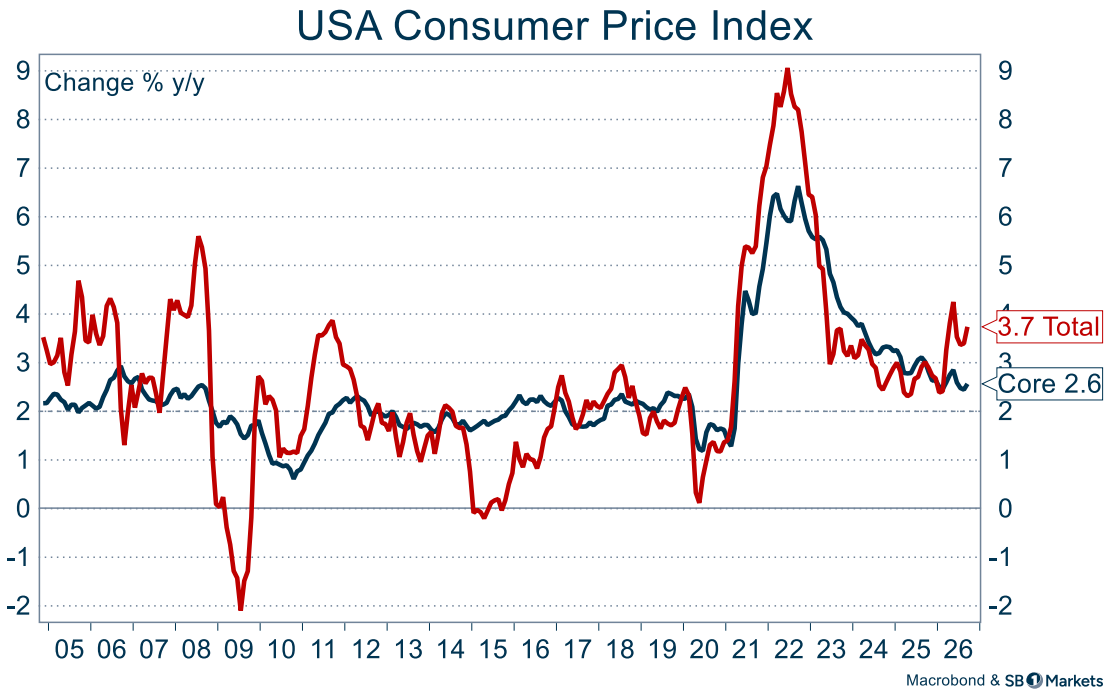


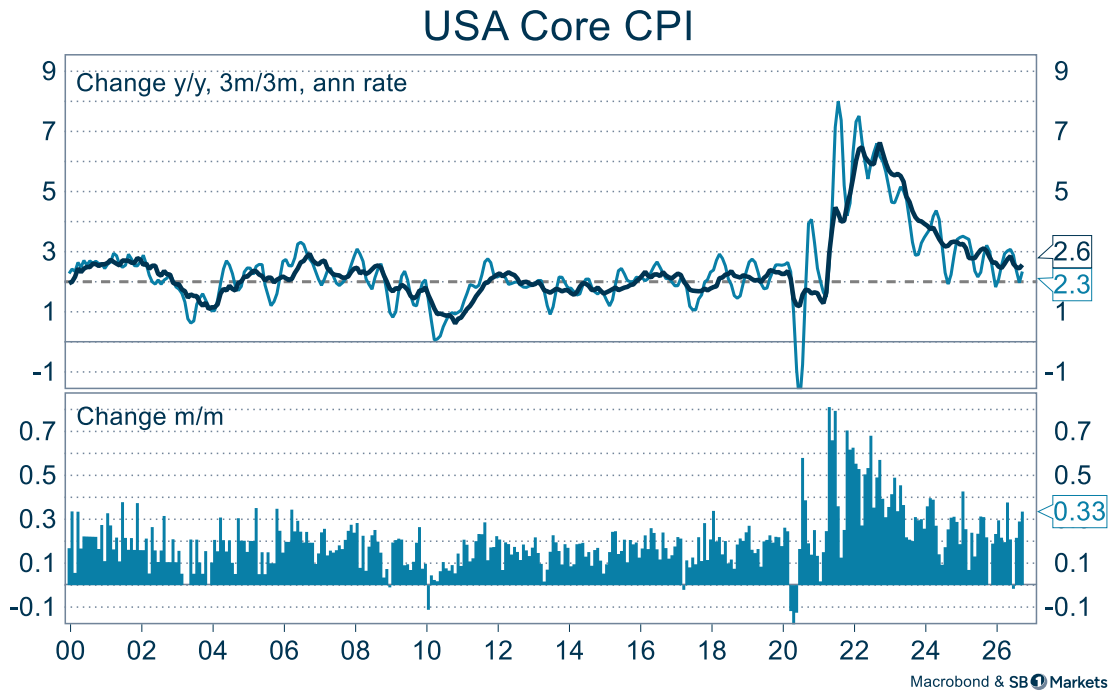
- The Beige Book Sentiment Index declined by 0.7 std. dev. to -0.3 std. dev., far weaker than we assumed.

- **Growth slowed.** 9 of the 12 Fed districts reported slight-to-moderate growth, while three reported little change. Manufacturing remains the strongest sector, while most other sectors show limited momentum.
- **Consumer spending is restrained and increasingly driven by higher-income households.** Most districts reported little or no growth in spending, and several noted weaker demand from lower-income consumers. Auto sales were generally flat to slightly down. (Actual retail sales flattened in Sep.)
- **Labour market conditions remain stable rather than strong.** Employment was broadly unchanged, with only slight increases in most districts. Labour supply is generally sufficient except for specialised technical and skilled-trade occupations.
- **AI is beginning to affect hiring decisions.** Several districts reported firms reducing hiring plans, relying on attrition or expecting fewer future hires after productivity gains from AI investments. *This is a new and increasingly common theme in Beige Books*.
- **Inflation pressures persist.** Wage growth remains moderate, while firms continue to face *rising input costs*. Businesses frequently cited tariffs, energy costs and insurance/benefit expenses as sources of price pressure, and many reported continued pass-through to customers.
- **The outlook is positive but cautious.** Most contacts still expect growth in coming months, but generally only slight growth. Businesses continue to point to uncertainty around policy, inflation, tariffs, interest rates and geopolitics as factors limiting confidence and investment.

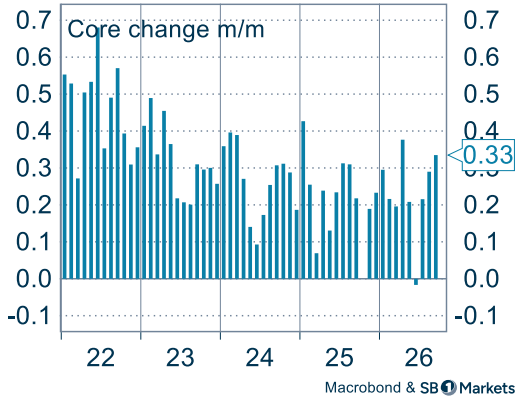
Core CPI up 0.3% in Sep. too, 2.5% y/y, the headline 3.7%, all 0.1 pp > expected

The total CPI was up 0.65%, lifted by higher energy prices. Core inflation trends down but our measures of underlying growth in recent months remain well above 2% (and rose in September). The PPI rose far more than expected and signals higher CPI inflation.



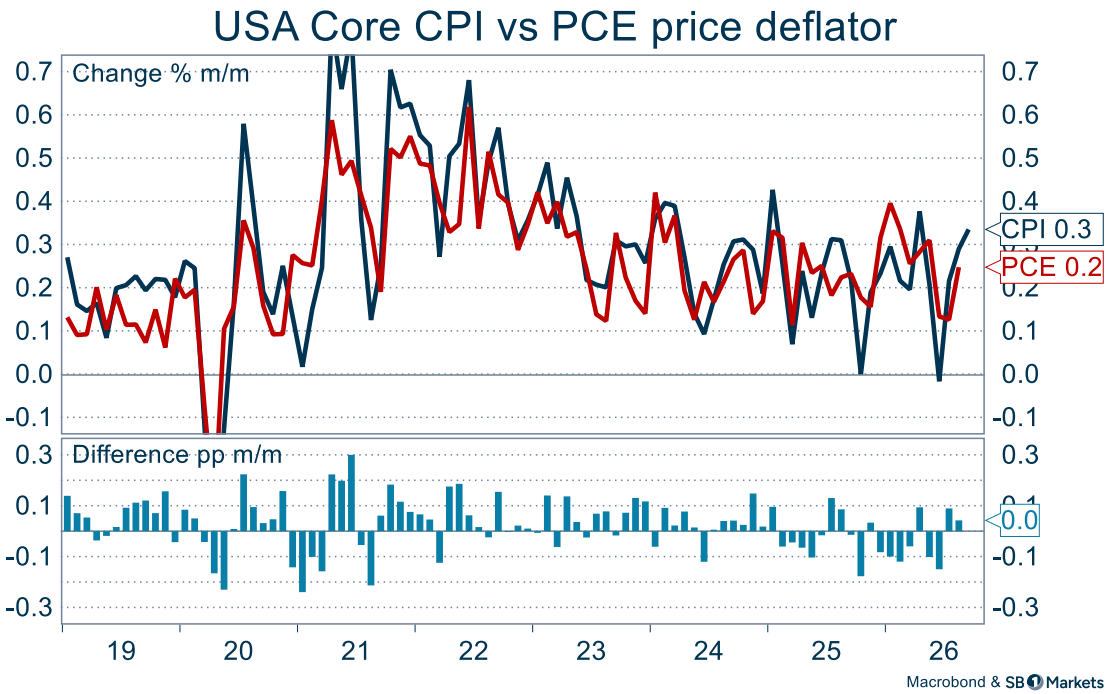


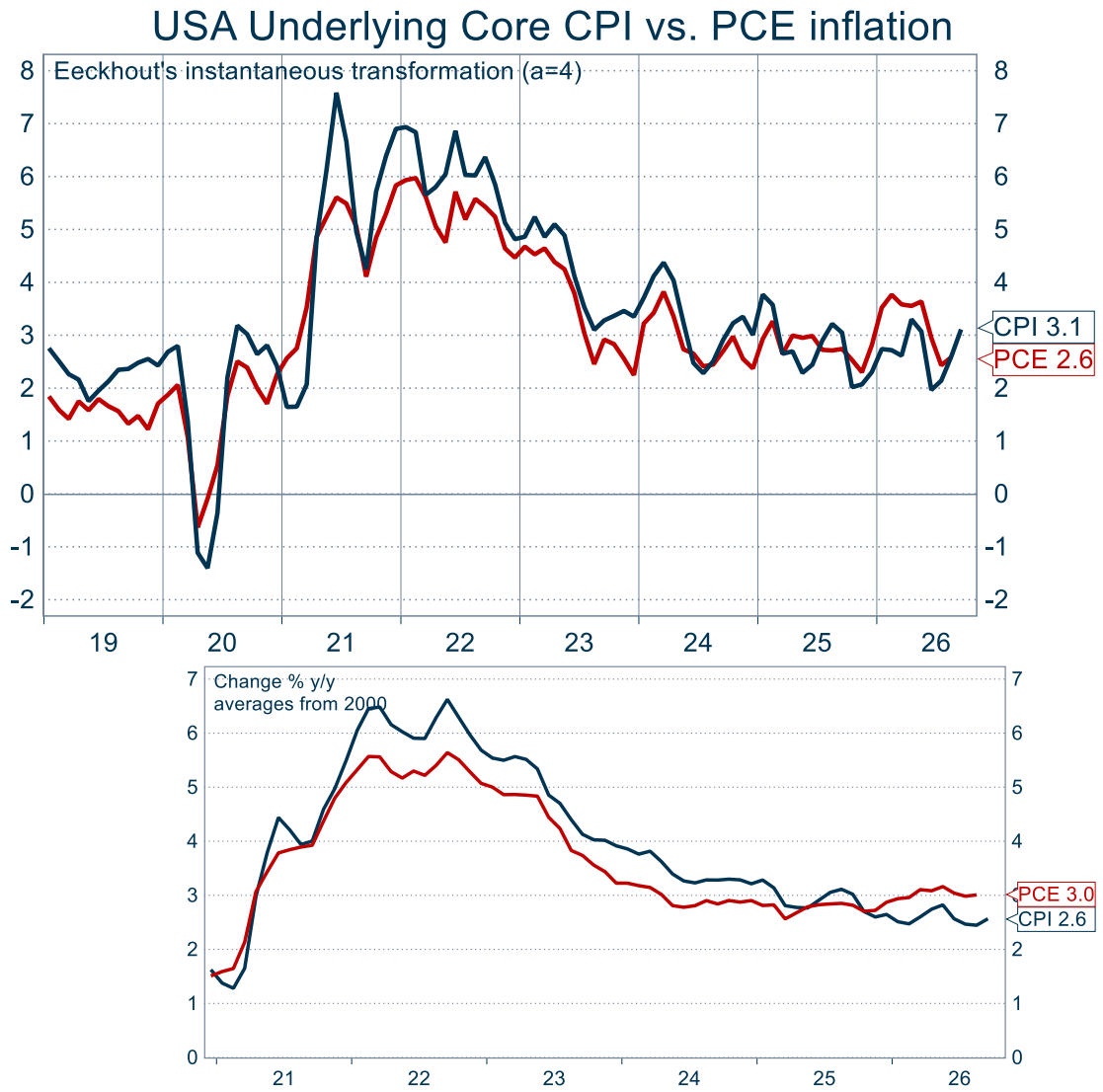
- **Energy prices** are up 20% y/y.
- Within the **core segment**, services ex. rents rose 0.4% and are up 3.2% y/y. Rent inflation has flattened at 3% y/y. Core goods are up 0.7%. The monthly growth in the core index was high in both August and September.
- **The outlook:** wage inflation is slowing, while productivity growth remains brisk (at least vs. recent history). Thus, ***unit labour costs are growing more slowly***, in fact well below 2%, which over time will lower CPI inflation, barring further energy shocks or an indefinite increase in profit margins – which has never happened before. This is the best argument for patience, but actual inflation is well above target, and the labour market is balanced (or on the tight side).
- The September CPI is not an argument against an October hike – but it is not so hot that the Fed has to hike, a week ahead of the midterm elections. The market prices in just a 16% probability of a hike next week. But 89% for a December hike!



The gap to the Fed's preferred inflation measure, the PCE deflator, has narrowed

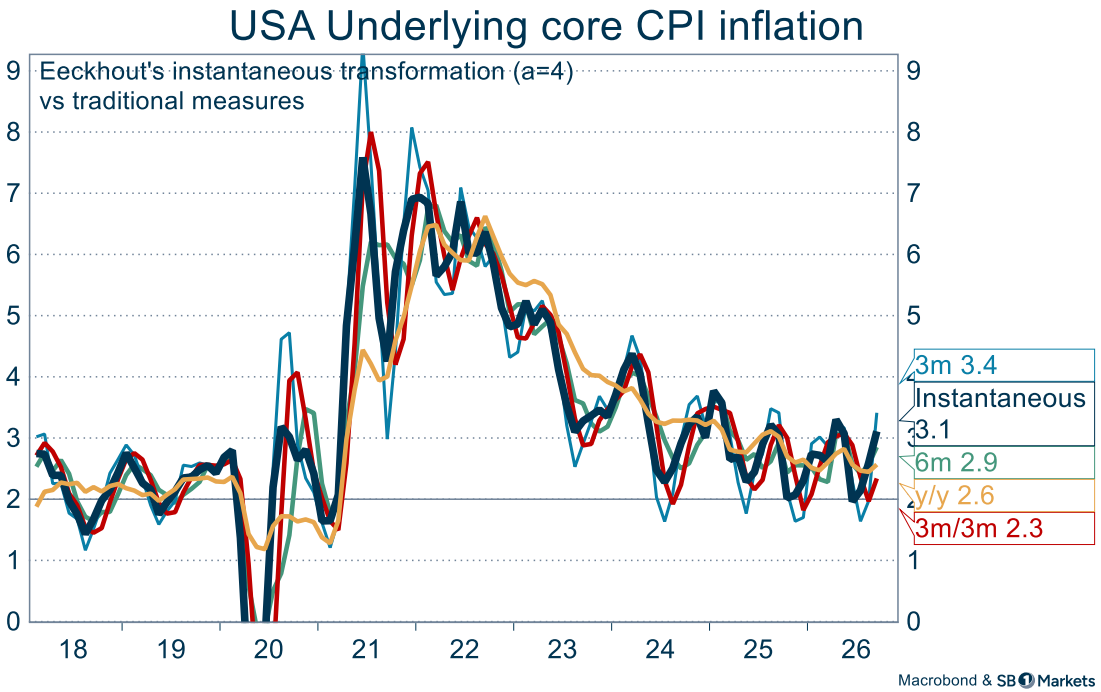
The September CPI does not signal any immediate decline in inflation measured by the personal consumption expenditures (PCE) deflator, and neither did the PPI. A 0.3% m/m lift in the PCE in September seems most likely.

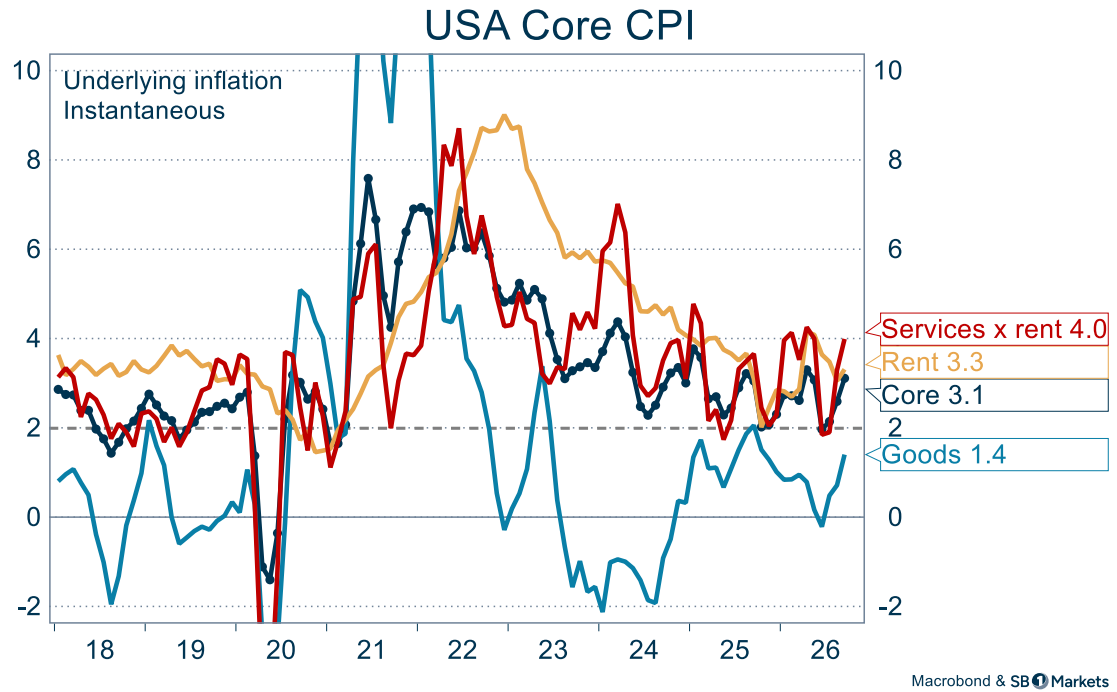




The avg. of our underlying CPI core inflation measures is up 0.6 pp to 2.9%

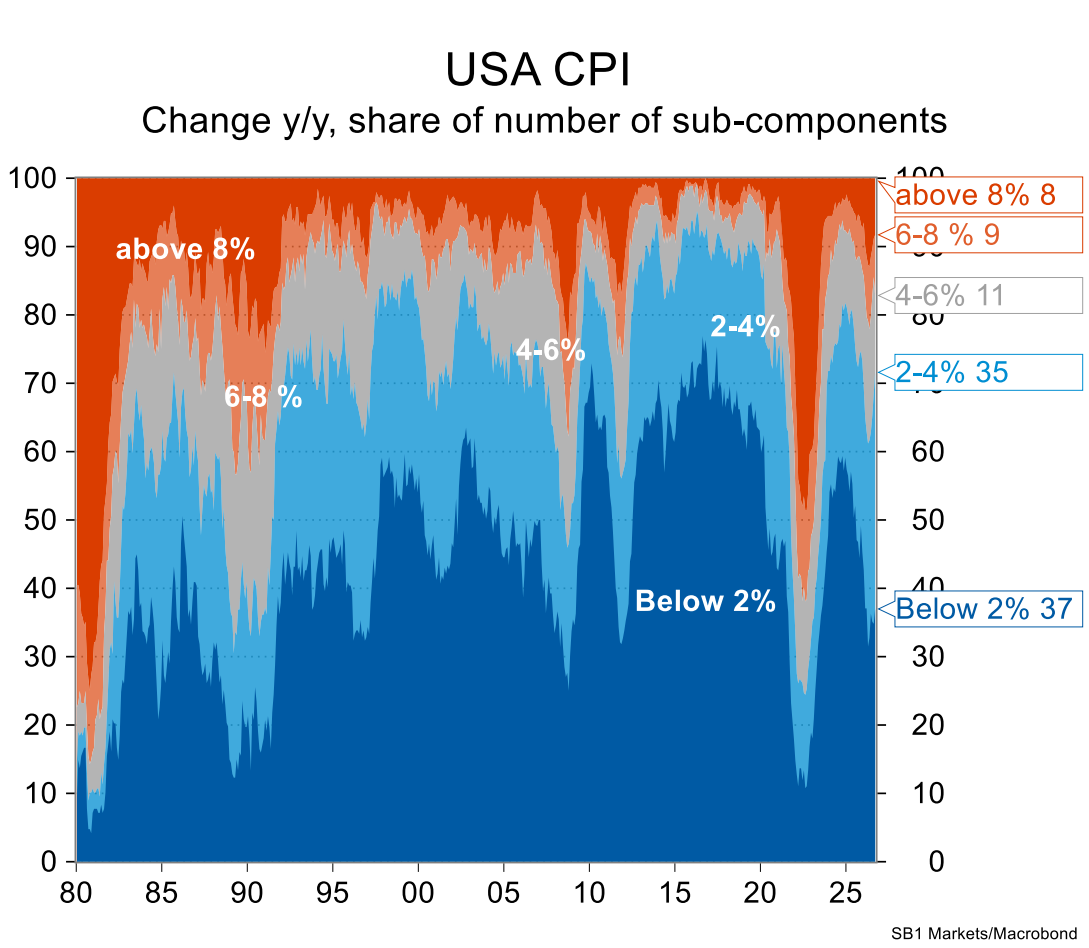
Services ex. rents are mostly to blame (public transport). Rent inflation has flattened at 3% and core goods prices are up 1.4%, all measured by annualised price increases in recent months.

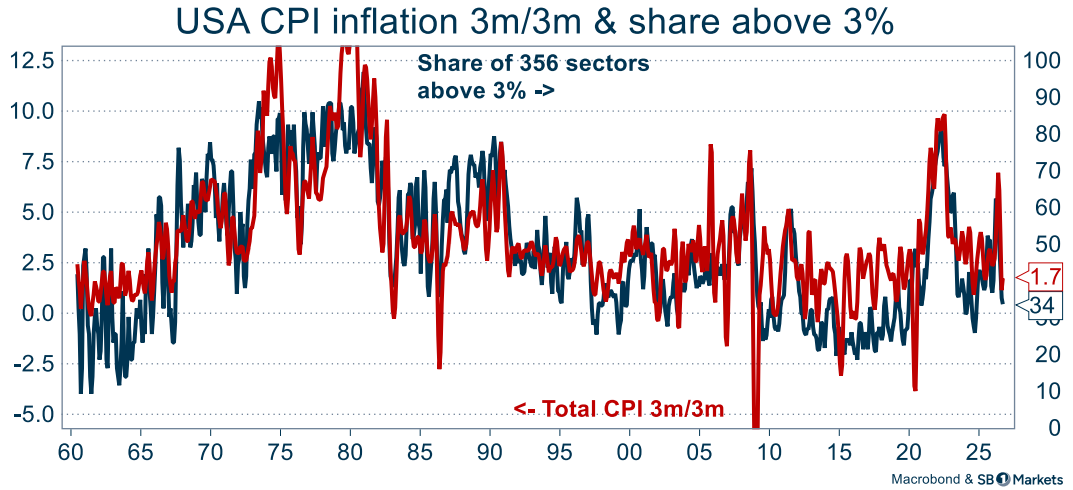


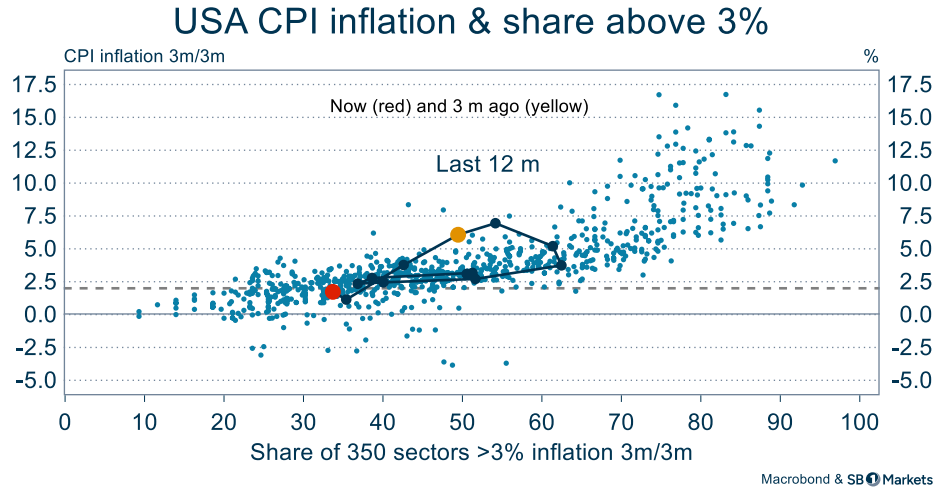


Total CPI: less hot

34% of 356 sub-sectors are up more than 3% measured 3m/3m, down from 70% back in April.

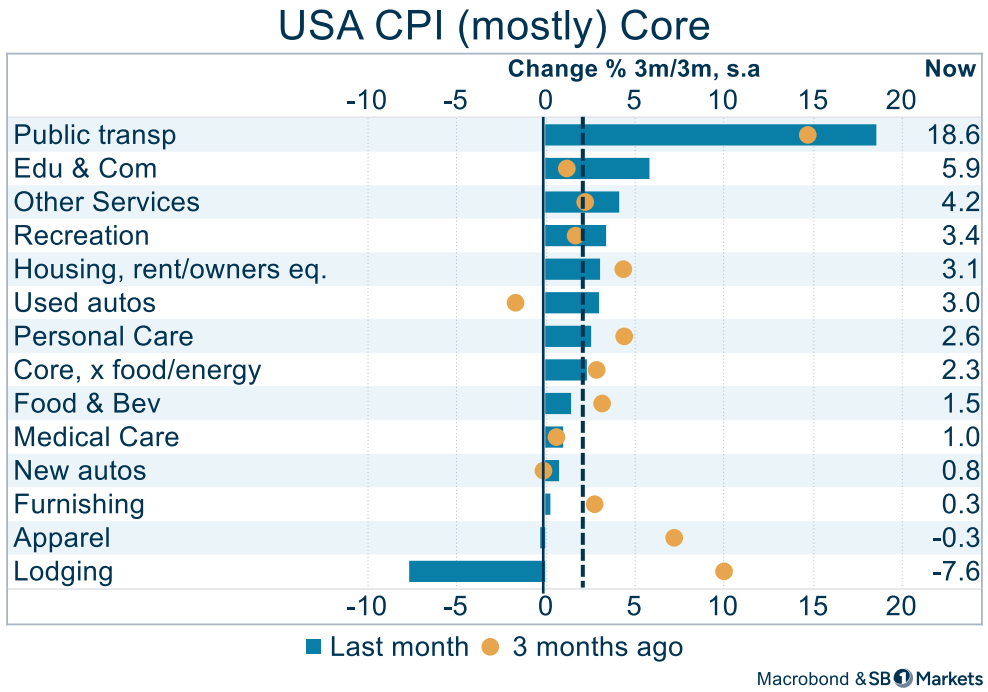






CPI growth momentum slows, and a smaller share of the CPI is ‘red hot’

… especially measured over recent months. 7 sectors are up more than 2% measured 3m/3m, and 7 are at 2% or below, of which 3 are negative.



- The total CPI is up just 1.7% 3m/3m, down from 7% in May, when energy prices ‘exploded’. Now, energy prices have ‘stabilised’ and the underlying growth rate has slowed.
  - The core is up 2.3% 3m/3m, down from 3.0% a few months ago – but up from 2.0% last month.

The detailed heatmap

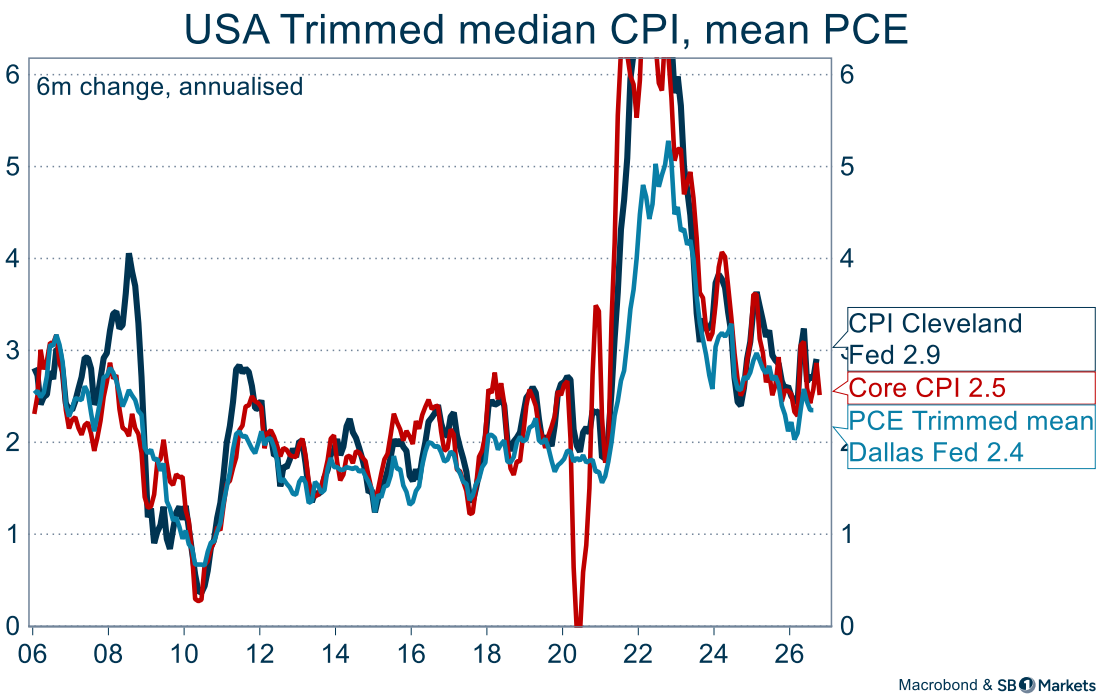
USA CPI inflation y/y

	Weights	09/2026	08/2026	07/2026	06/2026	05/2026	04/2026	03/2026	02/2026	01/2026	12/2025	11/2025	10/2025
Total	**100.0**	3.7	3.4	3.4	3.5	4.2	3.8	3.3	2.4	2.4	2.7	2.7	3.0
Housing	**44.0**	3.3	3.1	3.3	3.3	3.6	3.6	3.4	3.3	3.4	3.6	3.5	3.9
Shelter	35.2	3.2	3.0	3.2	3.3	3.4	3.3	3.0	3.0	3.0	3.2	3.0	3.6
Rent	35.0	3.2	3.0	3.2	3.2	3.3	3.3	3.0	2.9	3.0	3.1	3.0	3.5
Fuels & Utilities	4.6	5.8	5.0	4.9	4.6	6.0	6.0	5.6	5.6	6.1	6.7	6.5	5.8
Household Energy	3.4	6.2	5.0	5.0	4.6	6.4	6.5	5.8	6.0	6.6	7.4	7.2	6.2
Water & Sewer & Trash Collection Services	1.1	4.8	4.8	4.6	4.6	4.7	4.7	4.7	4.4	4.7	4.7	4.3	4.8
Household Furnishings & Operations	4.2	1.6	2.0	2.2	2.5	3.0	3.9	4.0	3.9	3.9	4.0	4.6	4.1
Household Furnishings & Supplies	3.3	0.2	0.6	0.8	1.3	2.4	2.8	3.6	3.9	3.8	3.4	2.6	3.0
Food & Beverages	**14.3**	2.4	2.6	2.9	3.0	3.0	3.1	2.6	3.0	2.8	3.0	2.6	3.0
Cereals & Bakery Products	1.0	2.1	2.6	2.7	2.4	1.9	2.6	2.1	2.7	3.1	1.5	1.9	1.6
Meats, Poultry, Fish & Eggs	1.9	0.3	1.1	1.9	2.6	1.8	1.5	-0.9	0.4	2.2	3.9	4.7	5.2
Dairy & Related Products	0.7	-0.7	-0.3	-0.5	0.4	-1.0	-0.6	-1.6	0.1	-0.3	-0.9	-1.6	0.7
Fruits & Vegetables	1.3	3.7	3.2	5.1	5.3	6.1	6.1	4.0	2.7	0.8	0.5	0.1	1.3
Nonalcoholic Beverages & Beverage Materials	1.0	3.8	3.7	4.1	2.9	5.8	5.1	4.7	5.6	4.5	5.1	4.3	5.3
Food Away from Home	5.3	3.5	3.4	3.4	3.4	3.5	3.6	3.8	3.9	4.0	4.1	3.7	3.7
Alcoholic Beverages	0.8	1.4	1.6	2.1	2.0	2.1	1.9	1.7	1.6	2.0	2.1	1.9	2.0
Apparel	**2.5**	3.4	3.6	3.9	3.9	4.8	4.2	3.4	2.5	1.7	0.6	0.2	-0.1
Men's & Boys' Apparel	0.6	3.8	3.7	3.5	1.9	2.1	1.7	1.3	1.2	0.6	-0.1	-0.1	1.5
Women's & Girls' Apparel	1.0	2.5	3.5	3.2	3.8	4.1	4.4	4.4	2.9	1.3	-0.3	-1.0	-1.9
Footwear	0.6	3.4	3.6	3.4	4.1	5.2	4.2	2.4	1.5	2.0	1.1	-0.1	1.3
Transportation	**17.3**	7.9	6.2	5.8	6.5	9.3	7.1	5.0	-0.5	-1.1	0.4	1.6	1.7
Private	15.6	7.1	5.3	4.9	5.5	8.6	6.4	4.4	-1.1	-1.3	0.6	2.1	1.8
New & Used Motor Vehicles	7.0	0.0	-0.4	-0.4	-0.5	-0.8	-1.0	-0.9	-1.2	-0.9	0.5	1.2	1.7
Motor Fuel	4.2	34.9	27.9	24.8	27.2	40.9	29.1	19.2	-5.5	-7.3	-3.2	1.1	-0.4
Motor Vehicle Insurance	2.5	-5.0	-5.1	-4.5	-4.1	-2.0	0.2	0.8	0.2	0.5	2.8	3.1	3.1
Public	1.7	15.6	15.4	16.1	16.9	16.7	13.7	10.2	5.0	1.6	-2.0	-4.0	1.8
Airline Fare	1.1	22.4	23.4	25.5	26.5	26.7	20.7	14.9	7.1	2.2	-3.4	-5.4	3.2
Medical Care	**8.2**	1.5	1.6	1.7	2.0	2.6	2.5	3.1	3.4	3.2	3.2	2.9	3.3
Medical Care Commodities	1.4	-3.3	-2.7	-2.7	-2.1	-1.8	-0.5	0.3	0.1	0.3	1.5	1.1	0.7
Medical Care Services	6.8	2.5	2.5	2.7	2.9	3.6	3.2	3.7	4.1	3.9	3.5	3.3	3.9
Health Insurance	0.8	-9.0	-8.5	-8.0	-7.4	-6.4	-6.1	-5.3	-3.6	-2.2	-0.5	0.6	4.2
Recreation	**5.1**	2.8	2.7	2.6	2.8	2.6	2.3	2.2	2.3	2.5	3.0	1.8	3.0
Video & Audio	1.0	3.6	3.9	3.5	2.7	2.4	2.9	2.0	1.6	3.9	4.0	2.5	1.8
Pets, Pet Products & Services	1.1	2.2	3.2	3.0	3.2	3.2	3.8	4.3	3.3	3.4	3.5	2.6	3.5
Education & Communication	**5.8**	2.3	2.1	0.5	-0.1	0.8	0.2	0.0	0.1	0.5	0.5	1.5	0.4
Education	2.6	3.8	3.3	2.7	2.5	2.6	2.8	2.8	2.8	2.9	2.9	2.9	3.1
Communication	3.2	1.1	1.1	-1.2	-2.1	-0.6	-2.0	-2.2	-2.2	-1.4	-1.5	0.3	-1.7
Other Goods & Services	**2.9**	4.1	4.2	4.3	4.6	4.9	4.4	3.8	5.1	5.9	4.2	3.9	4.1
Tobacco & Smoking Products	0.4	6.4	6.3	6.7	6.5	7.8	7.6	7.4	8.0	8.5	6.8	6.9	6.9
Personal Care	2.4	3.7	3.8	3.8	4.2	4.4	3.8	3.1	4.5	5.4	3.7	3.3	3.5

Conditional formatting based on the Z scores of the last 12 observations (round to 1 decimal)
Red indicates high inflation as compared to previous observations for each respective category

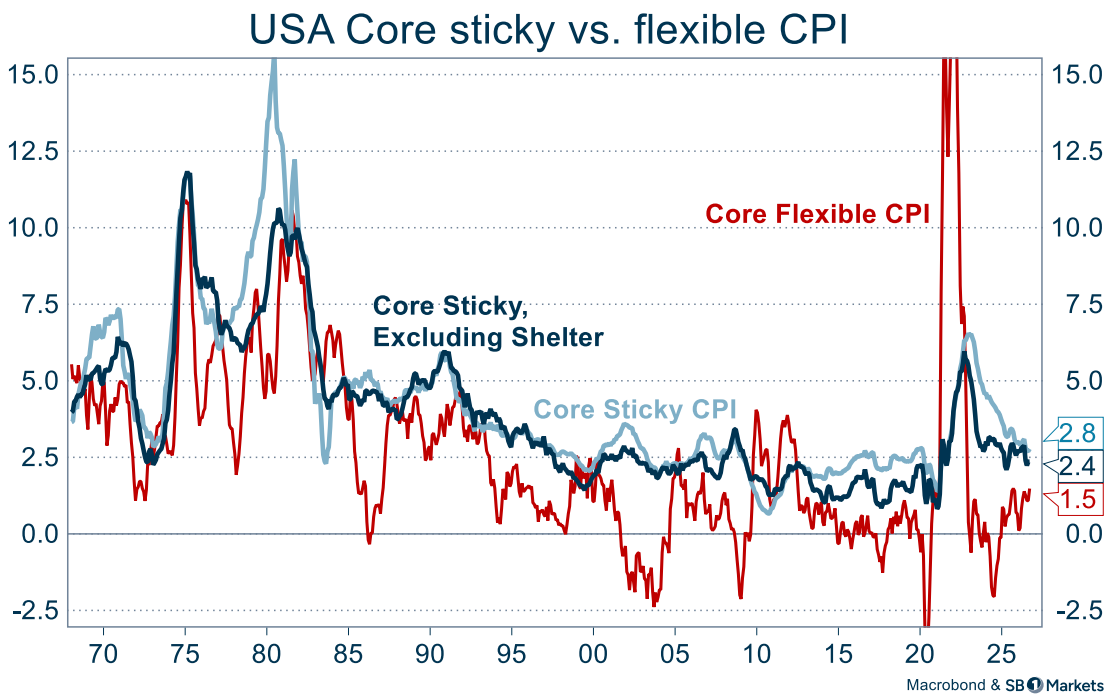
BLS, Macrobond SBI Markets

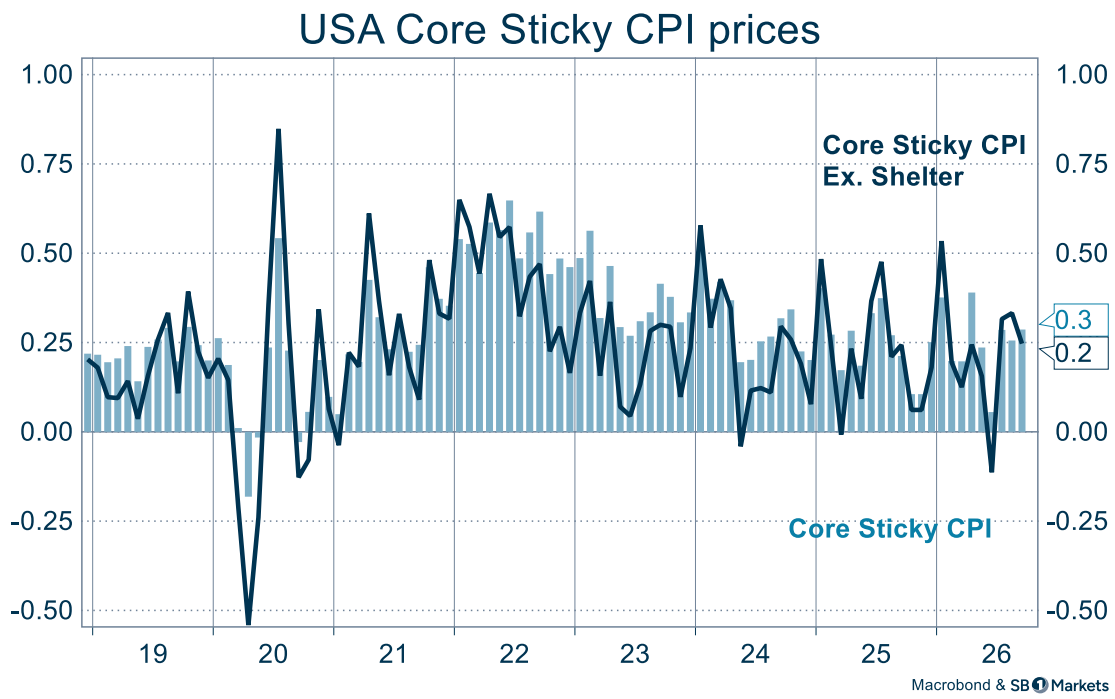
The trimmed mean/medians remain well above the inflation target



Core sticky prices rose 0.3% in September too, and are up 2.8% y/y

Ex. shelter, core sticky prices grew 0.2%, and are up 2.4% y/y. Sticky-price inflation close to 3% is not consistent with a 2% overall inflation target. Core *flexible prices* (10% of the total CPI) are up 1.5% y/y, up from -2% in late 2024, following 'the collapse', from +19% y/y in 2022.

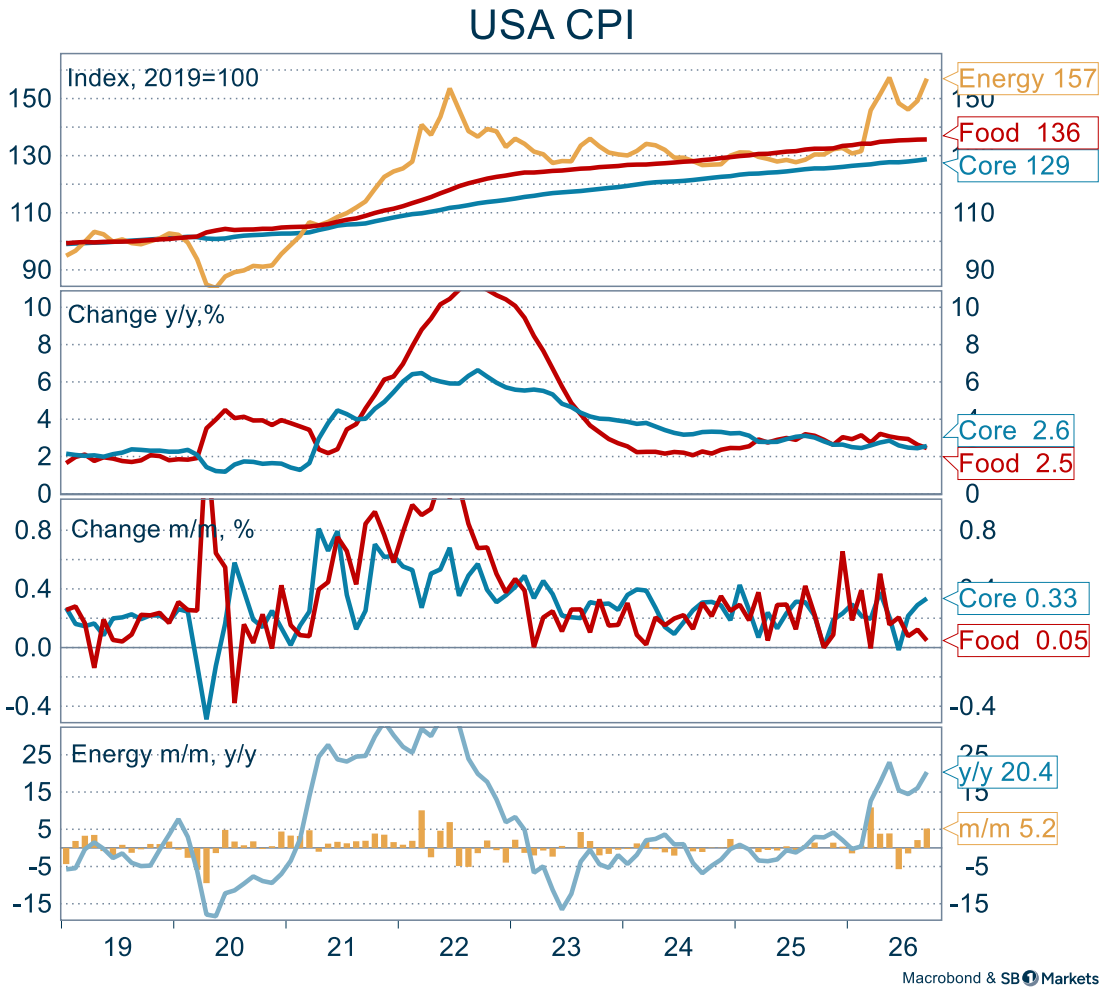


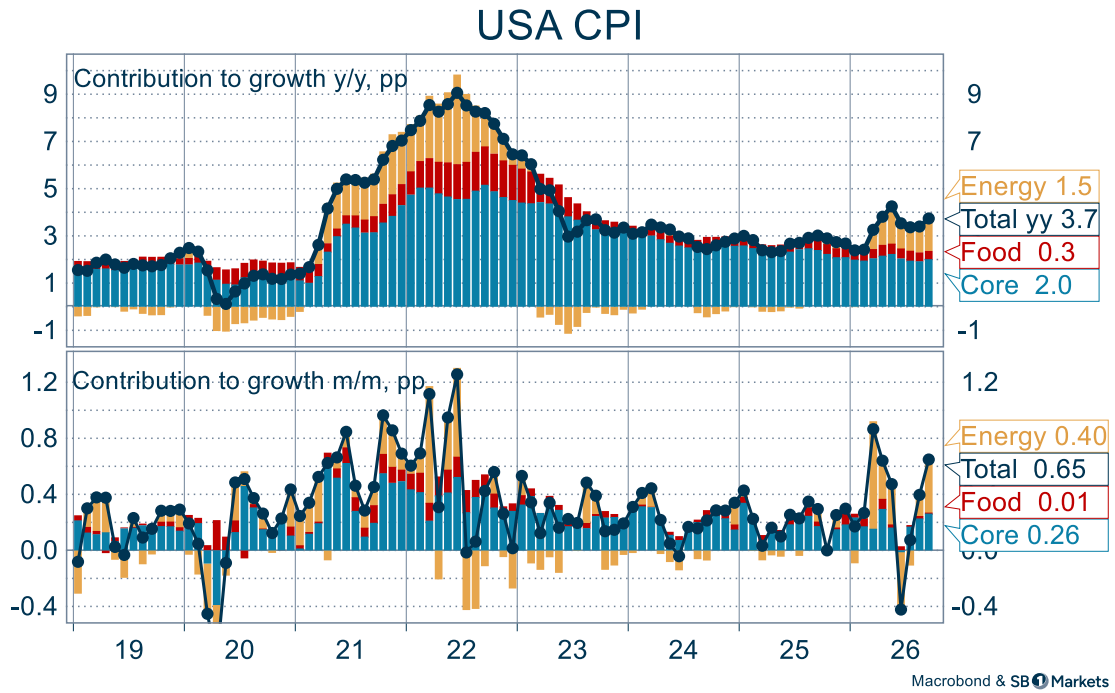


- Almost all the ***initial*** lift in core CPI was due to **prices of goods & services that often fluctuate**, with rapid price increases followed by deep price cuts. Thereafter, the **sticky prices** followed suit. Now, growth in these prices has slowed as well but prices are still up almost 3% y/y.

The headline CPI rose 0.65% in September, energy rose 5.2%, food 0.05%

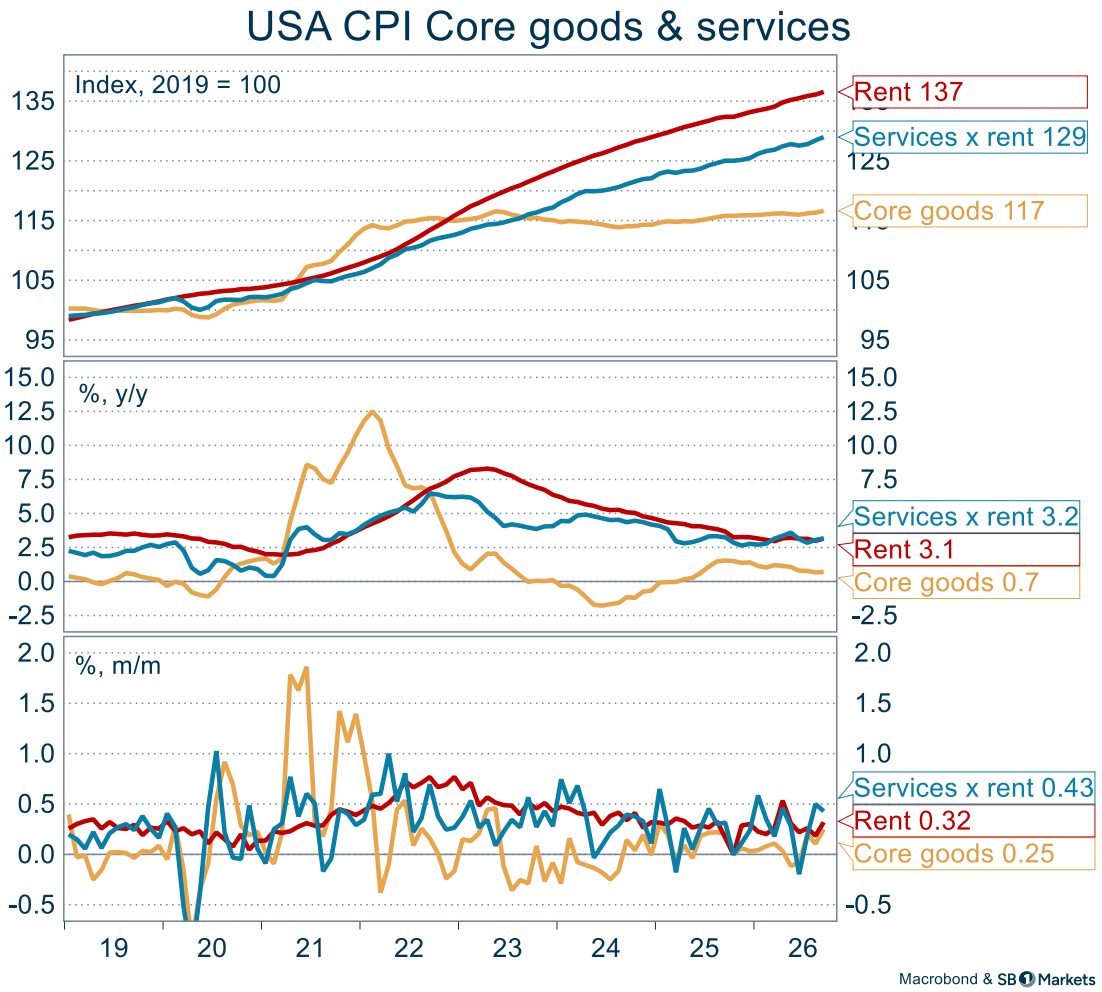
Energy prices are up 20% y/y. Food prices are up 2.5% y/y.

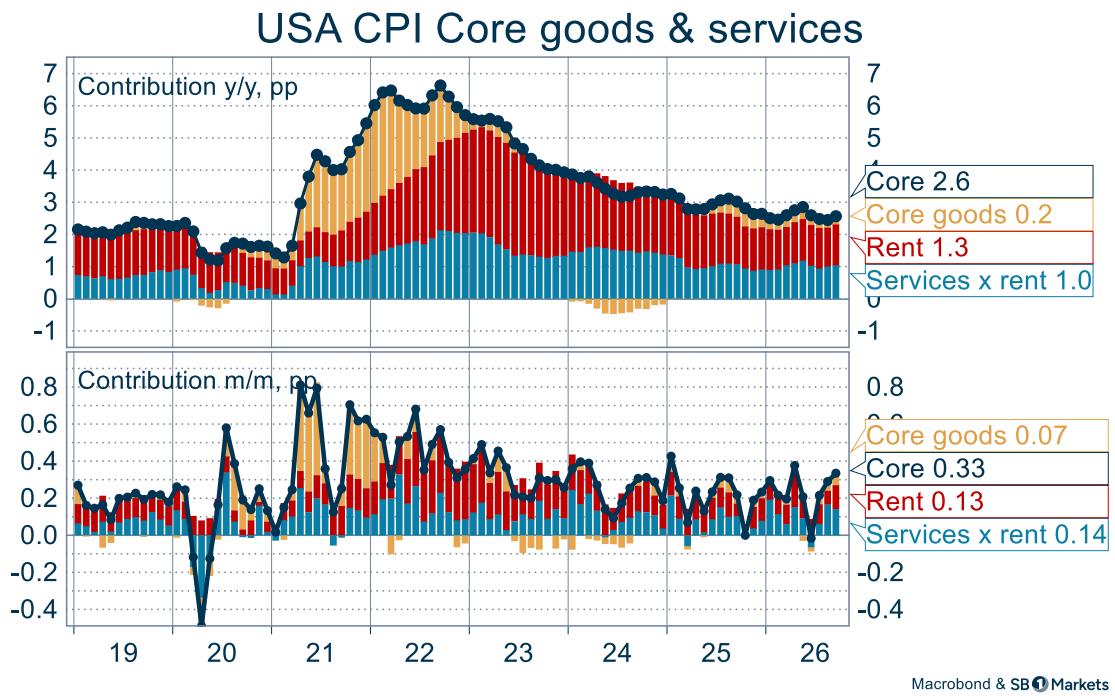




Core prices up 0.3% in September, led by services ex. rents, up 0.4%

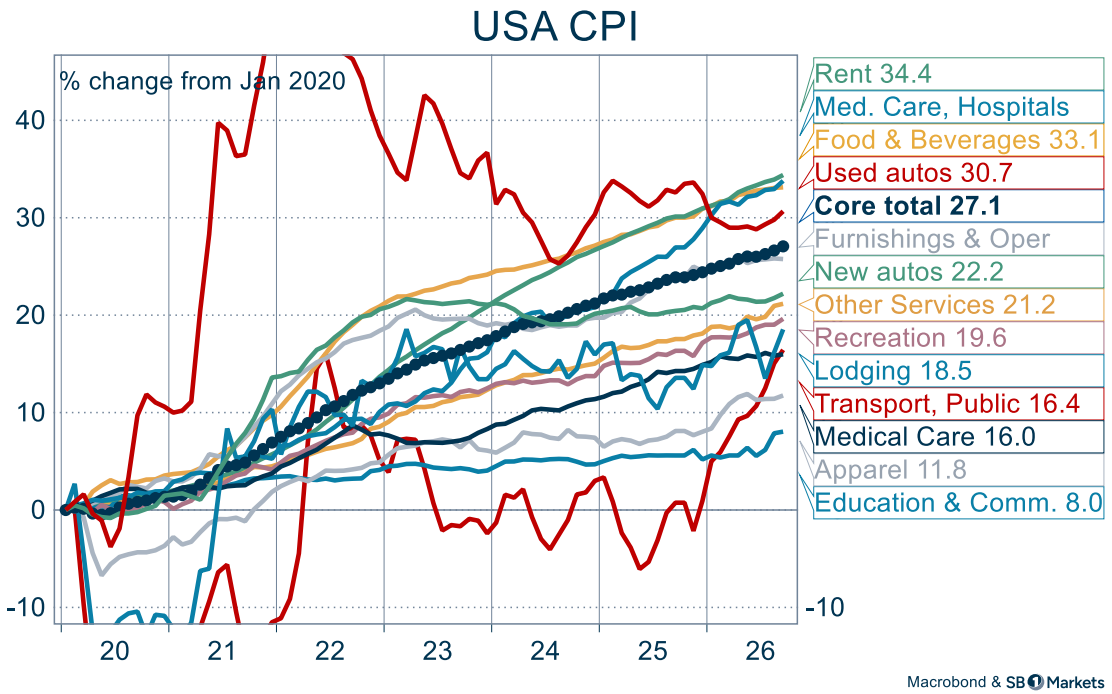
Rents are up 3.1% y/y, which lift the core CPI by 1.3 pp. Core services 3.2%/1.0 pp, core goods 0.7%/0.2 pp.



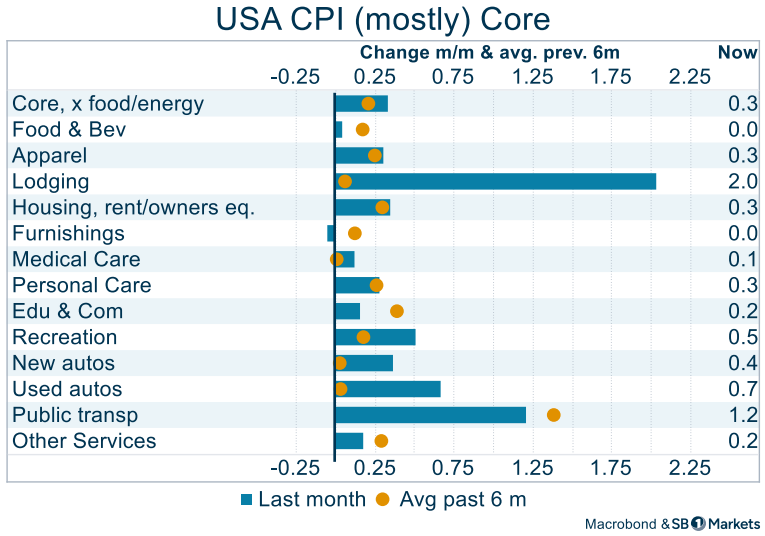


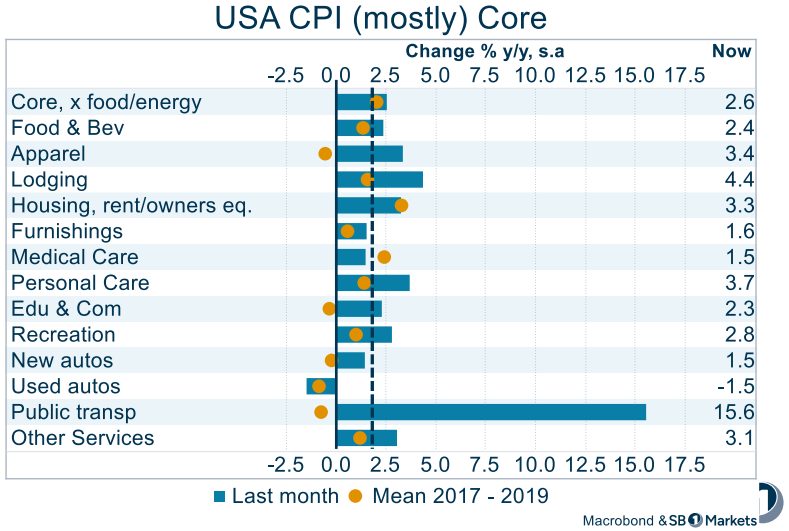
More CPI details: lodging (hotels) and public transport (airfares) in the lead in September

Public transport is up 16% y/y, an obvious second-round impact of the lift in energy prices. Lodging is up 4.4%.
10 main sectors are up more than 2% y/y, 4 sectors are at or below 2%.



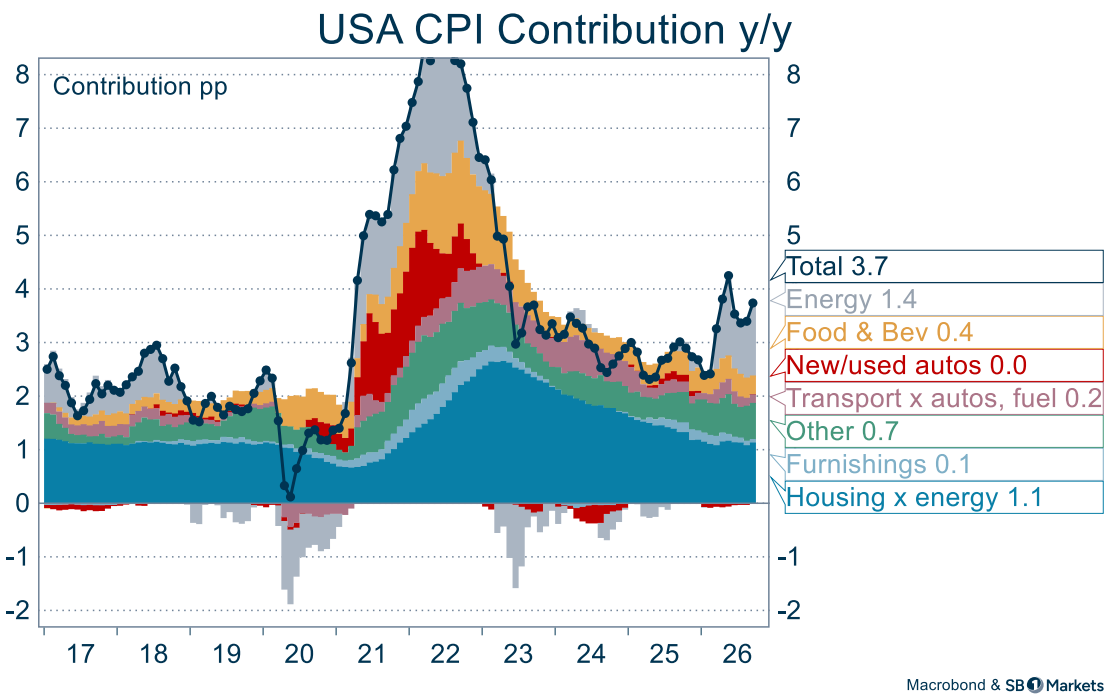
- **Used auto** prices have turned slightly up following a decline, while new auto prices trend flat.
- **Rent inflation** has stabilised at 3%.

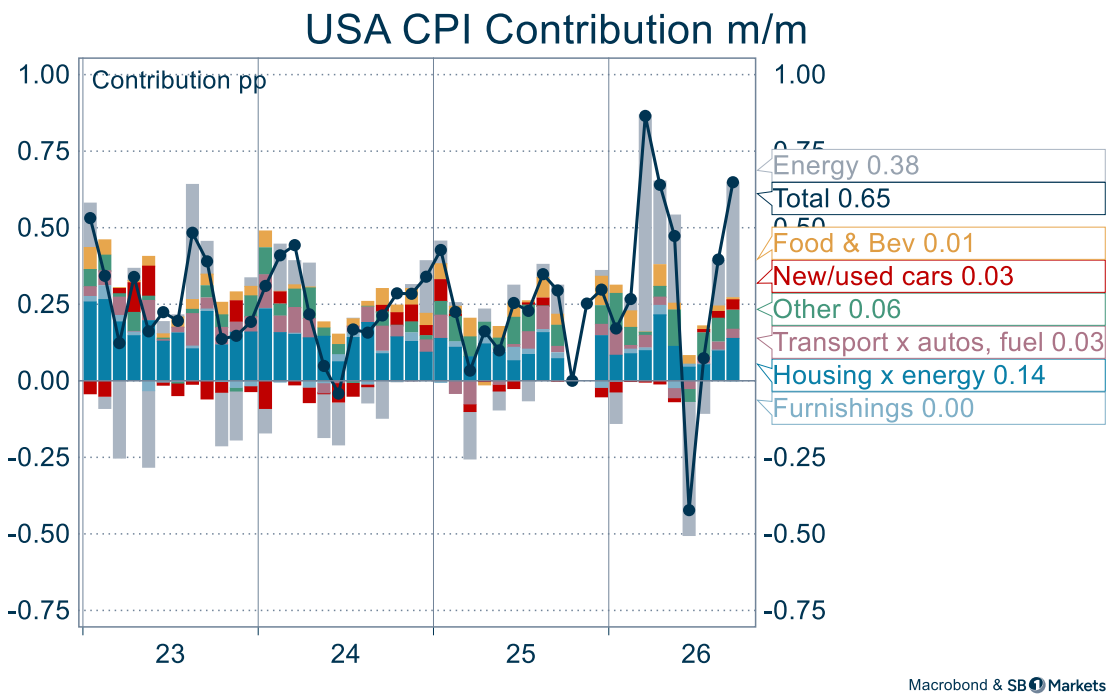




More CPI details: energy the main culprit in September – but the rest was up 0.3%

Since the spring: the surge in energy prices explains the lift in total CPI inflation.



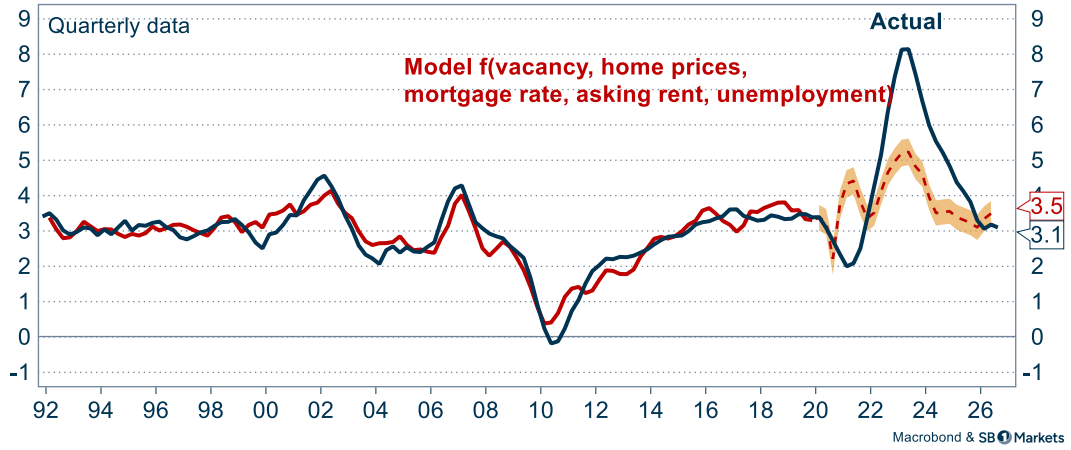


Lodging away from home (incl. hotels) is not included in housing in the charts above

Rent inflation has retreated but has flattened recently, at 3%

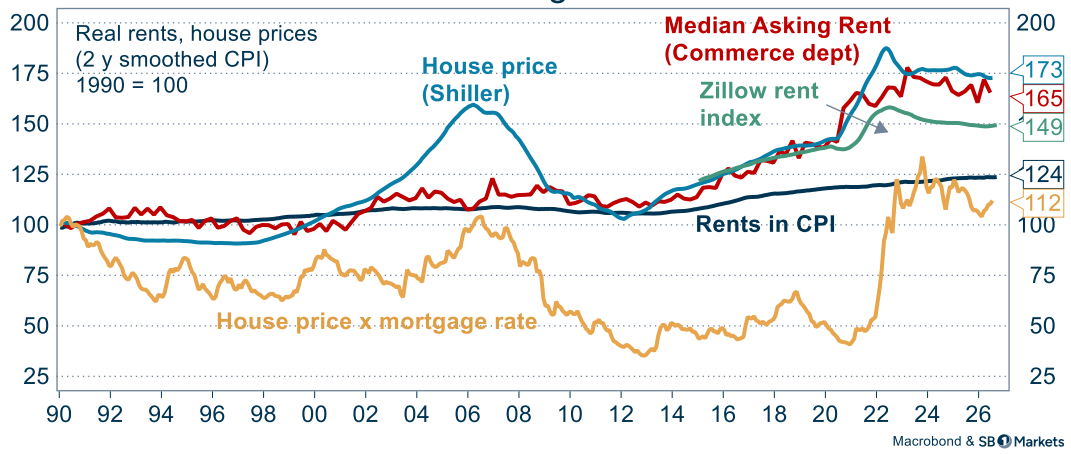
The rental vacancy rate has turned up – as has the homeowner vacancy rate (marginally), arguments in favour of lower rent inflation ahead. However, mortgage rates have turned up again…

US CPI Rent model

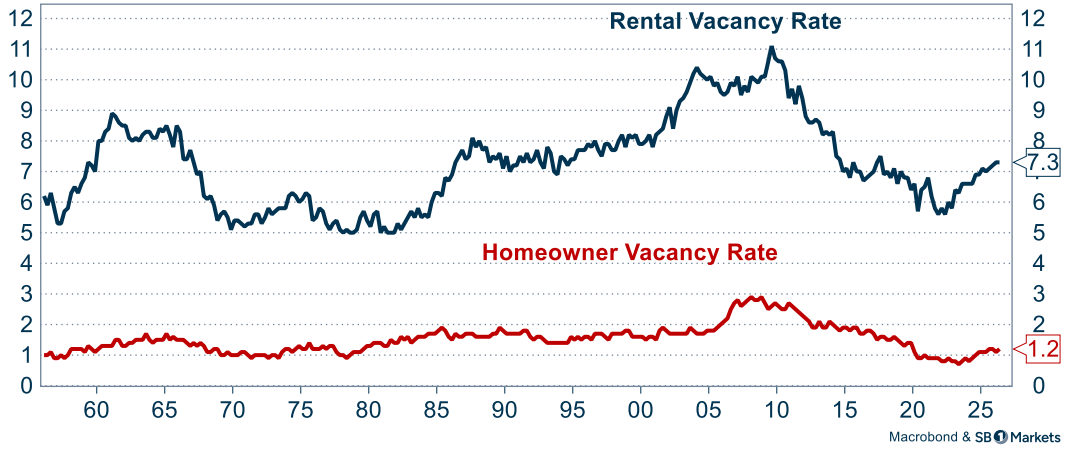


- **Rent inflation measured in the CPI** (covering the stock of leases, not just new leases) is gradually slowing. The annual rate has fallen to 3.1%.
- **Market-based rent indicators** (new leases) are trending flat or down. However, rents on new leases have risen much more than the CPI rent index in recent years, and the CPI (average) rent index could drift upwards for a long while.
- Out of the pandemic, **the rental vacancy rate** fell to a low level, but the rate ***is now increasing again***. The **homeowner vacancy rate** has bottomed as well. ***A less tight housing market?***
- **Our model** (based on vacancy rates, home prices, mortgage rates, a market rent indicator and unemployment) ***signals slightly lower CPI rent inflation than the current rate, but the gap has narrowed rapidly recently.***

USA Rents & housing market indicators



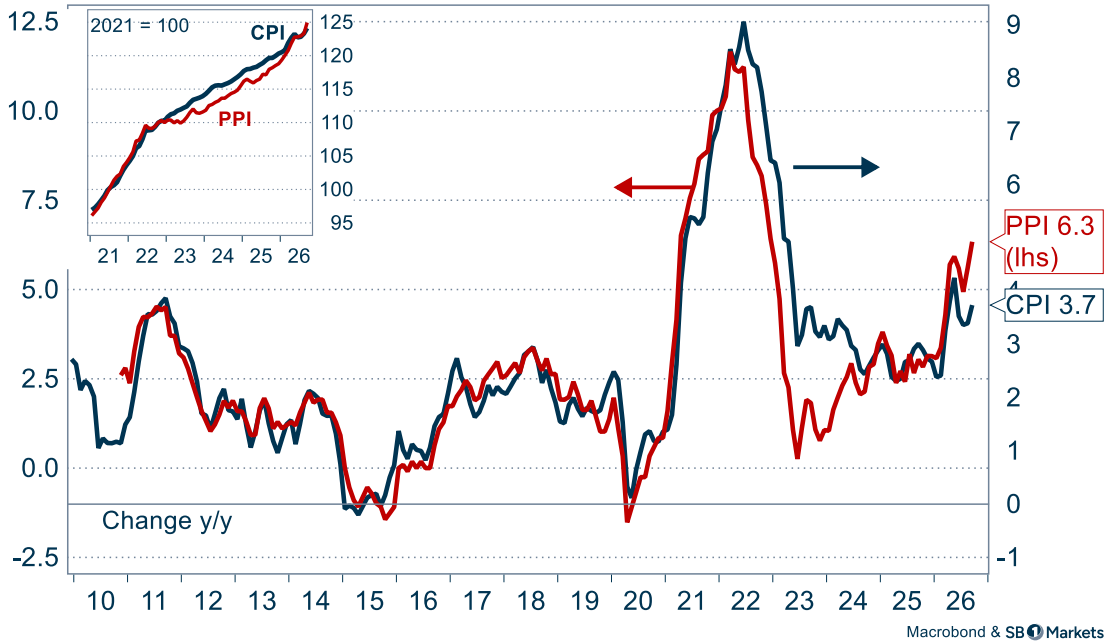
USA Housing vacancy rates



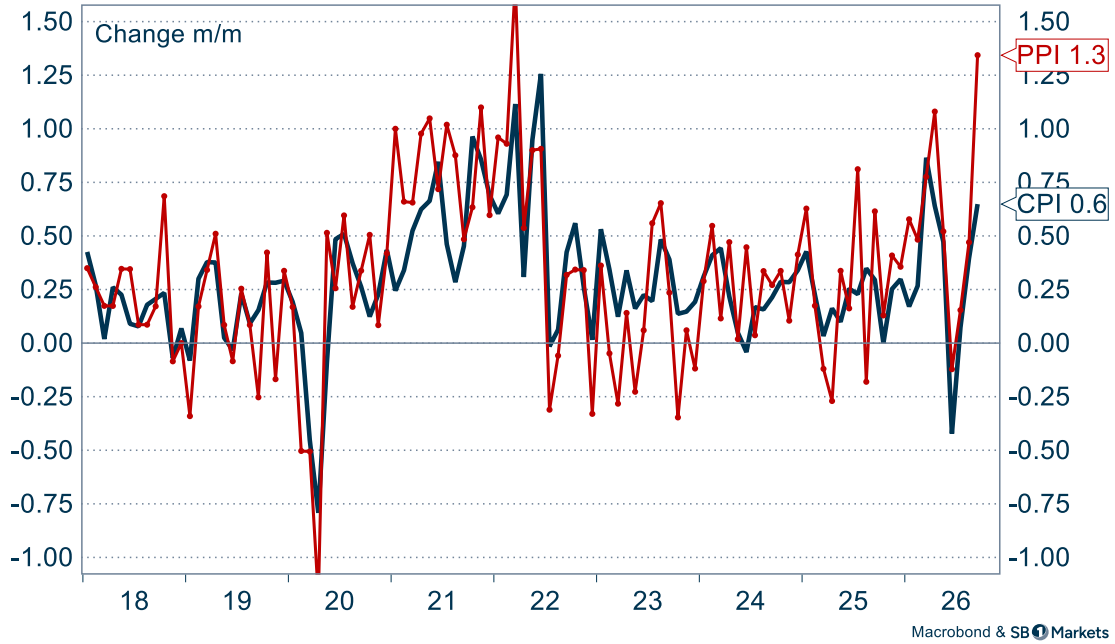
Producer prices head up too, the headline 1.3% m/m, 6.3% y/y, 0.7–0.9 pp > expectations

… which surely does not suggest a decline in CPI inflation. Energy prices rose 11% m/m at the producer level, food prices 1.2%. The PPI for core goods and services for personal consumption rose by 0.6%, above expectations (*check next page*).

USA Total goods & services final demand PPI vs CPI

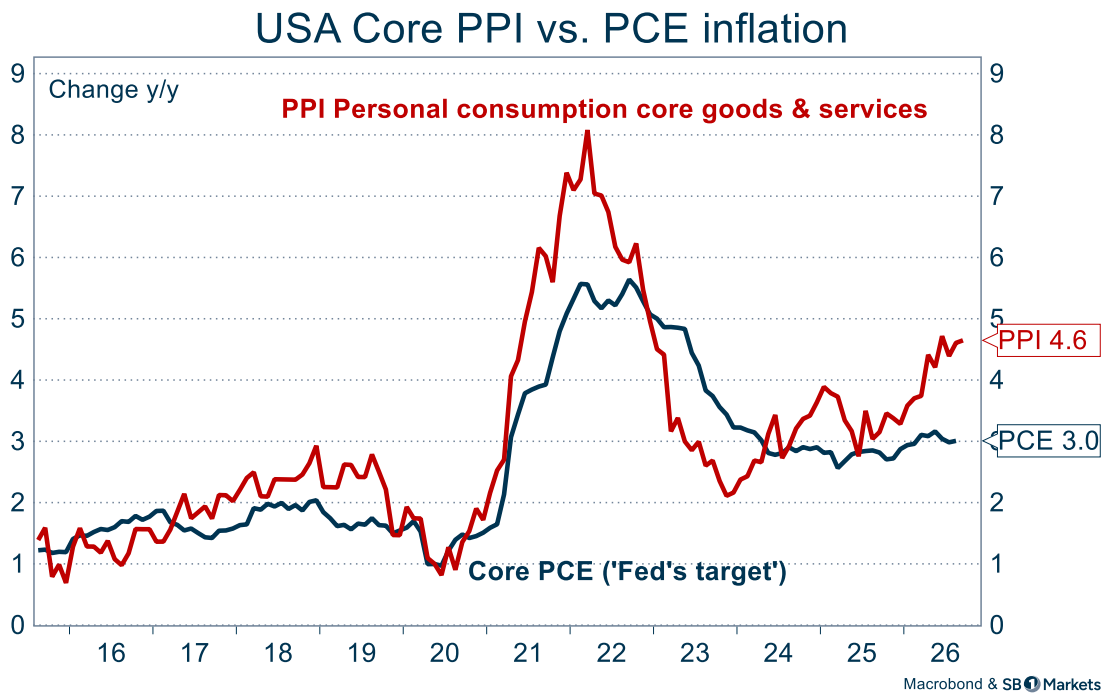


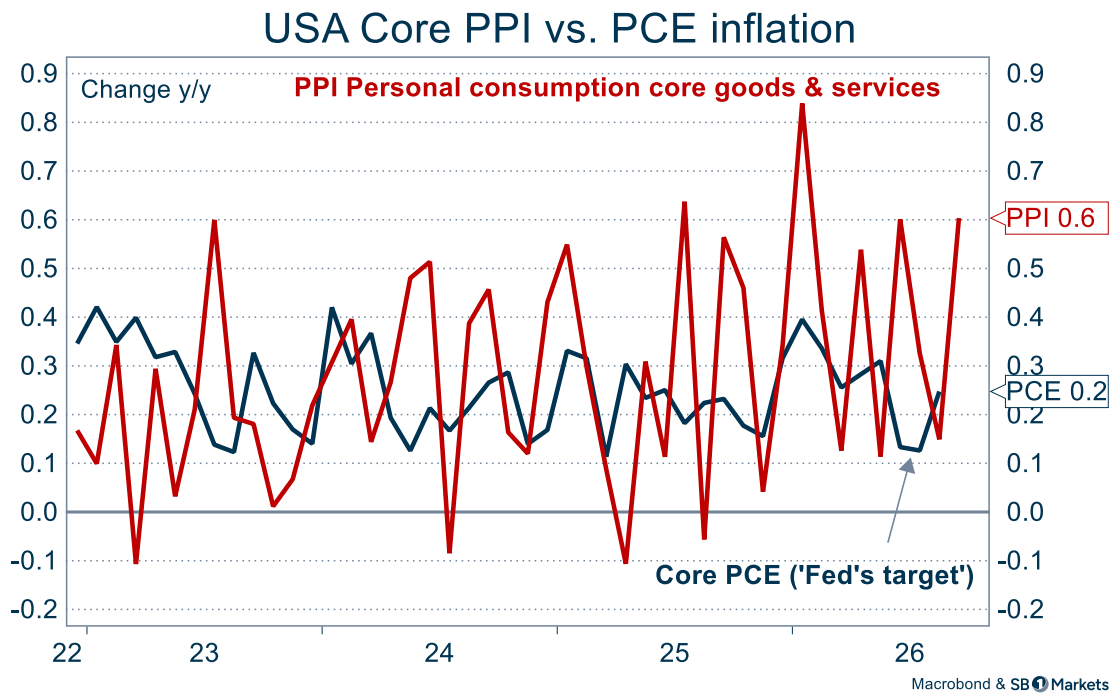
USA Total goods & services final demand PPI vs CPI



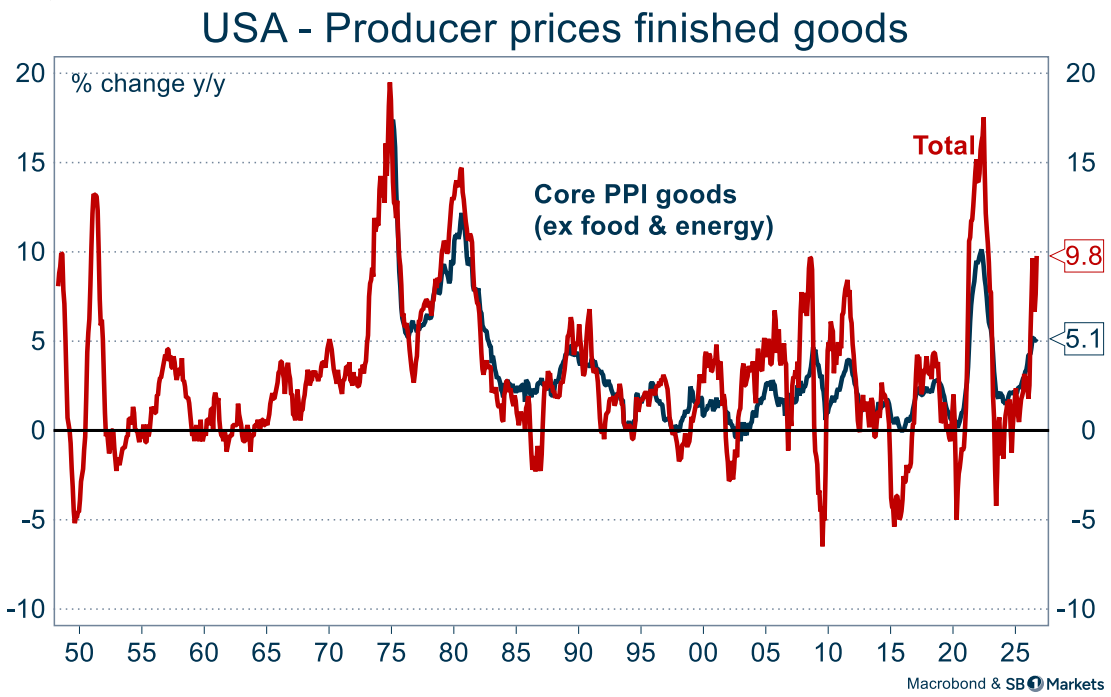
Core PPI personal consumption goods and services up 0.6% in September, 4.6% y/y

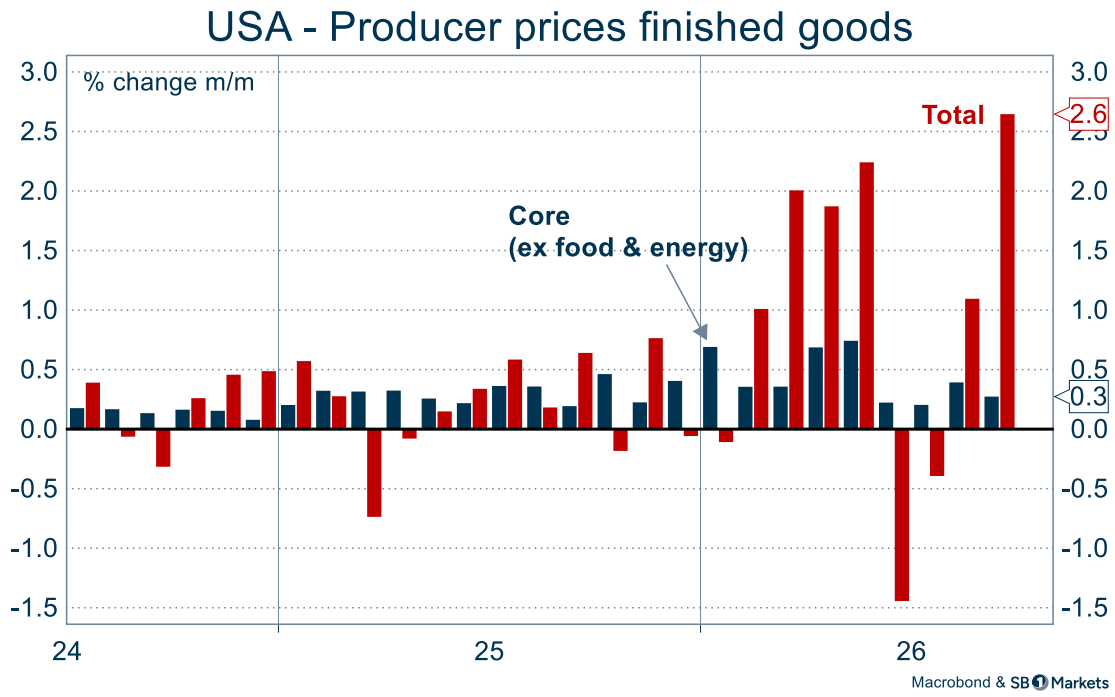
The trend in recent months is not that encouraging and there are no signs of any slowdown.





Core *goods* producer prices up 0.3% m/m in Sep.; 5.1% y/y. Total goods 2.6%/9.8%!

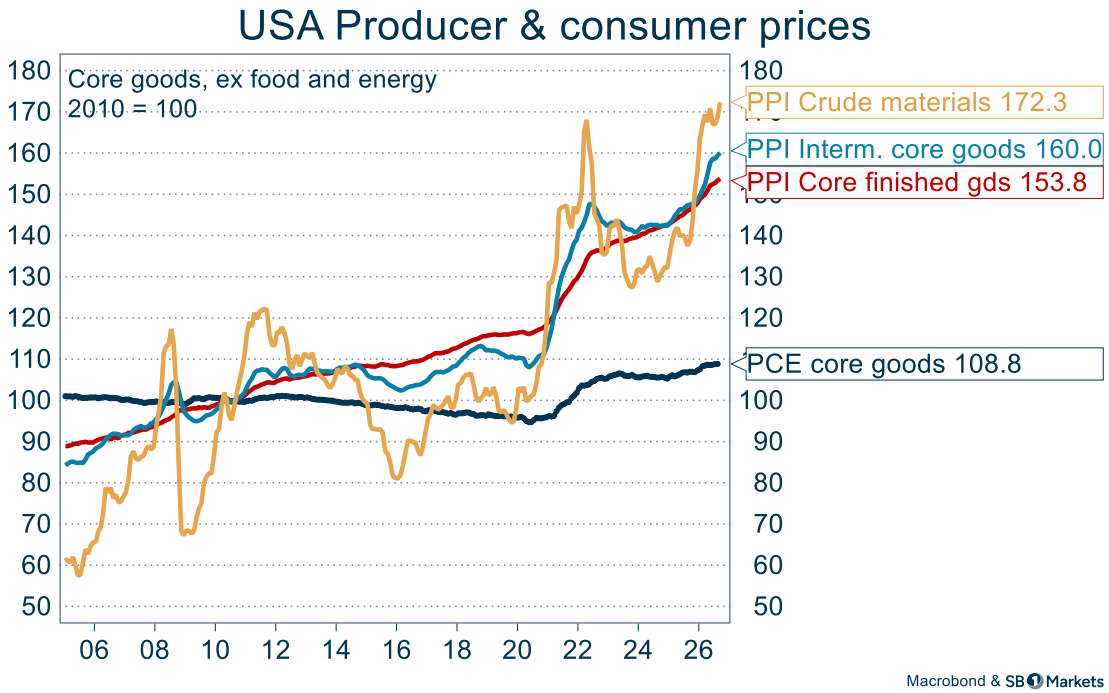


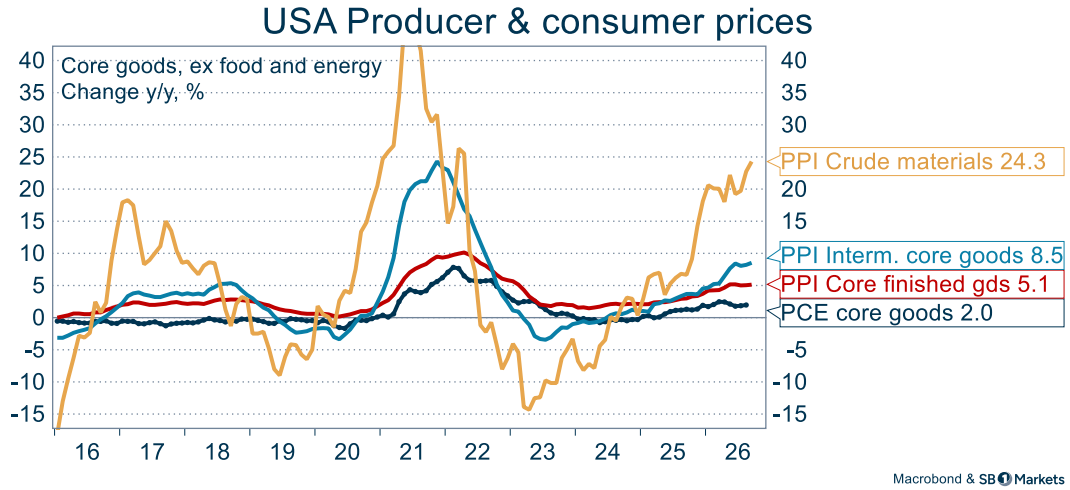


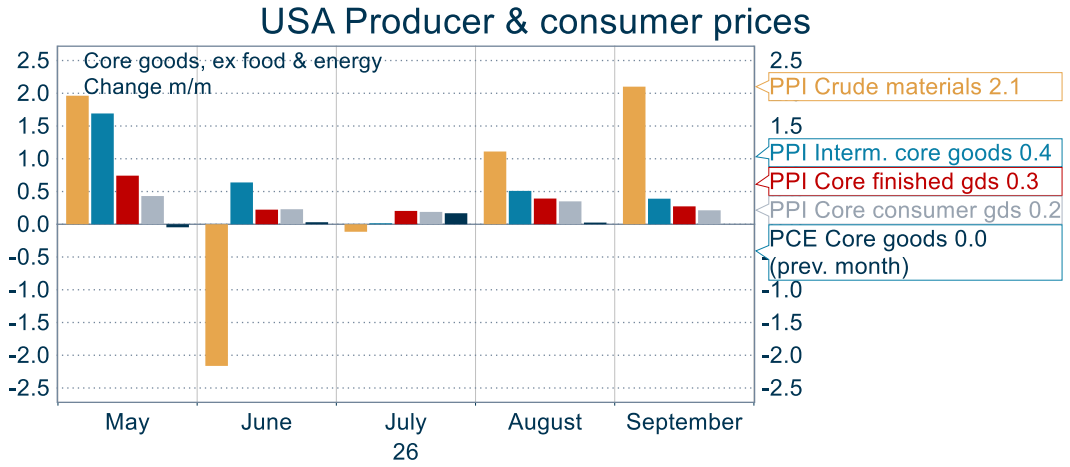
- These goods prices include consumer, investment and export goods prices.

Core goods: Price pressures ~~were~~ easing, but crude prices are accelerating again

Core crude goods prices rose 2% in September and are up 24% y/y. Intermediate prices are up 8%, while core finished goods are up 5.1%. At the (lagging) consumer level (PCE), core goods prices are up 2.0%. Still ***some risk ahead?***



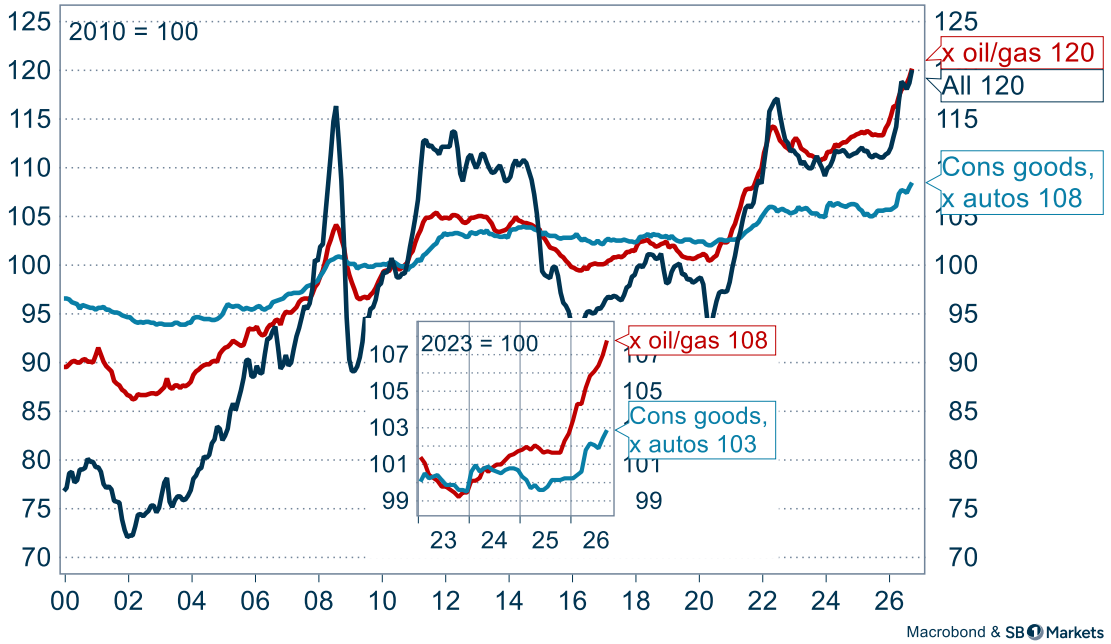




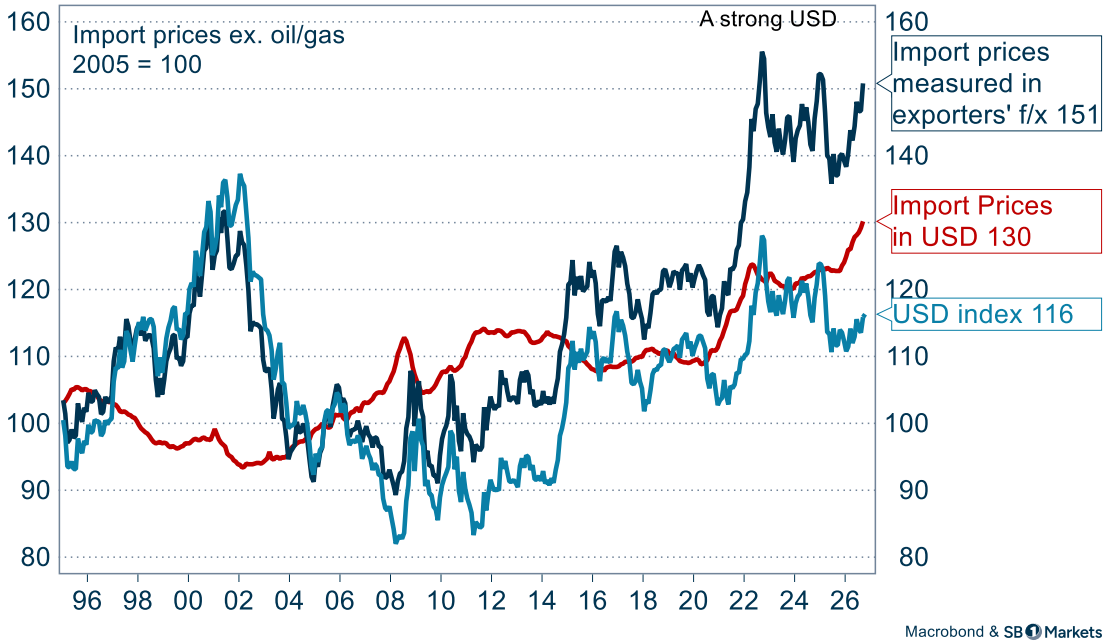
Pre-tariff import ‘core’ prices are surging – but tariffs are lower than a year ago

Import prices ex. petroleum (pre-tariff) were up 0.8% m/m in September, and are up 6.0% y/y. The effective tariff rate is probably some 7.5%, down from 12% at the peak last year, and the post-tariff price level is up ‘just’ some 2.8% y/y, but recent momentum is equivalent to a 5%+ pace.

USA Import prices

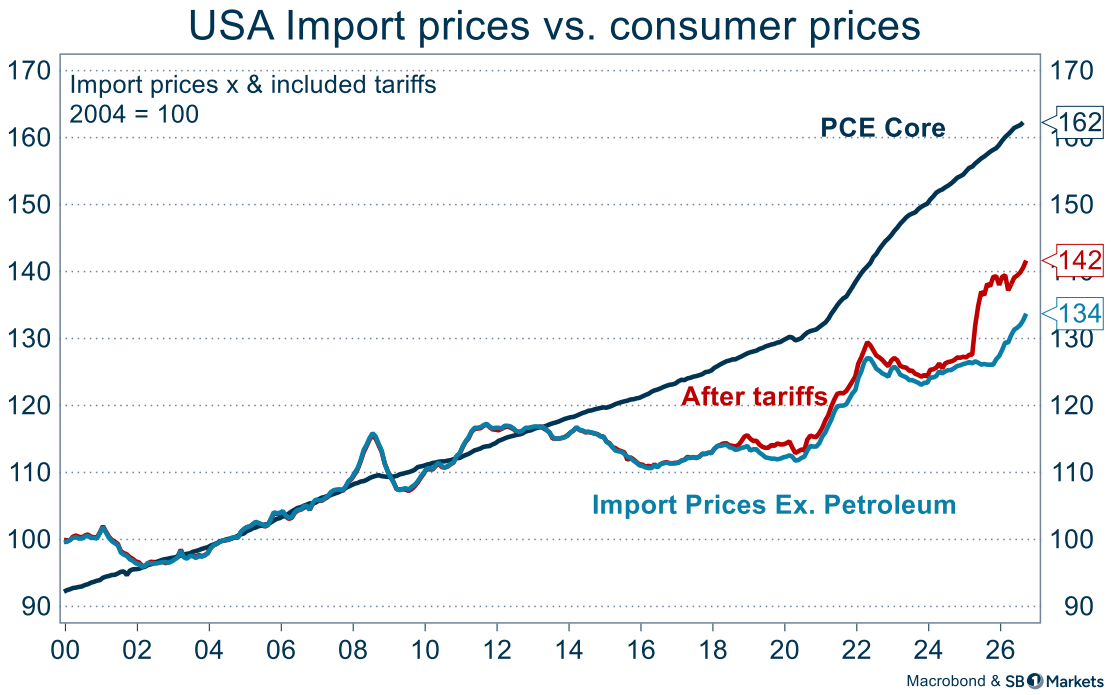


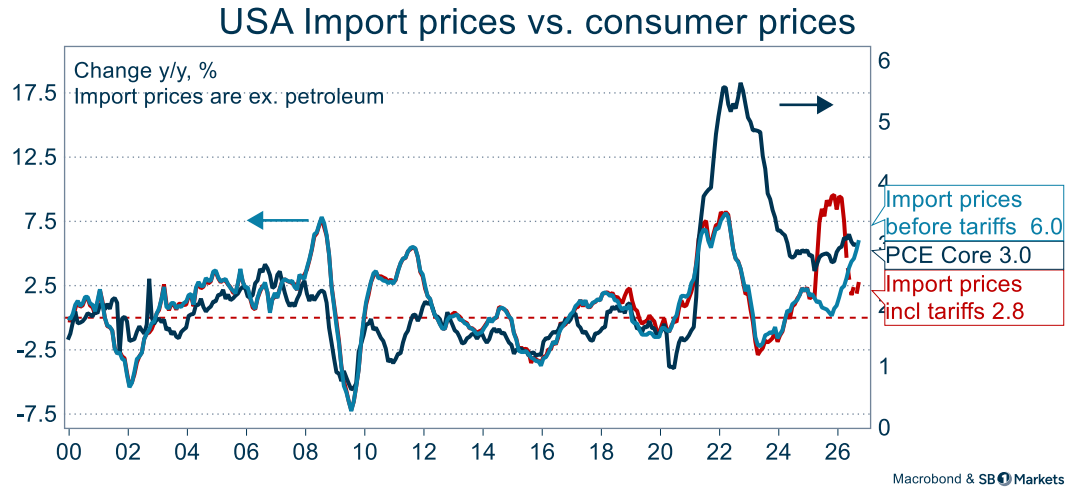
USA Import Prices & the USD

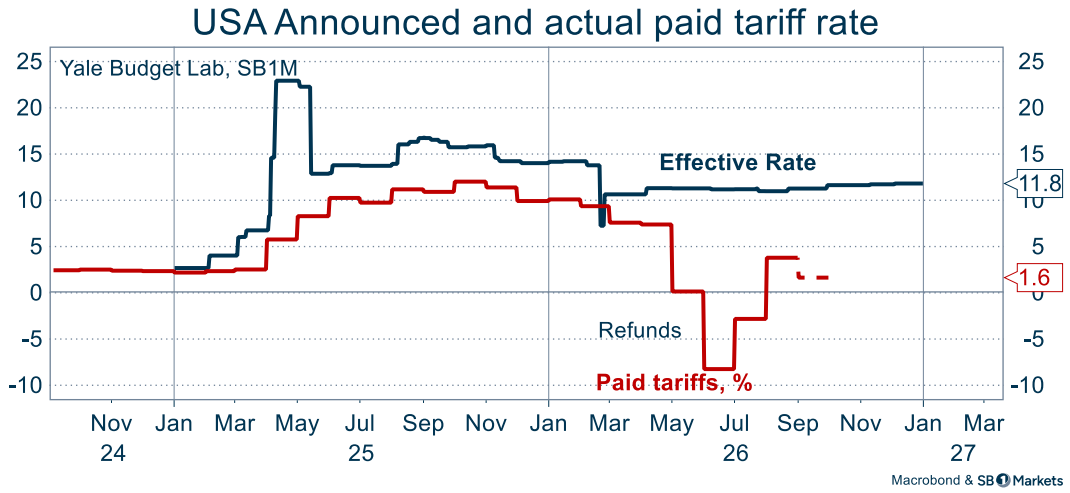


Import prices (ex. petro) are up just 2.8% y/y after tariffs, as the real tariff rate is down

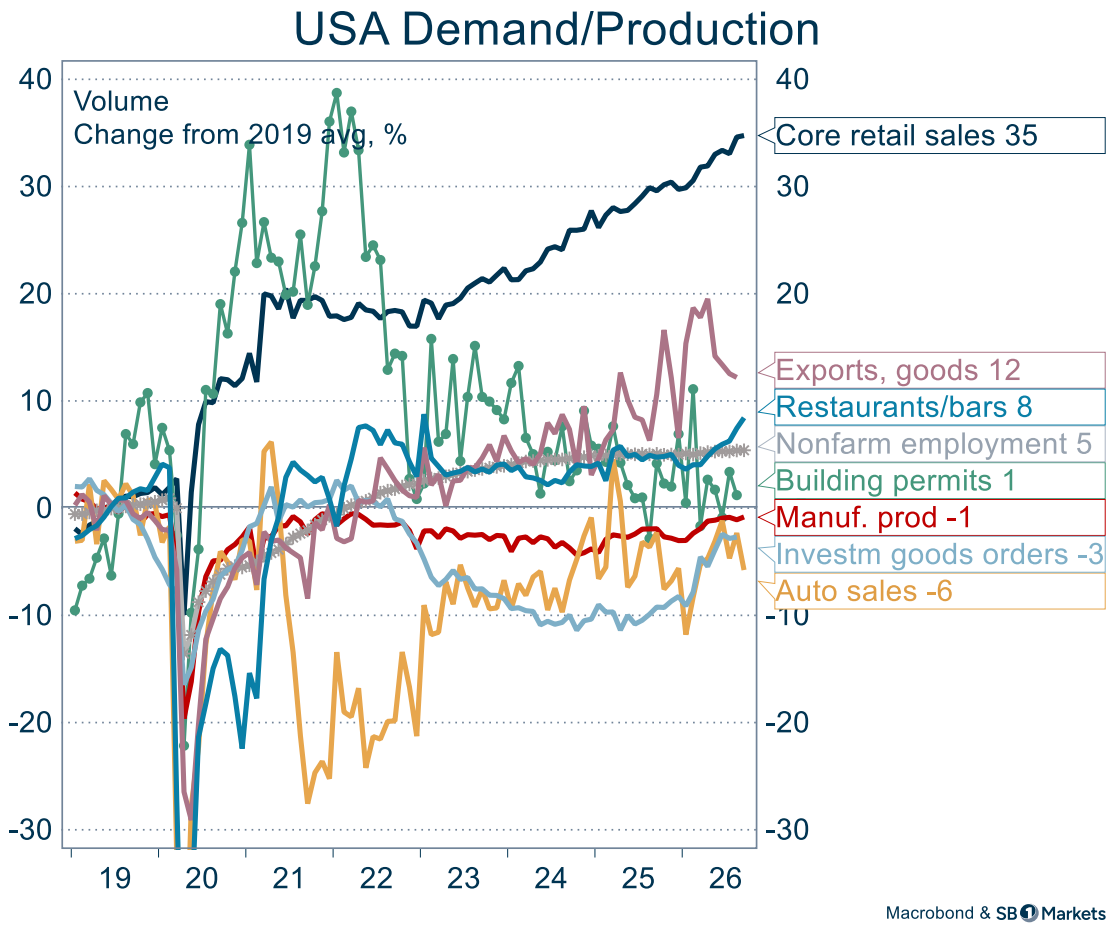
… to some 7.5%, from 11% a year ago.







The main real economy indicators: not that much to complain about

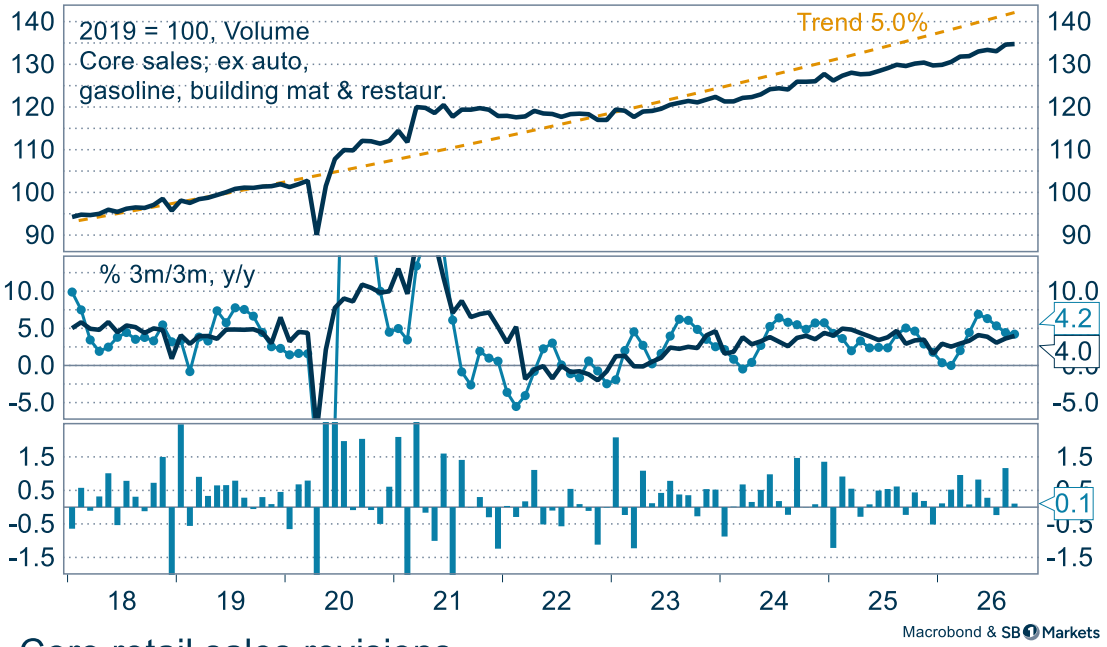


- **On the upside – all in real/volume terms**
  - **Retail sales** are still heading rapidly up.
  - **Restaurants** are on the way up again after a short slowdown.
  - **Investment goods orders** have climbed rapidly.
  - **Export volumes** have fallen over the past 3 months, but the longer-term trend is upwards.
  - **Manufacturing production** fell in August but trends upwards.
  - **Nonfarm payrolls** growth surprised on the downside in September but trends slowly upwards (alongside slow growth in population).
- **Flat**
  - **Auto sales:** mixed, down since June but flat over the past 2 years.
  - **Manufacturing production:** up last year but not further in recent months.
  - **Building permits** are volatile, but the level may have stabilised lately.
- **On the downside**
  - **?**

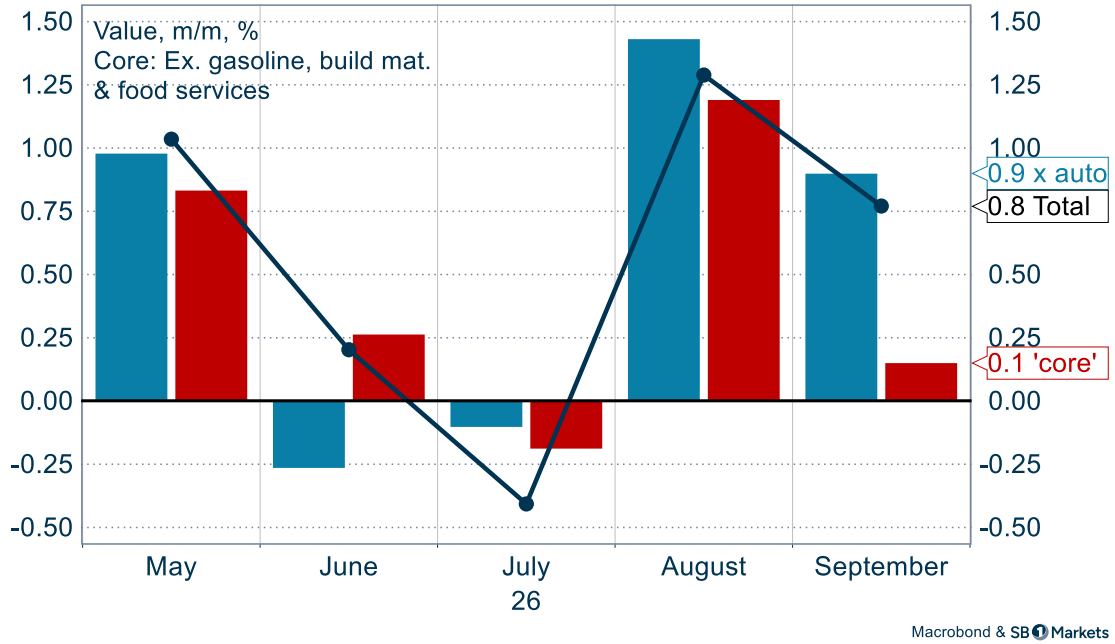
Core sales weaker than expected in September, the total supported by gasoline (prices)

... which is not a blessing. The underlying growth (3m/3m) has slowed somewhat, but is still above 4%, in volume terms. The slowdown is broad. Core sales are up 4.0% y/y. Total nominal sales rose by 0.8% in September, 0.5 pp more than expected – but for a 'bad' reason.

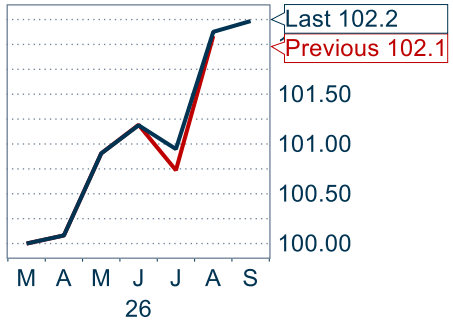
USA Core retail sales



USA Retail sales



Core retail sales revisions

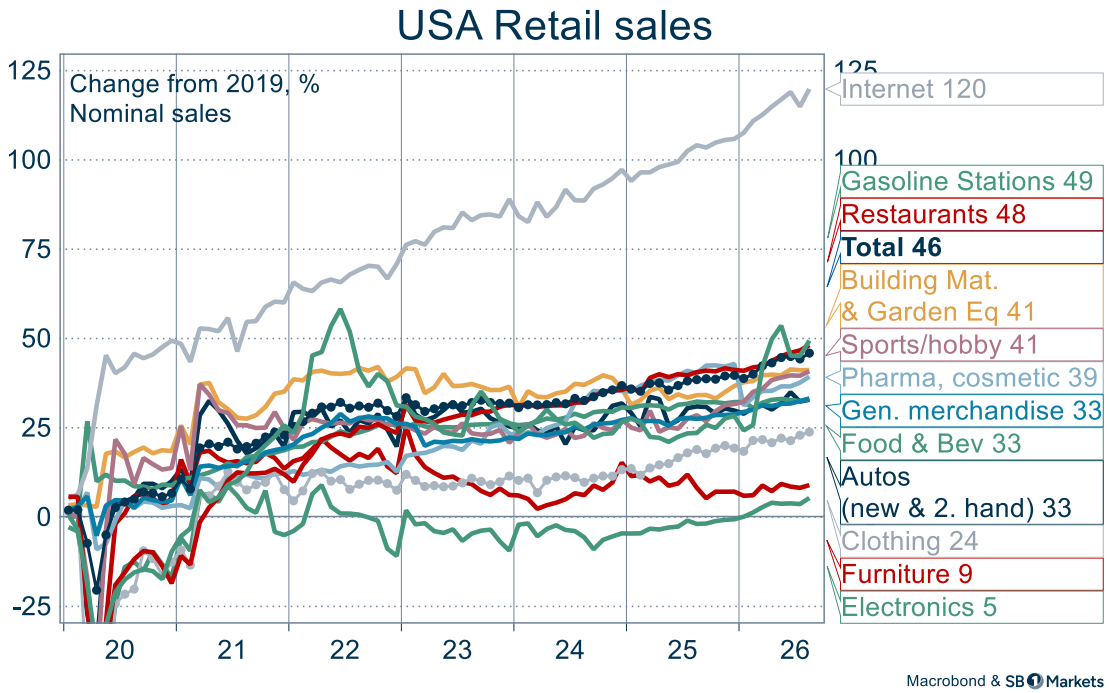


- Sales at **gasoline stations rose** by 6% and together with higher restaurant/bar sales explained all of the 0.8% lift in total sales. Changes in other sectors were minor and totalled close to zero.
- **Core retail sales** grew 0.1%, expected up 0.3%. In volume terms, we assume 0.1% as well.
- **Total real disposable income** has been revised up (National Accounts revision in late Sep.) but still grows slowly and much less than total consumption. The savings rate, which was revised up, is still heading down, and sits at a low level.
- **Nominal retail sales** have been revised substantially downwards (but not sales measured in volume terms, at least not yet).

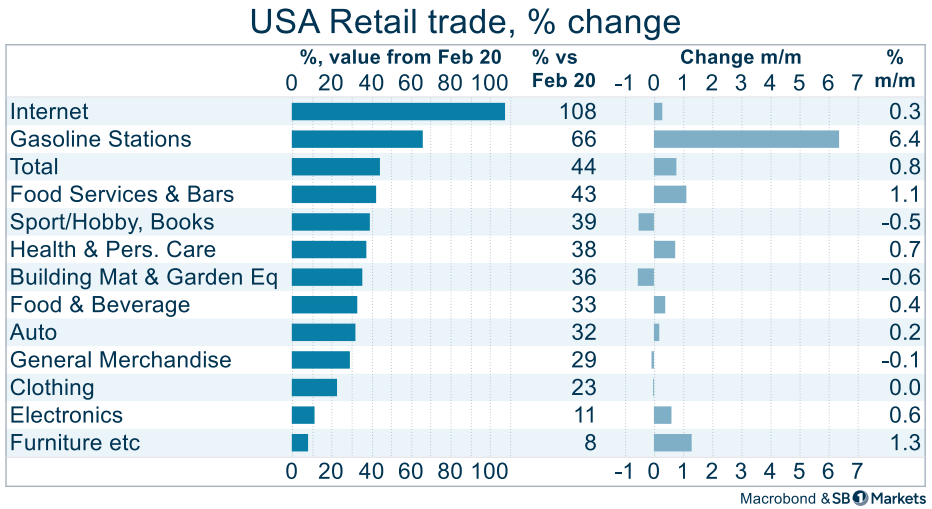
Core retail sales = Control group = Total sales, excluding autos, gasoline, building materials & restaurant sales. Food sales in stores are included.
Volume growth over the past 3 months is calculated by SB1M

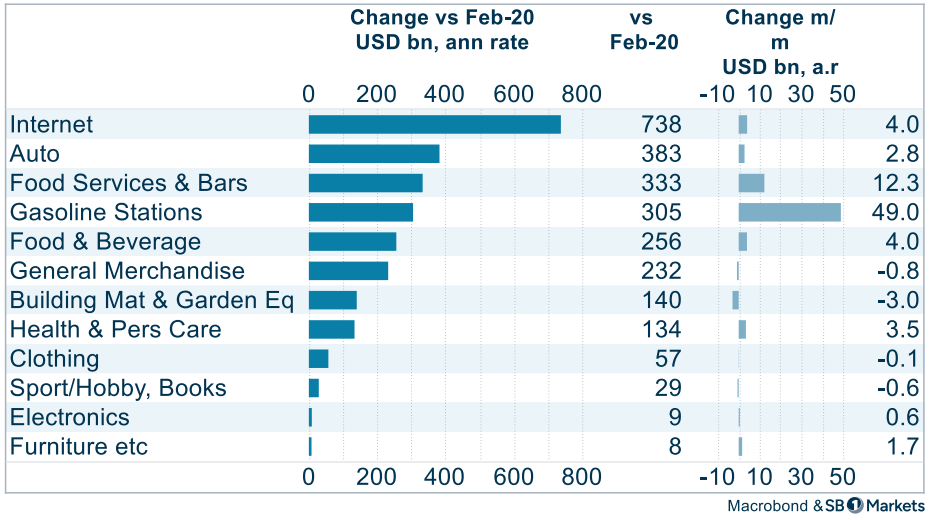
In September, gasoline was the big ‘winner’, joined by restaurants/bars

The rest was close to zero.



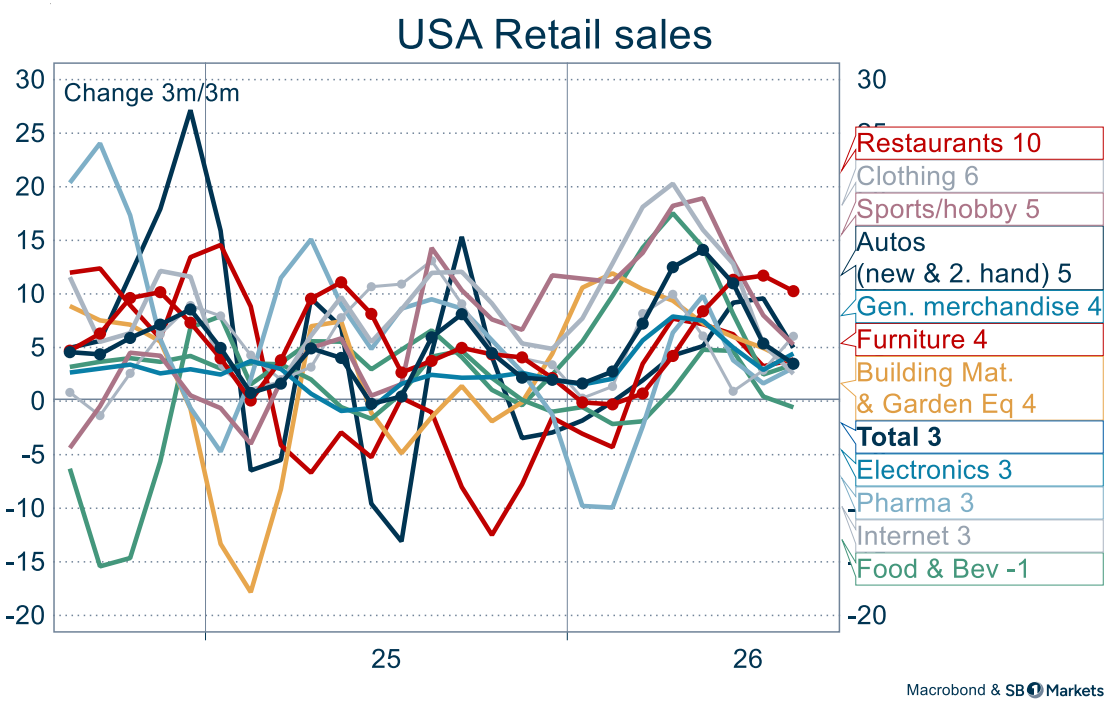
- **Total sales** are up 46% in ***value terms*** since 2019, following a substantial revision, from 51%.
  - **Internet sales** are up 120% from 2019 (from 148% reported a month ago).
  - **Restaurants** are up 48% (from 66%)
  - **Auto sales** are up 33% (from 39%)
  - **Food** is up 33%
  - **Clothing** is up 24% (from 30%)
  - **Furniture** is up 9% (from 16%)
  - **Electronics** are up just 5% (from 11%).

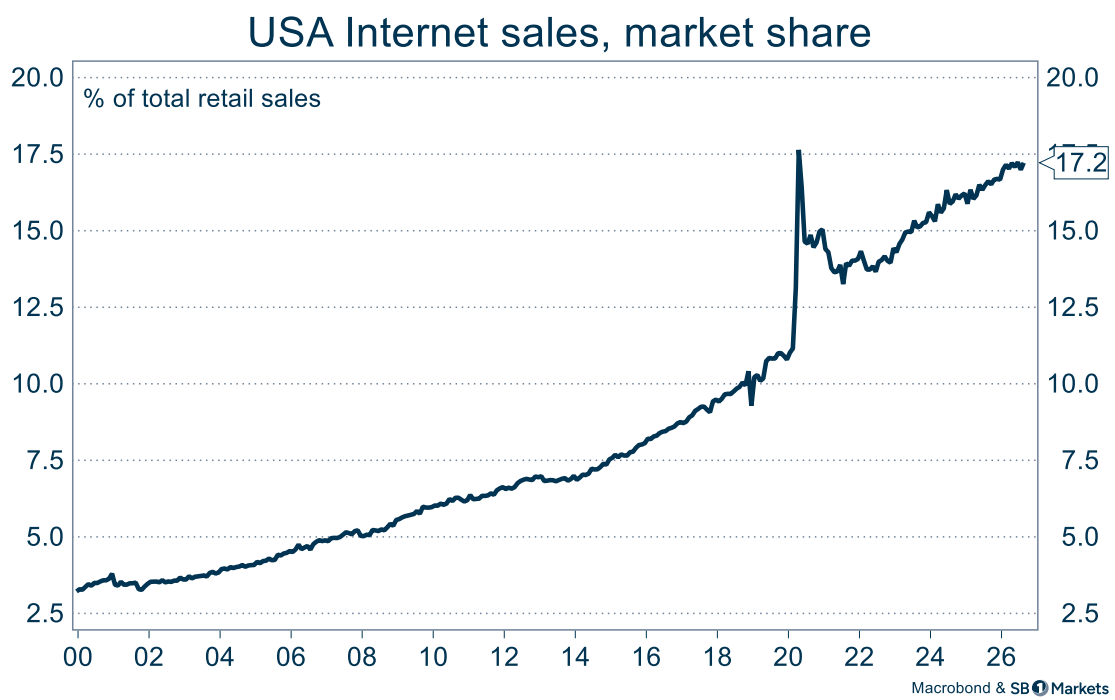




Recent months: slowdown (almost) everywhere

Still, all sectors but food & beverages (in shops) report growth. Restaurants are in the lead.

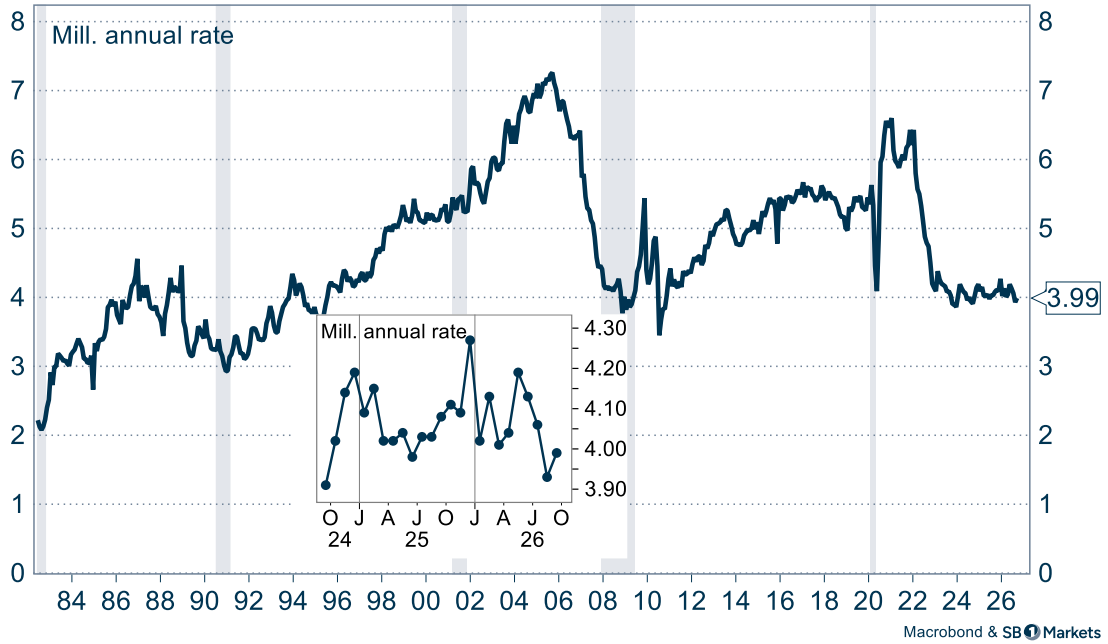




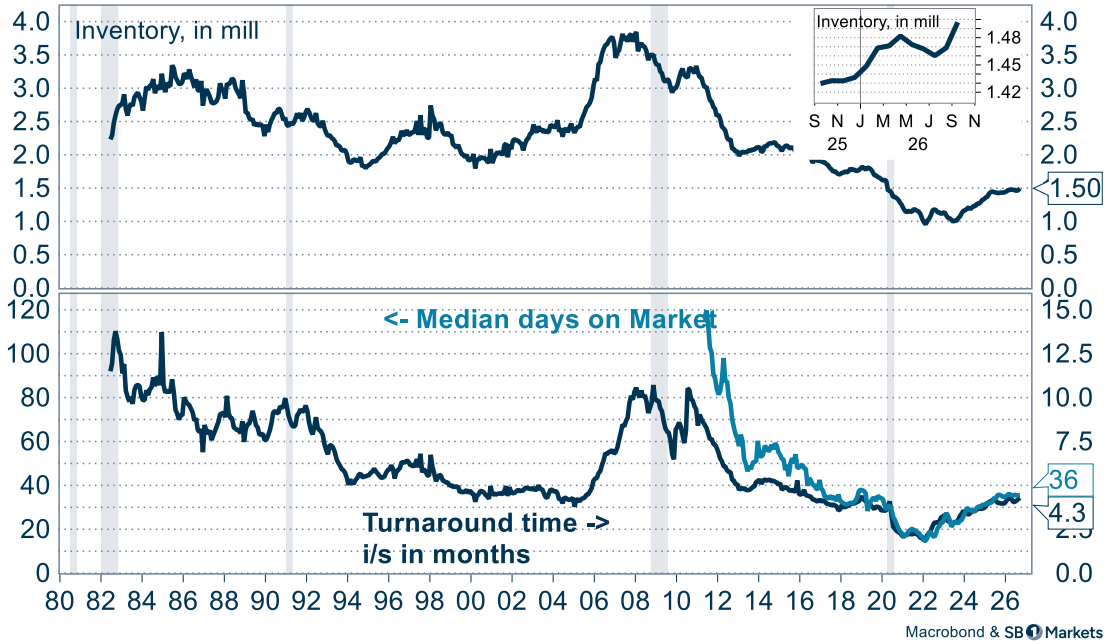
Existing home sales remained at a low level in September, with a flat trend

Sales rose slightly from a downwardly revised level in August, overall as expected. The inventory of unsold homes is below a normal level, also vs. sales, but is slowly trending upwards. Prices fell marginally, following a 0.5% drop in August, but are up 1.3% y/y.

USA Existing home sales



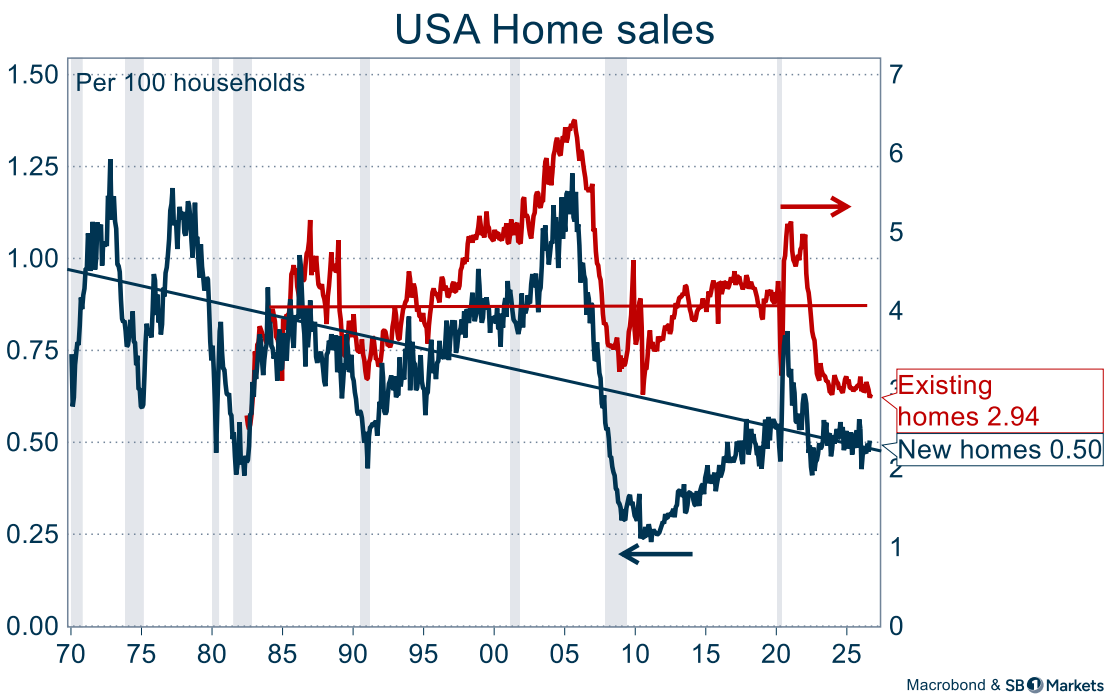
USA Inventory of existing homes for sale

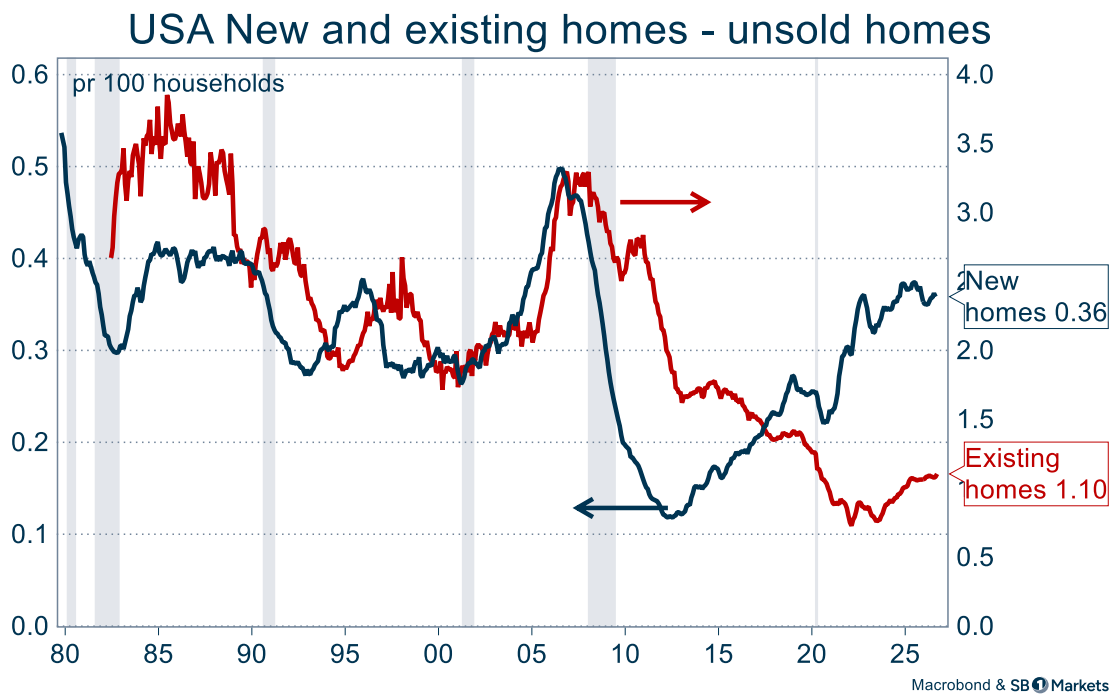


- The inventory is still at a low level, but well up from the bottom in 2022/23, also measured vs. sales.

Existing home sales are at a low level, new home sales at a normal level?

The inventory of unsold existing homes trends upwards but is still at a low level. The inventory of new homes for sale is unusually high but is down from the local peak last year. However, there has been a small uptick in recent months.

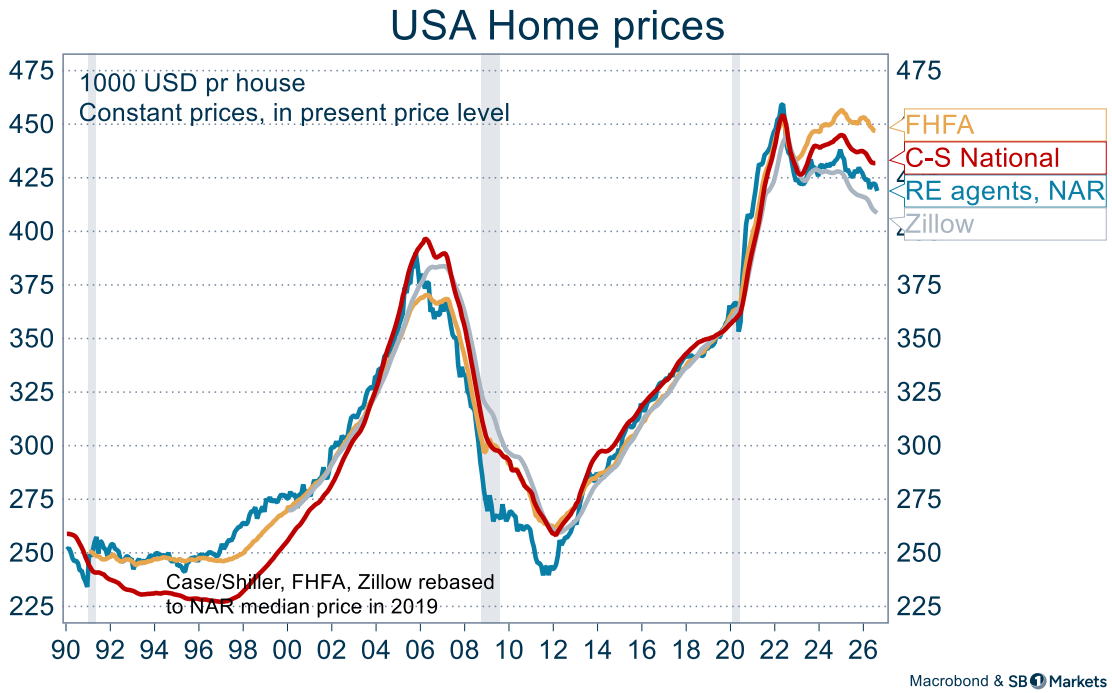


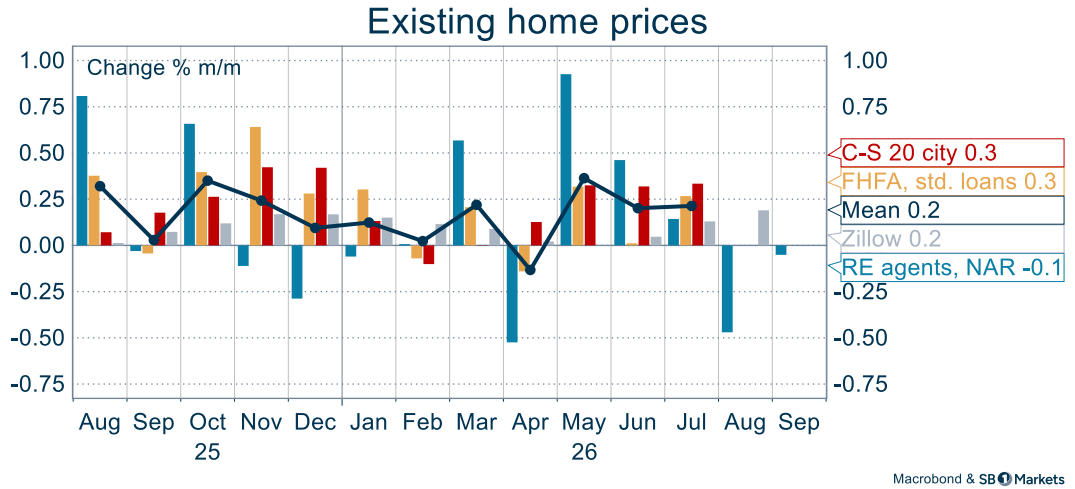


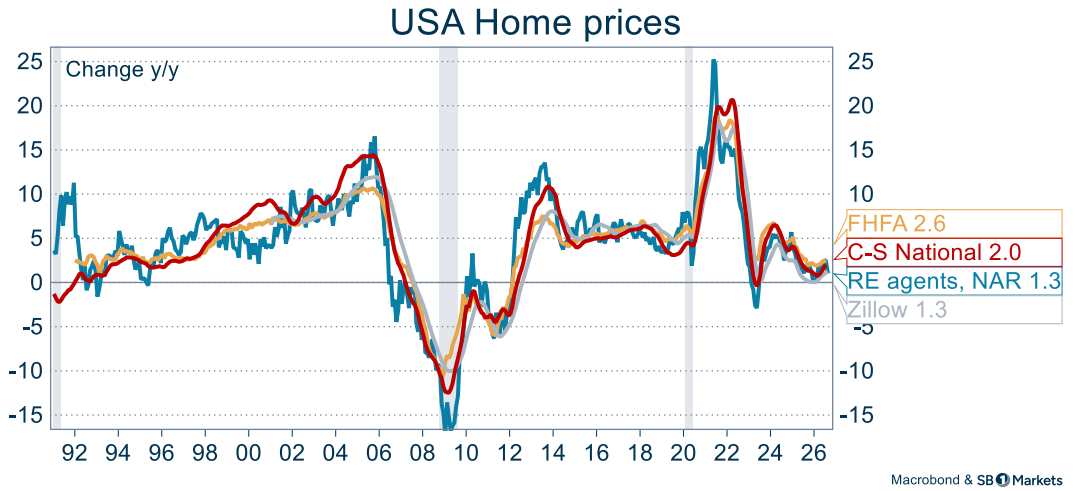
- **Existing home sales** are probably lower than normal while new home sales may be close to trend.
  - **New home sales** vs. the number of households are most likely trending downwards, long-term, due to **lower population *growth***.
  - **Existing home sales** should over time be constant vs. the **number of households (*the level*)**, which will not decline.

Housing prices rise slowly, lagging CPI and wage inflation

Realtors reported a 0.1% price decrease in September. Prices are up 1.3% y/y. Other price indices are up 1.3–2.6% y/y.





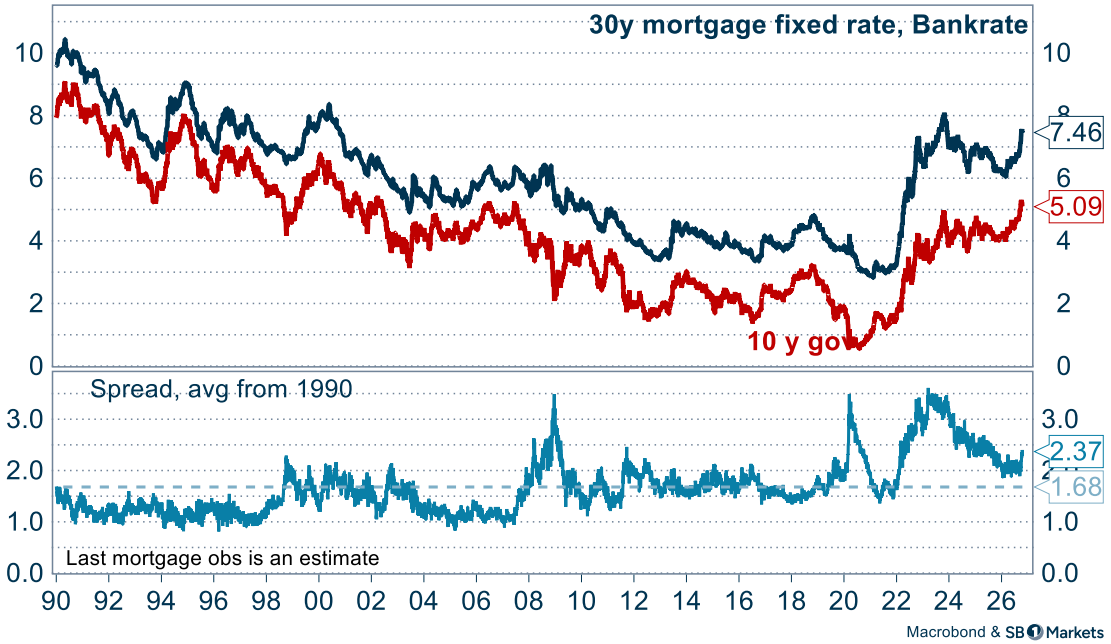


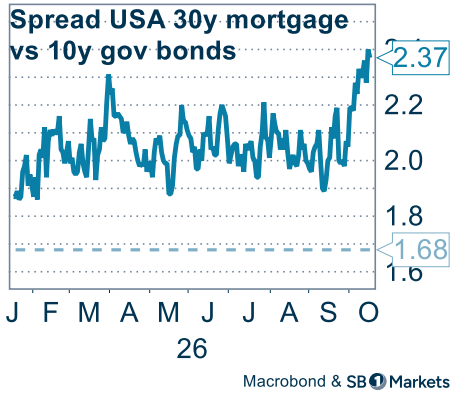
- **The NAR price stats** refer to transactions that were completed in September, which were mostly agreed in July and August, before the recent hike in mortgage rates.
- **Other price indices** confirmed slow nominal growth. All are heading down in real terms.
- **Home prices** rose more than 40% during the pandemic. Real home prices are down from the 2021 ATHs, but they are far above the 2005 peak, before the Financial Crisis.

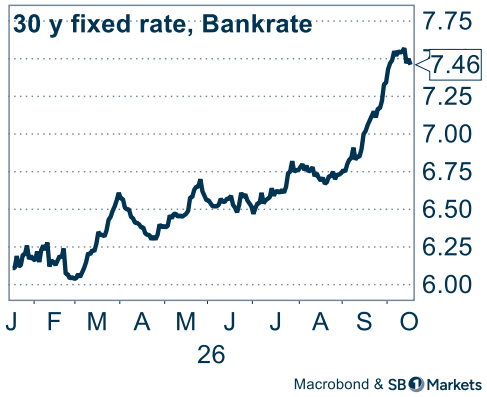
The 30y fixed mortgage rate is up 130 bps since before the war with Iran started, to 7.5%

The mortgage spread vs. the 10y gov. bond yield (the convention) explains less than 30 bps of the lift. The inflow of purchase mortgage applications has fallen sharply in recent weeks and is approaching the 2023–2024 low.

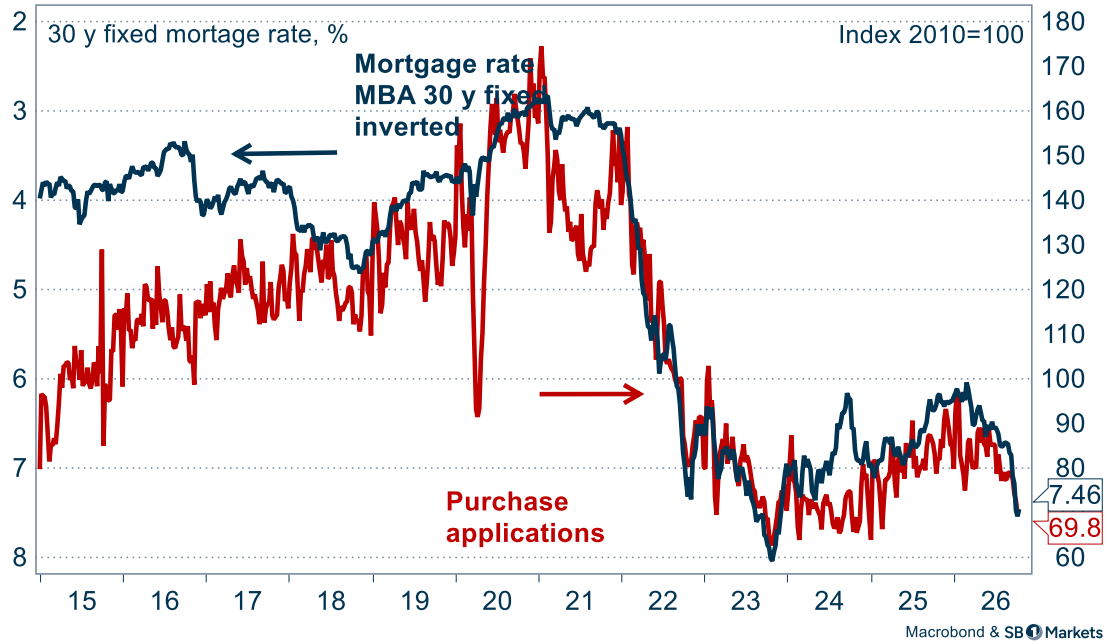
USA 30y mortgage interest rate vs 10y gov bonds







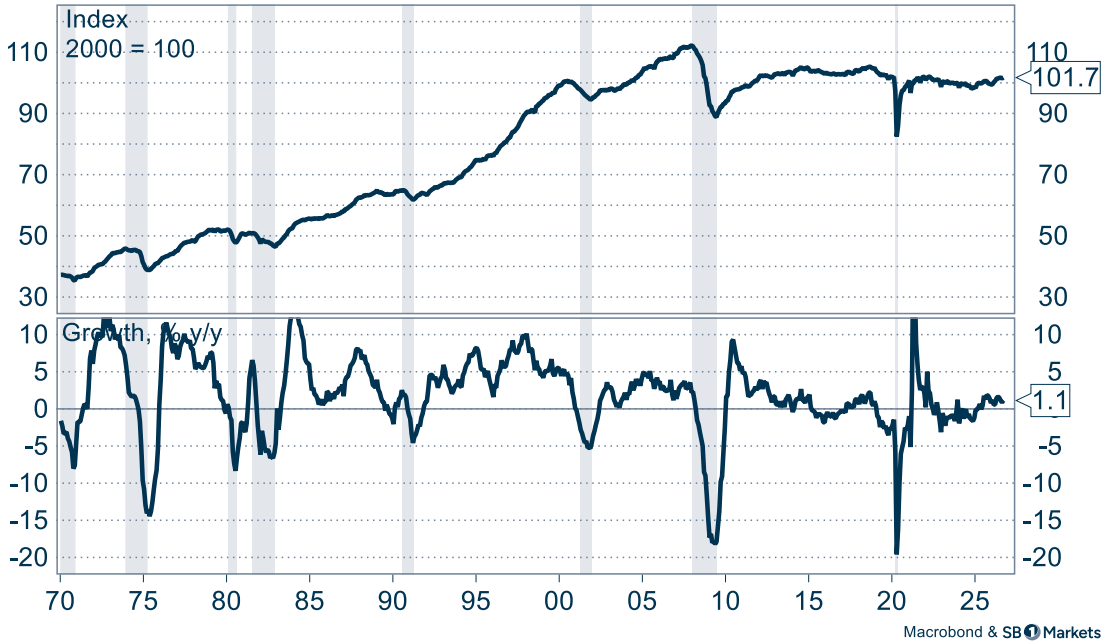
USA Mortgage applications, purchases



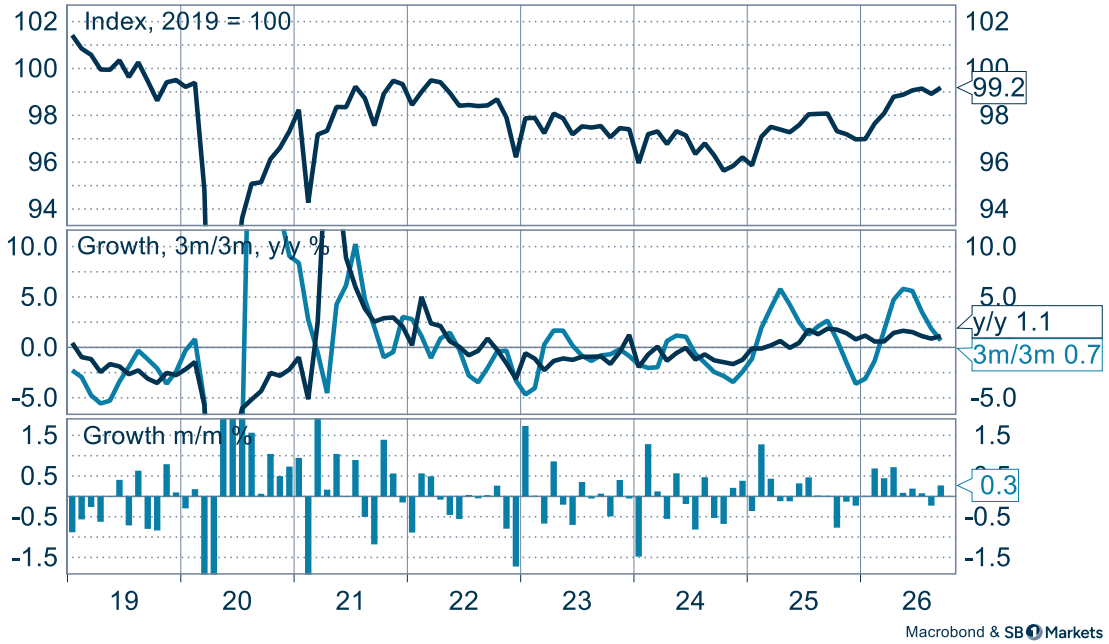
Manufacturing production reversed the 0.3% August decline. Growth has slowed

Production rose 0.3% in September, as expected. The 3m/3m rate has slowed to 0.7% while the annual rate was 1.1%. Non-durable consumer goods trend flat, while the other main sectors are on the way up – but not at a fast pace.

USA Manufacturing production

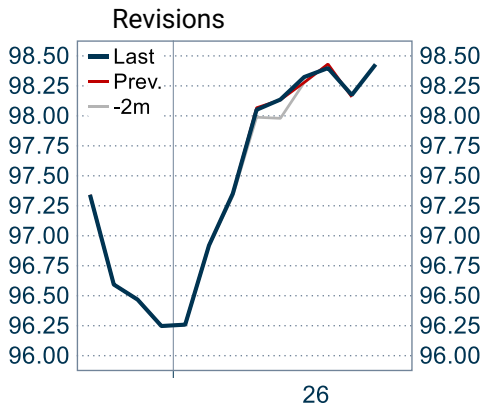


USA Manufacturing production



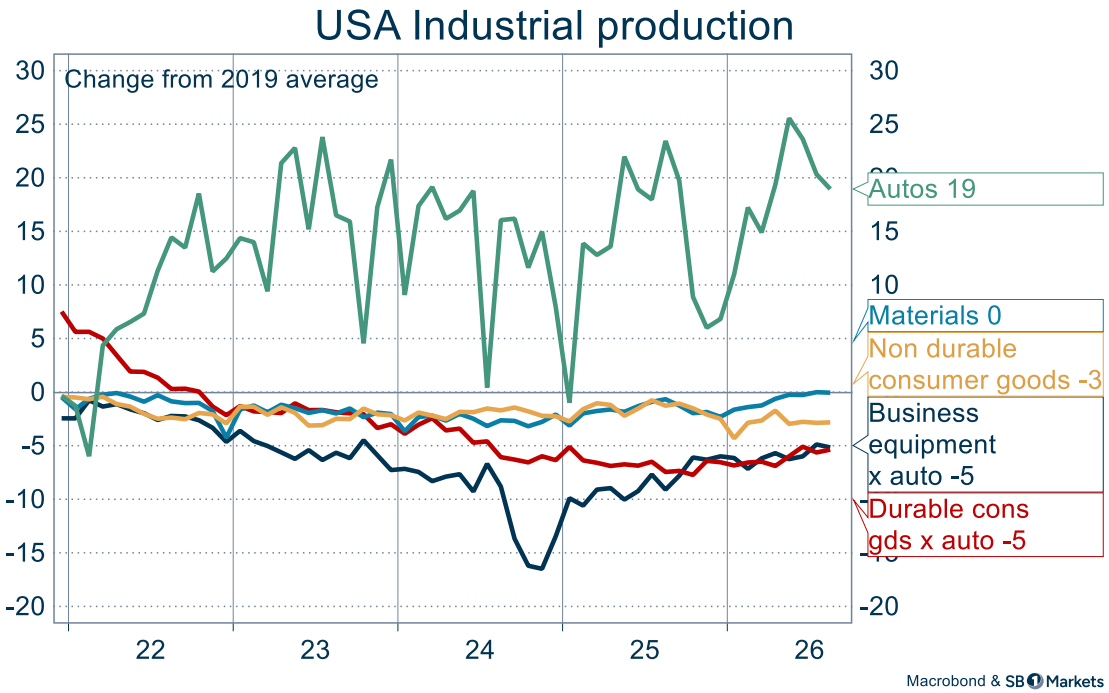
- **Manufacturing production** is still 1% lower than in 2019.
- **Total industrial production, including utilities, mining/oil & gas**, rose 0.7% m/m, 0.3 pp more than expected.
- **Capacity utilisation** is marginally above an average level, following a small lift so far in 2026.
- In September, **manufacturing surveys** reported growth above trend and were slightly up from August (but below the July level). The decline in the Phil Fed survey suggests a lower survey average in October.
- Durable orders are drifting upwards and signal growth in production.

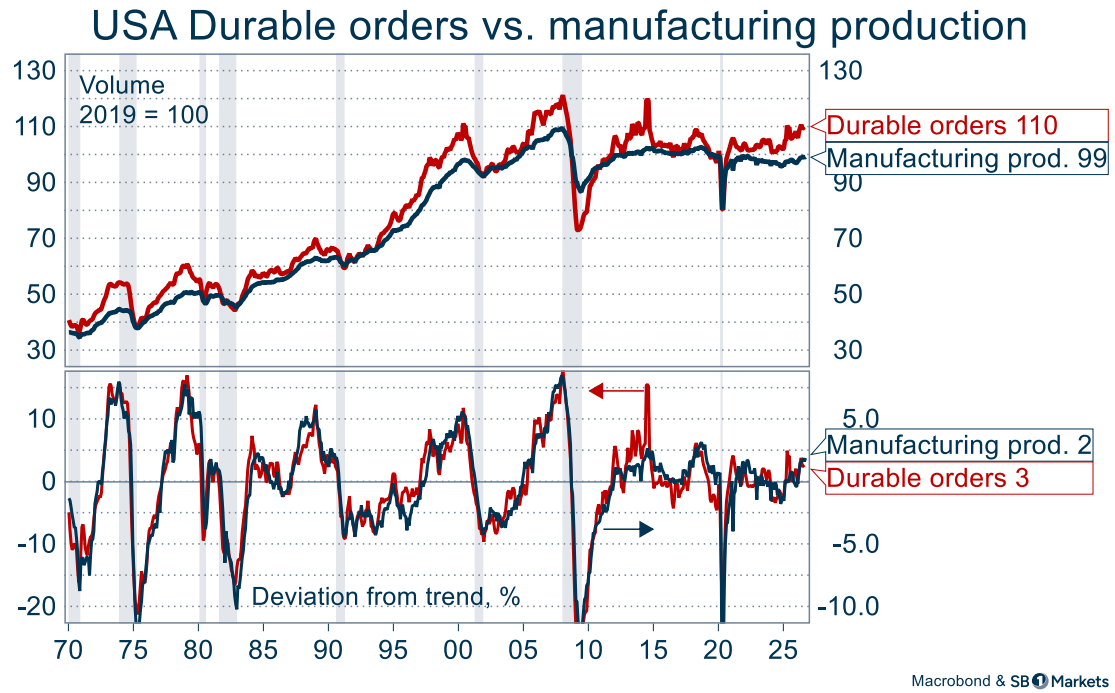
Revisions



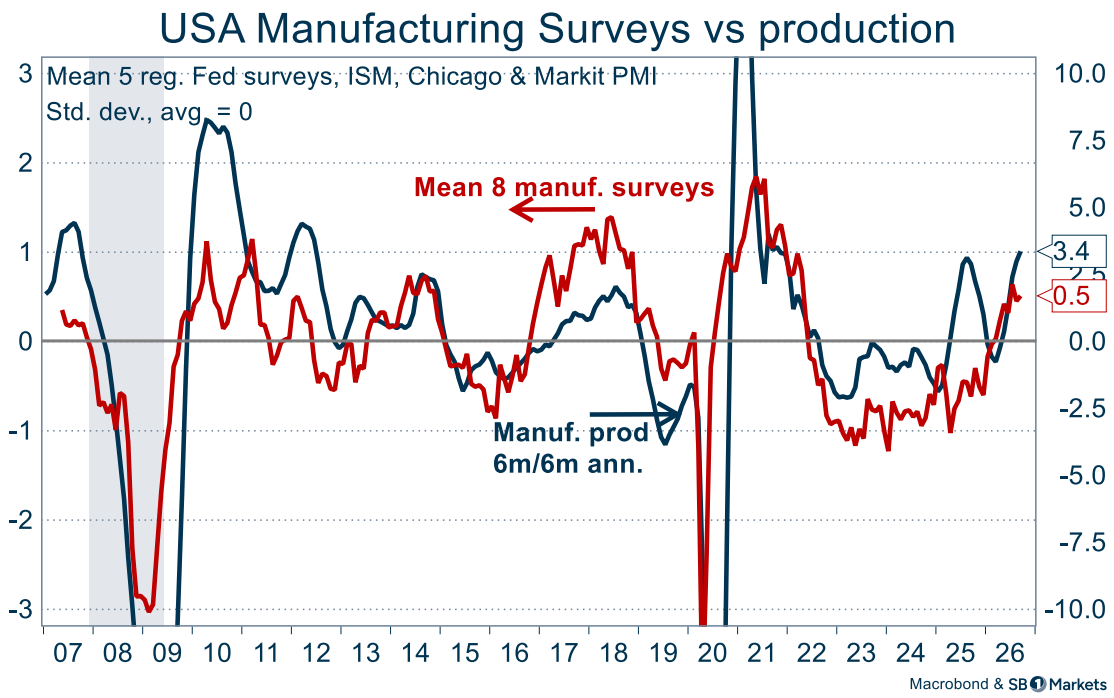
Production of business equipment (including IT equipment)

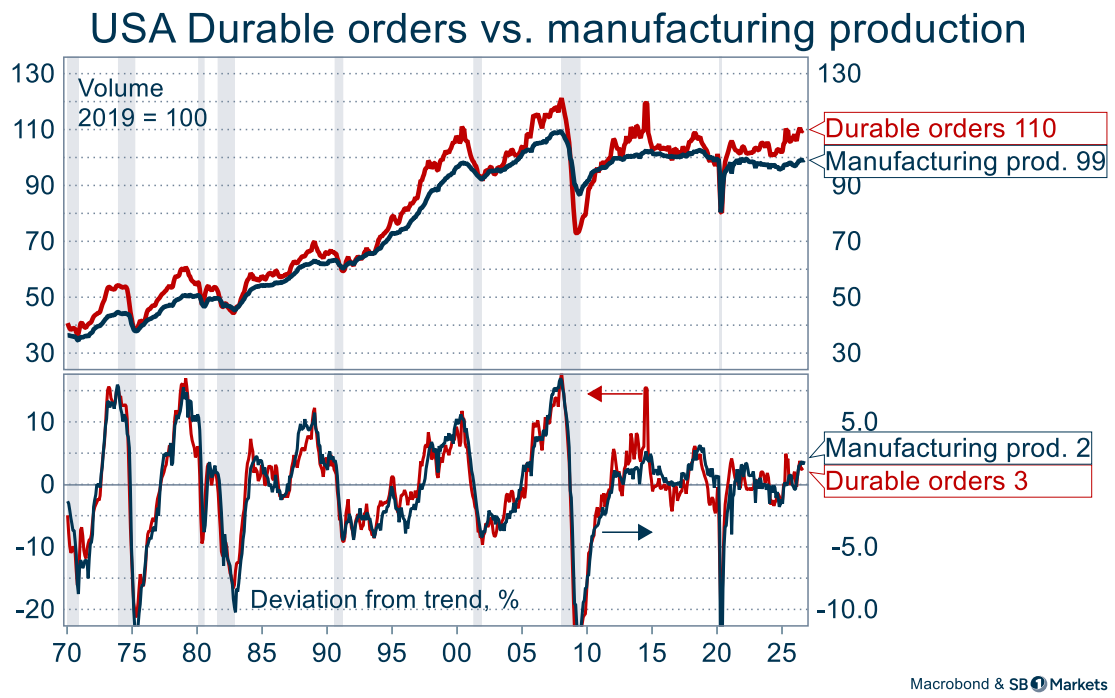
Durable consumer goods are trending flat (at best), while materials and non-durable goods have turned slightly up so far in 2026. Business equipment drifts upwards as well. The main aggregate, materials, has been the main growth engine.





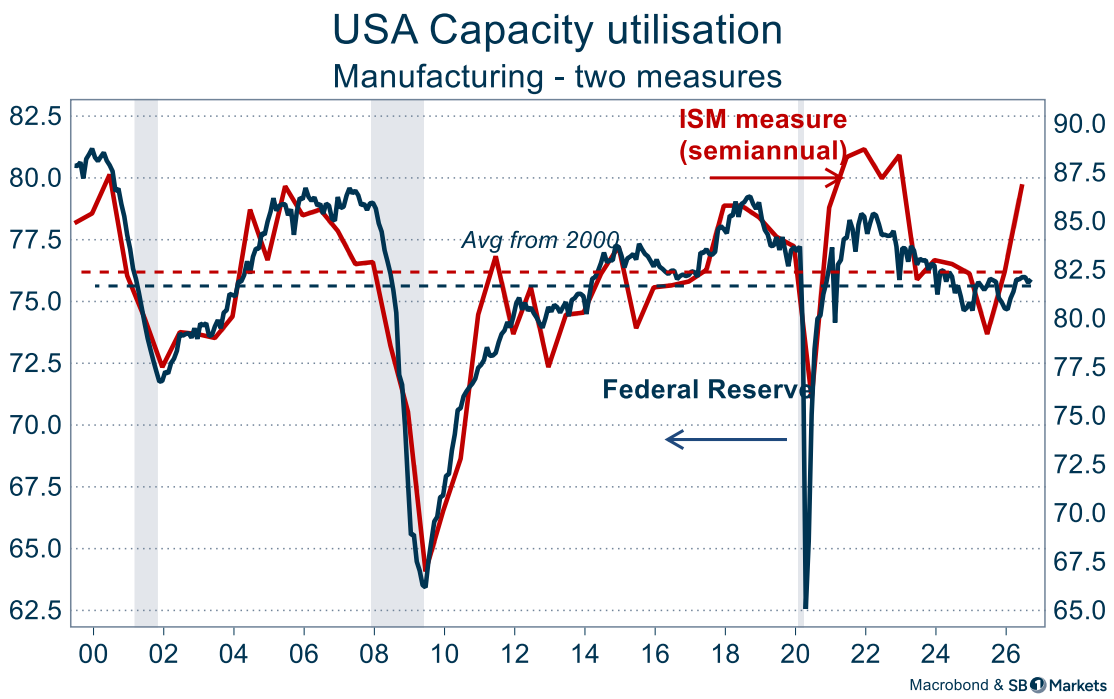
Surveys and new orders signal continued growth in manufacturing production





Fed: Capacity utilisation has picked up steam but not further in recent weeks

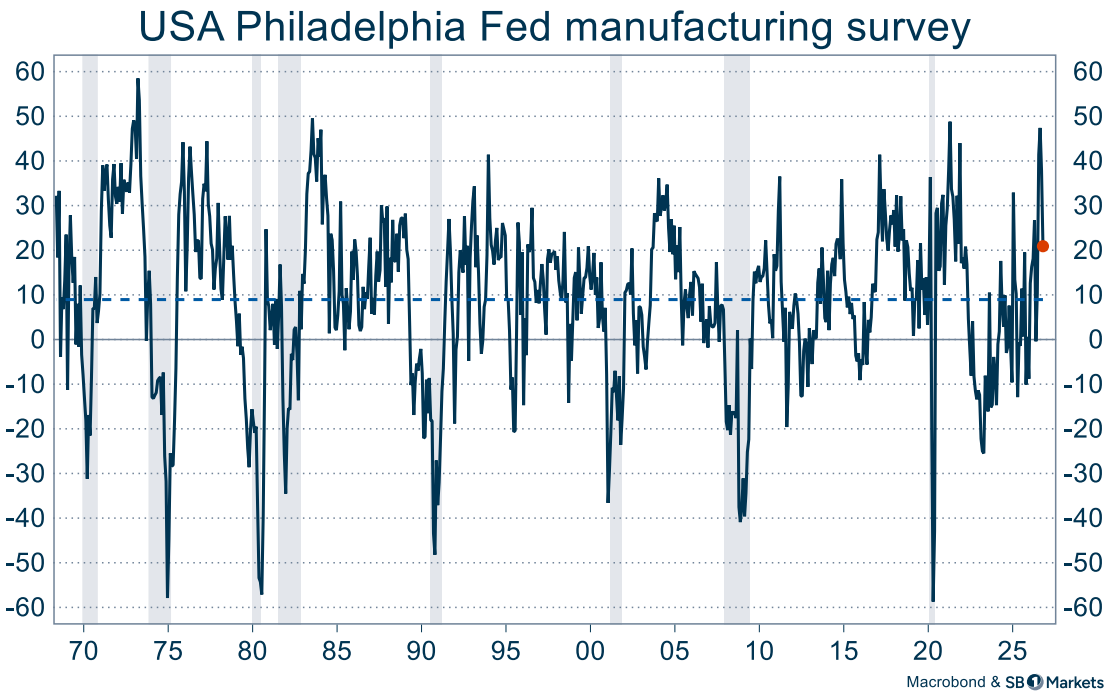
The ISM semi-annual survey-based estimate of capacity utilisation shot up in the H1 semi-annual survey. The gap is among the largest on record. On the other hand, in the ISM survey, the outlook for the next 12 months deteriorated, to a rather low level.

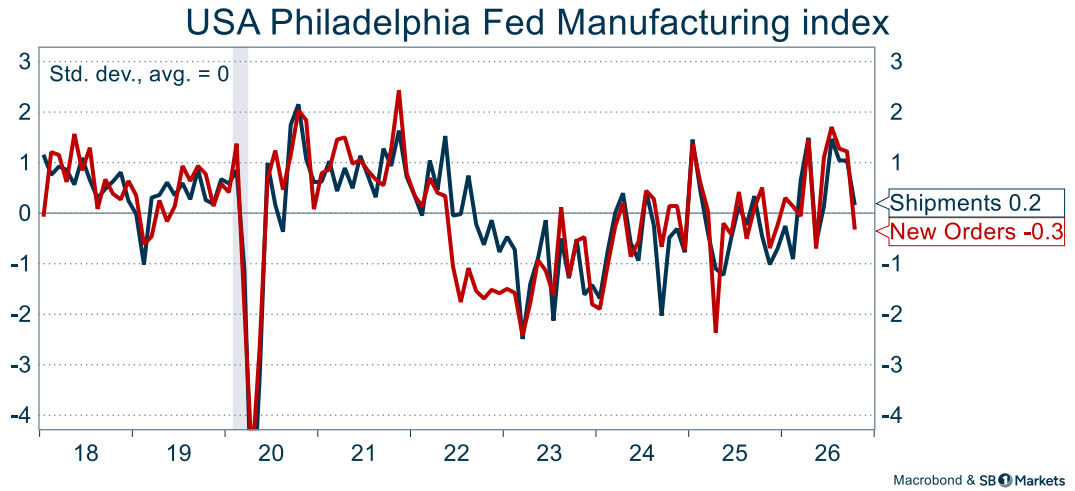


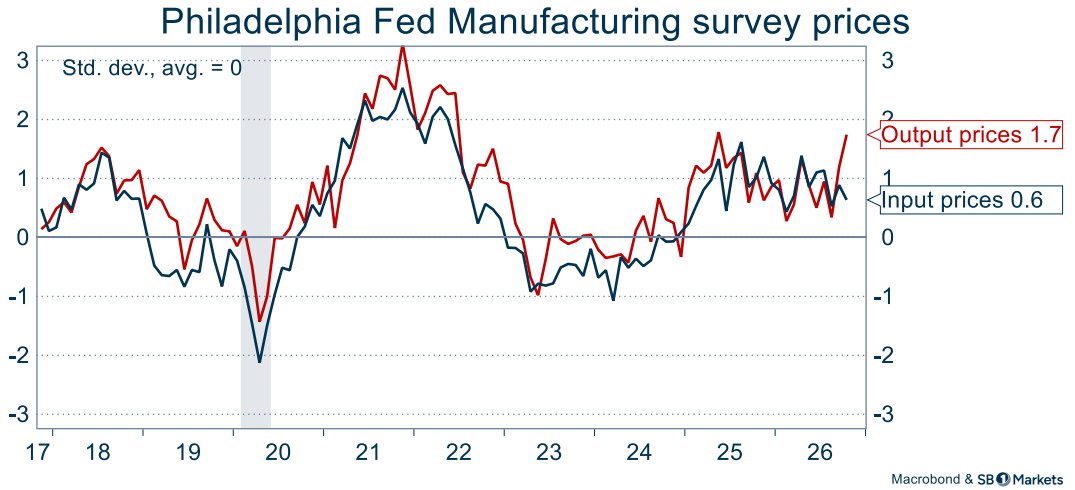
- **The Fed's estimate** is model-based, while the **ISM survey** is based on companies' assessments of their own capacity utilisation.
- These two measures are not 100% correlated, but from a distance they describe the same cycles. However, the correlation has been weaker since the pandemic.

Philadelphia Fed manufacturing survey further down in October

… and the inflow of new orders grew more slowly than normal. Input prices grew at a slower pace, but faster than normal. Output prices rose faster, and much faster than normal.

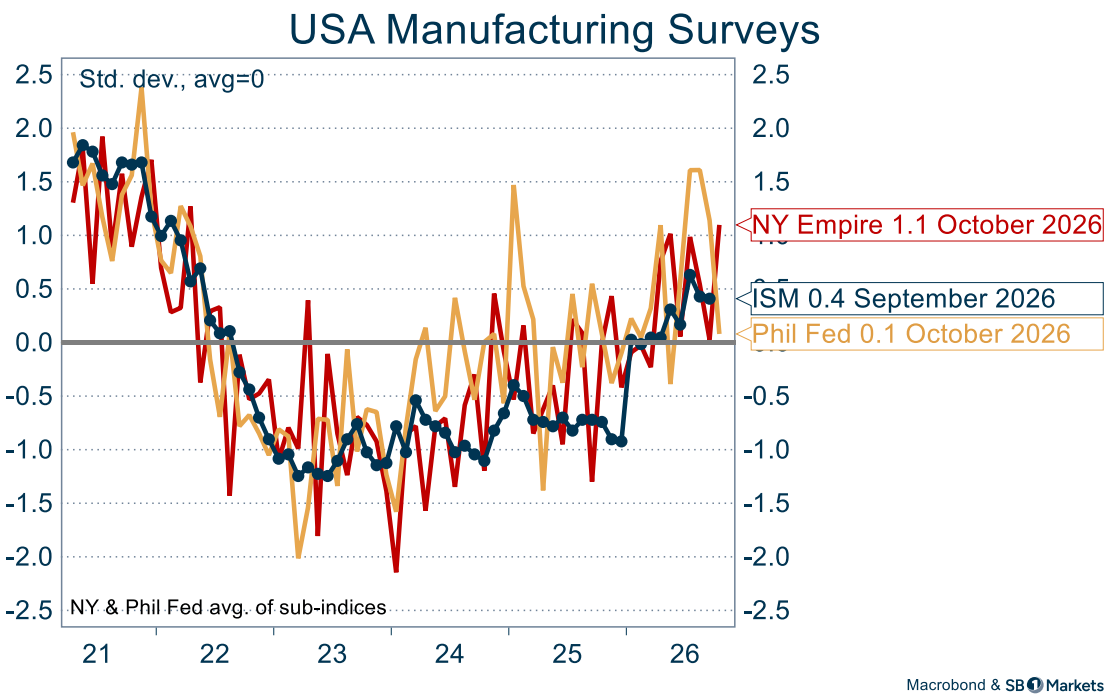


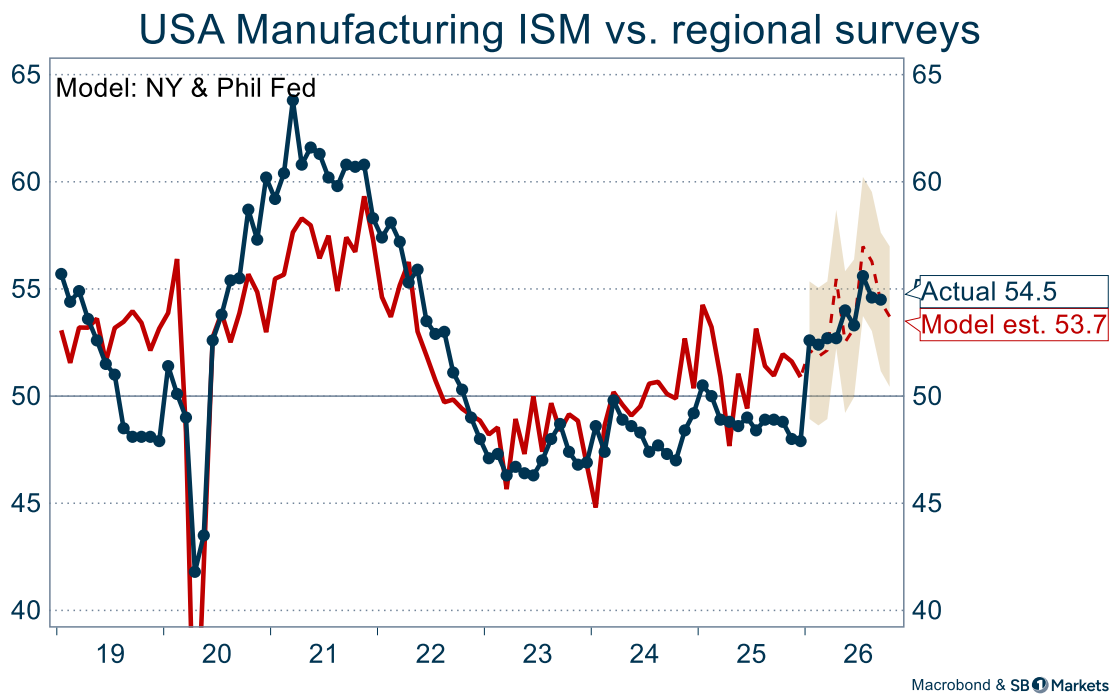




Phil Fed's survey down towards an average level, NY Fed's index shot up

Philly Fed is the most trustworthy and our model suggests a slightly weaker ISM index.

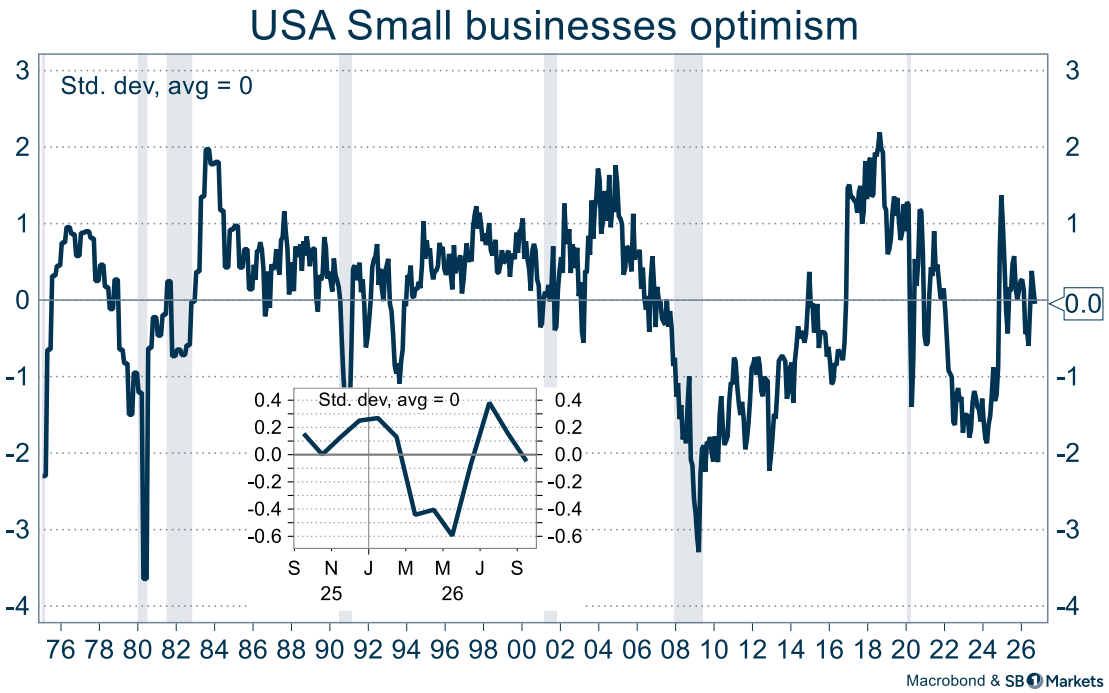


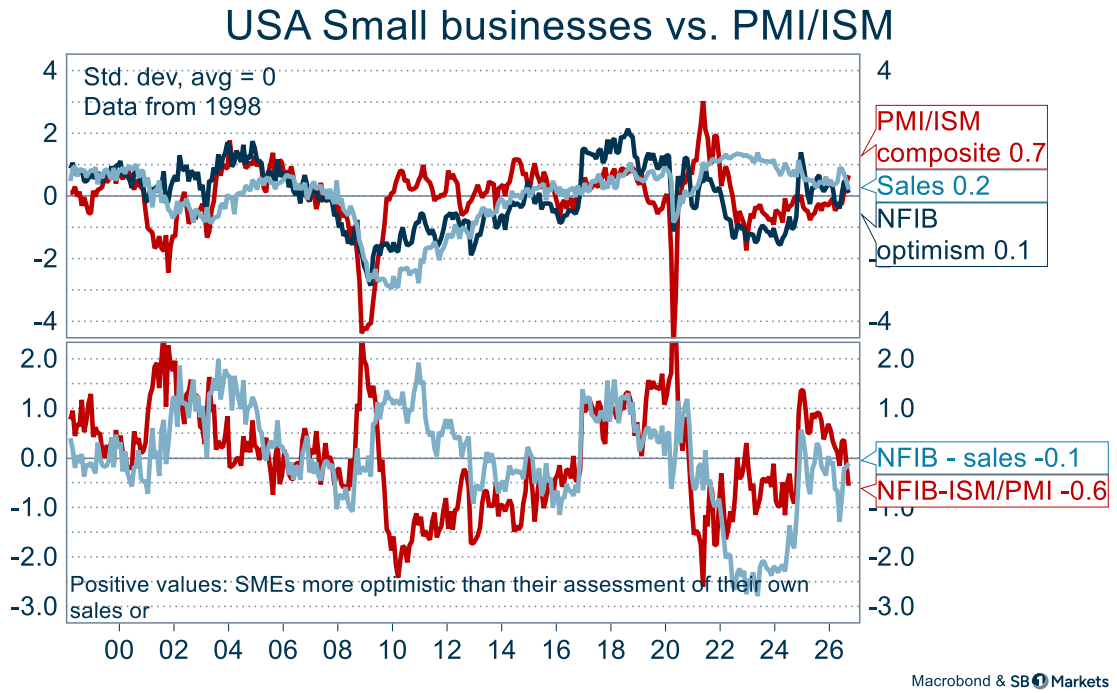


- The Philly and NY Fed indices are weighted averages of the sub-indices in these surveys.

SME optimism down to marginally below average in September

Small businesses are less optimistic while companies report faster growth than normal in other business surveys (like PMI, ISM). More companies report poor sales but still fewer than normal.



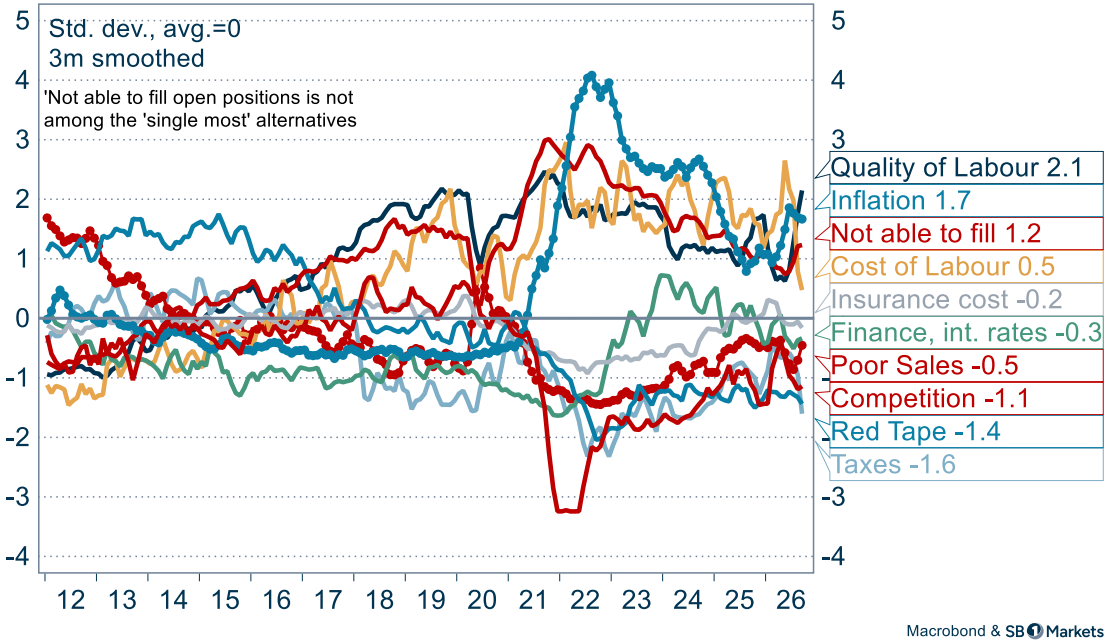


- The **NFIB optimism index** declined 0.2 std. dev. to marginally below average in September.
  - The ISM/PMI average is 0.7 std. dev. above par, signalling some 4% GDP growth.
- The share of companies reporting **poor sales** rose sharply in September but is still below average.
- **Labour constraints/costs** remain the main challenge for SMEs.
- **Hiring plans** rose sharply in August and remained high in September.
- **Investment plans** were revised further down in September. The level is still below average, but not by much.
- **Price hike plans** signal inflation above a normal level.

Labour quality remains the main challenge, labour costs less so. Sales weaken

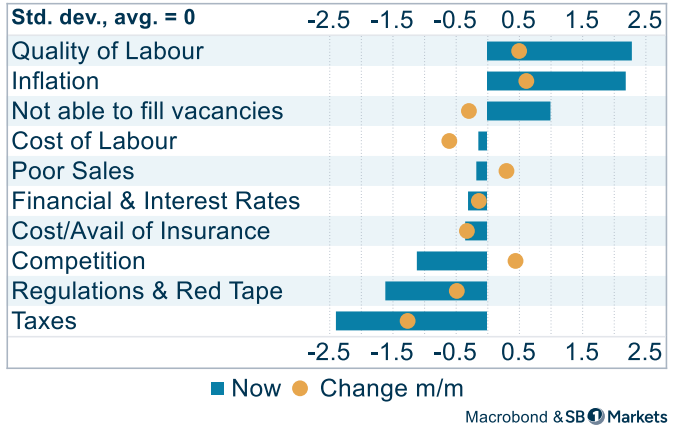
Besides inflation, labour shortages/quality/costs are still the main problems. Sales and competition are still less of a problem than normal, but sales weakened in September. *Check next page as well.*

USA Small businesses Single most problem

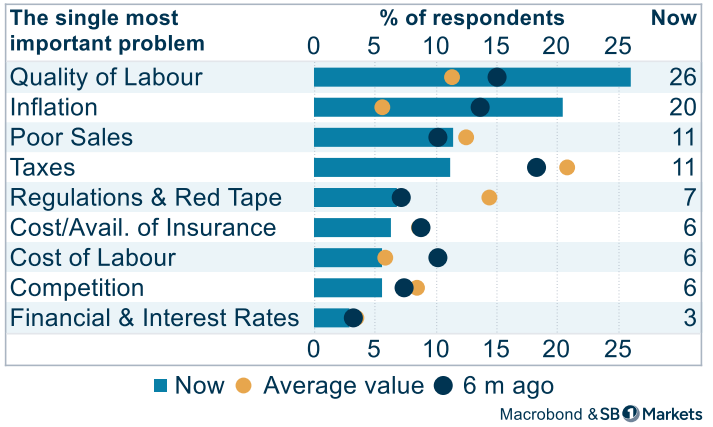


- The share of companies that report **poor sales as the main problem was** at 10% in May, which is 0.7 std. dev. below average! **Competition from** larger companies is even less of a problem, 7%/-1.1 std. dev.
- **Finance/interest rates** are not regarded as much of a problem. **Taxes** are of course 'a huge problem' but less than normal. The same applies to regulation and red tape.
- **In sum:** companies still report they are mostly ***constrained on the supply side***, not on the ***demand side,*** *check next page.*

Small businesses (NFIB) What's the problem?

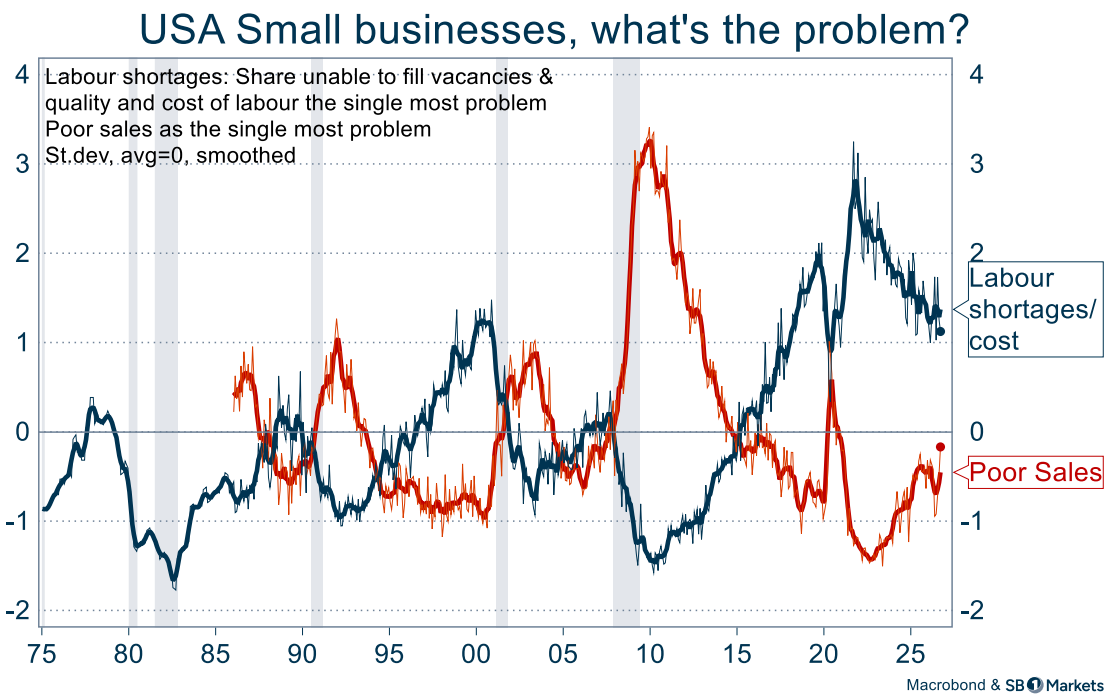


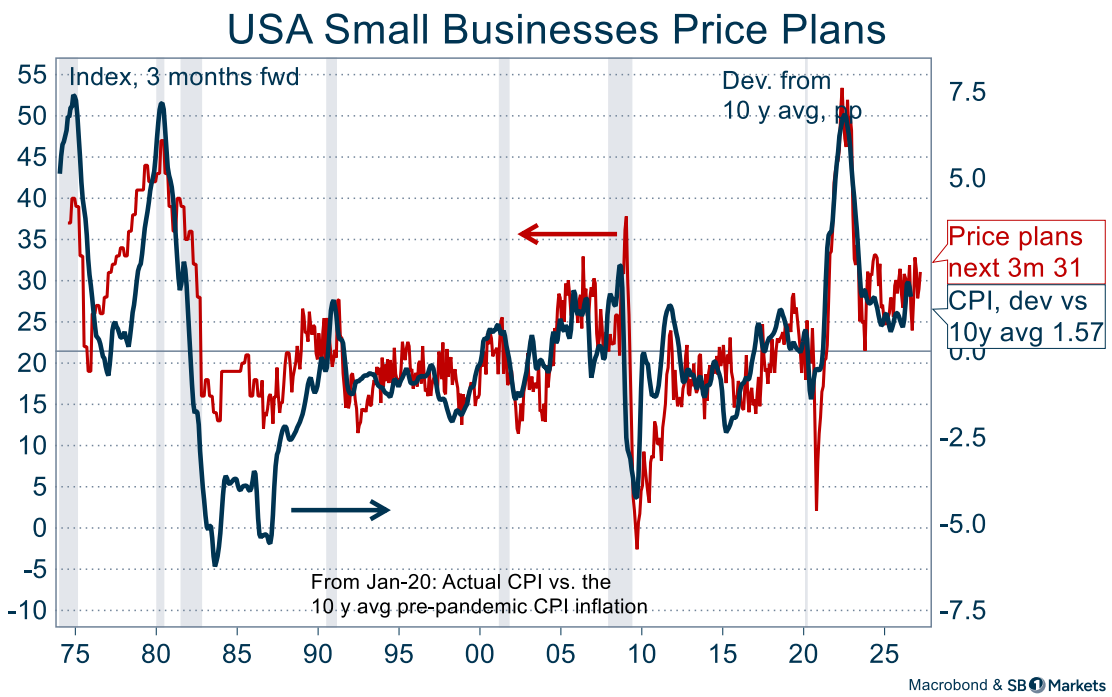
USA NFIB Small Businesses Survey

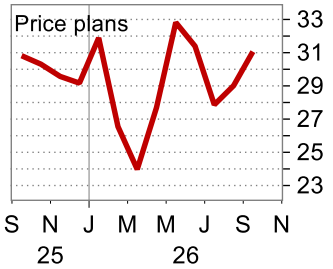


Big picture: labour shortages/costs still the problem, not poor sales (but less so in Sep!)

Price plans are well above average, which has normally been consistent with inflation well above average.

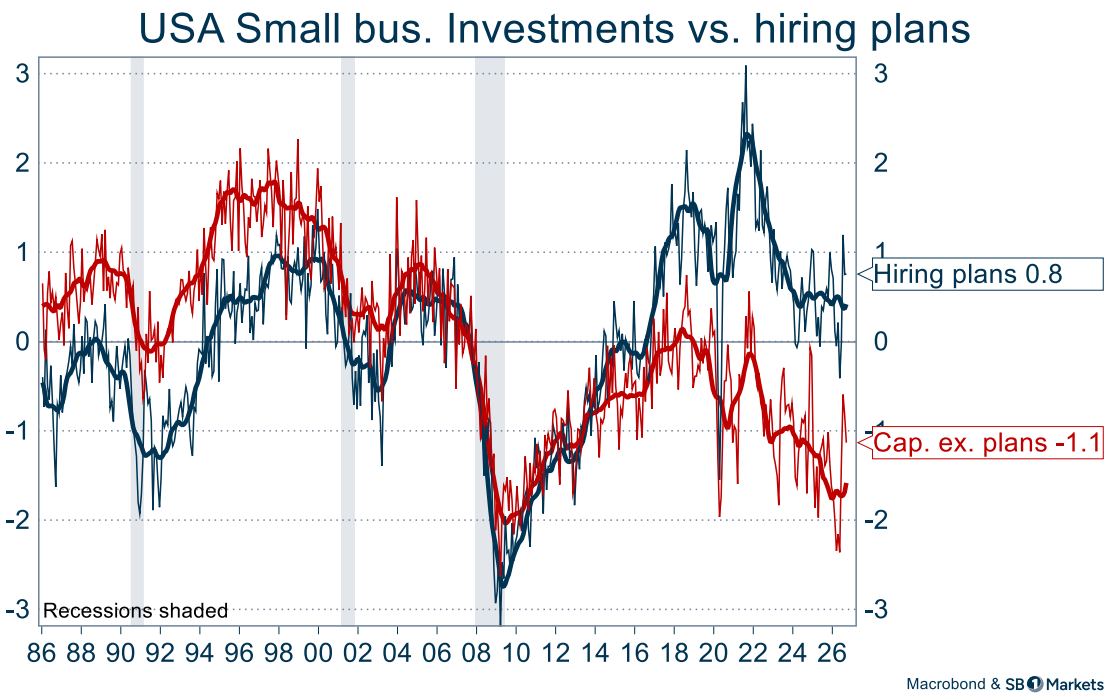




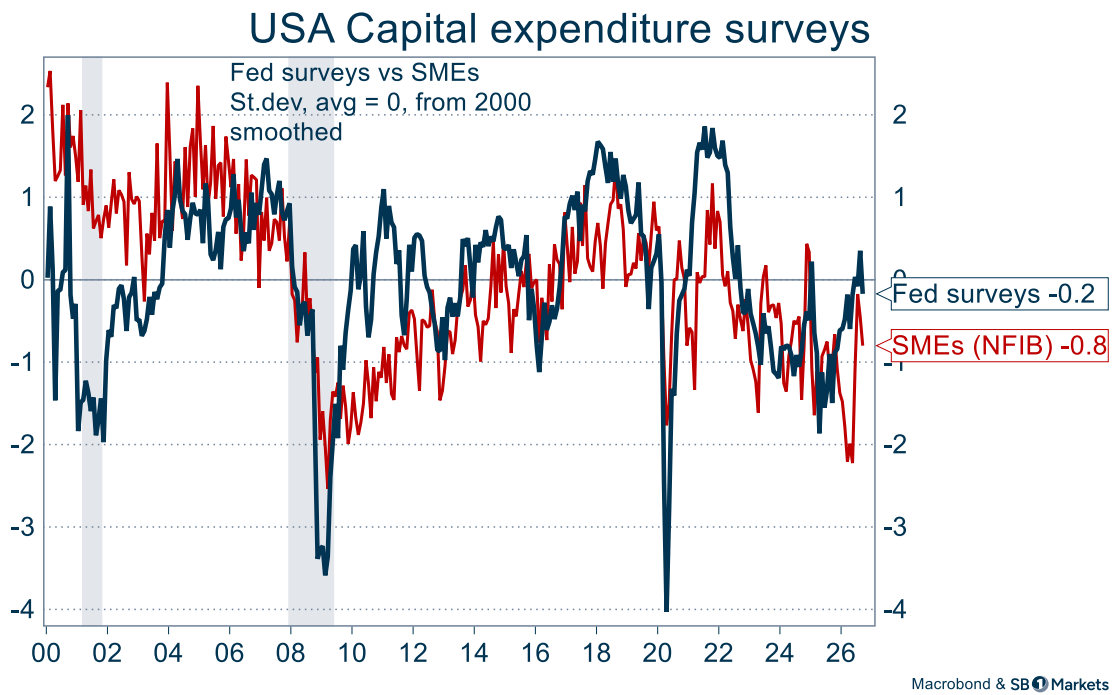


SMEs' investment plans were cut in September, and are somewhat below average

The Fed's regional investment surveys have been heading upwards for a while but fell below average in September. Hiring plans were confirmed flat at a level well above average in September.

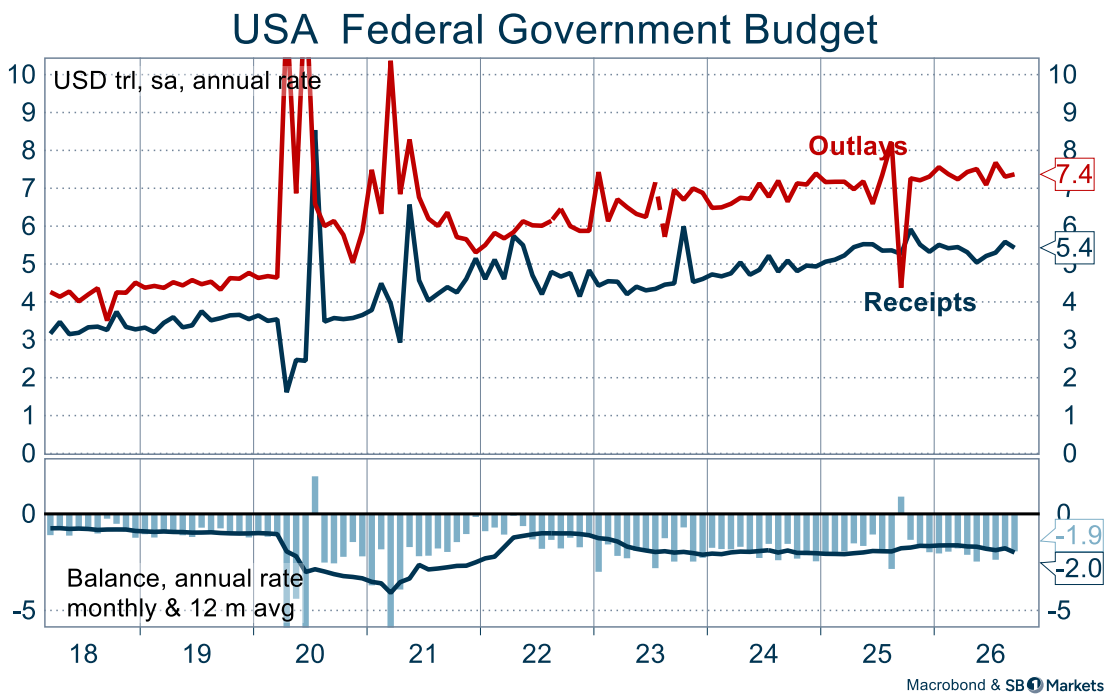


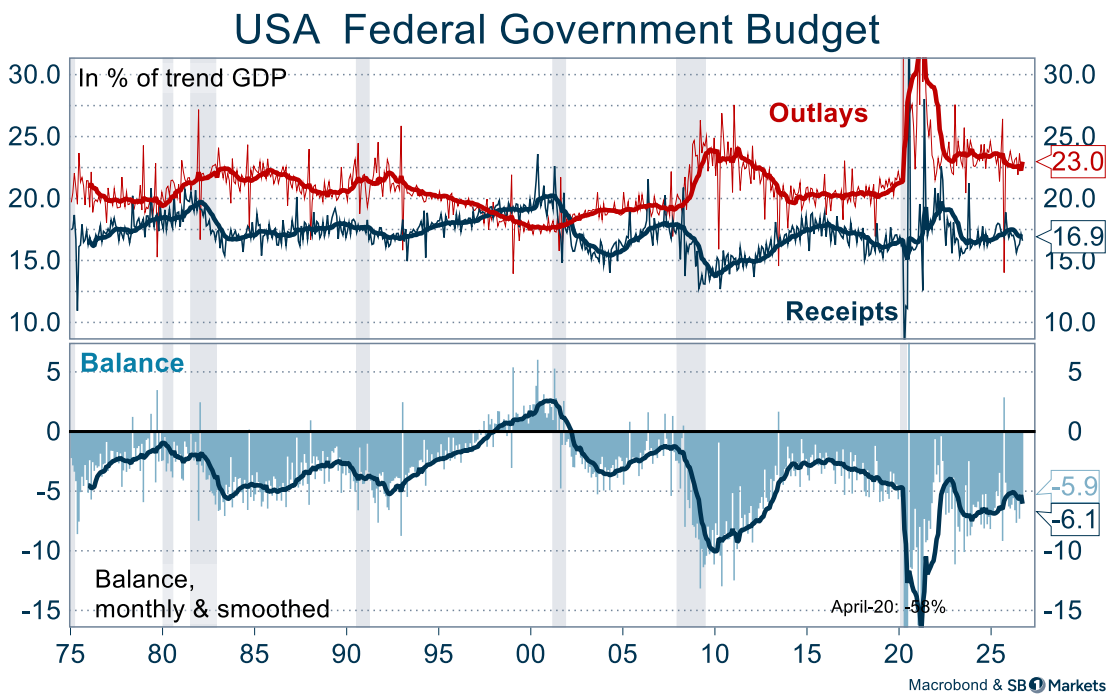




The federal budget deficit hovers around USD 2trl, 6% of GDP

Both receipts and outlays have been flattish in 2026, and the deficit has been stable, at 6% of GDP, slightly above the 2025 level, but less than in 2023 and 2024.

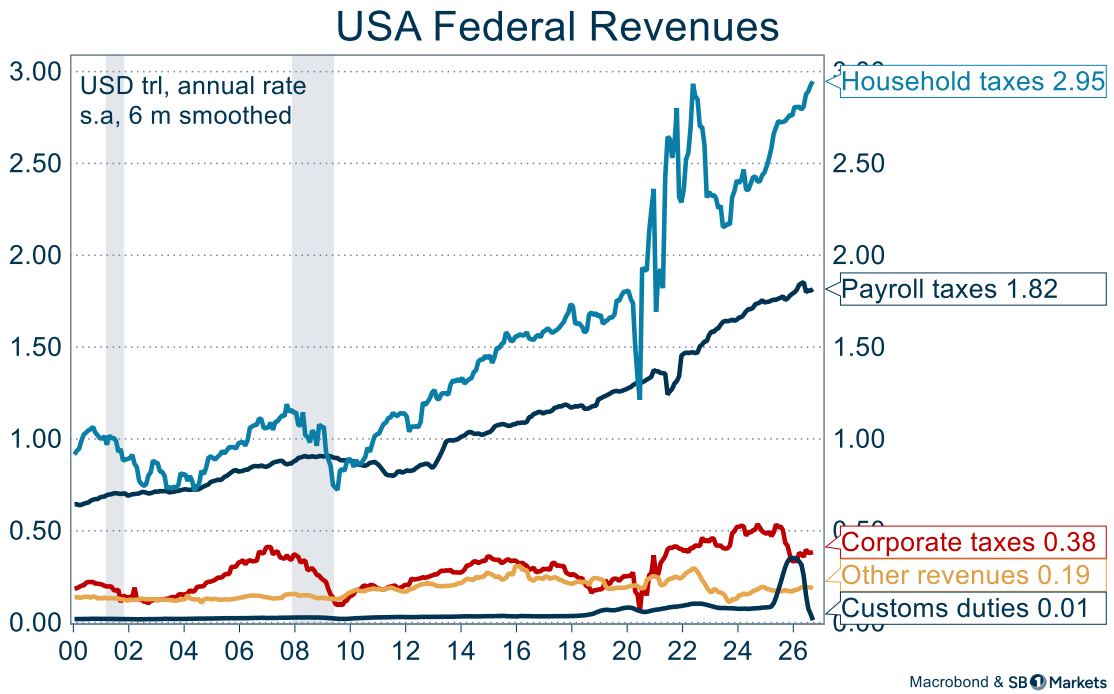


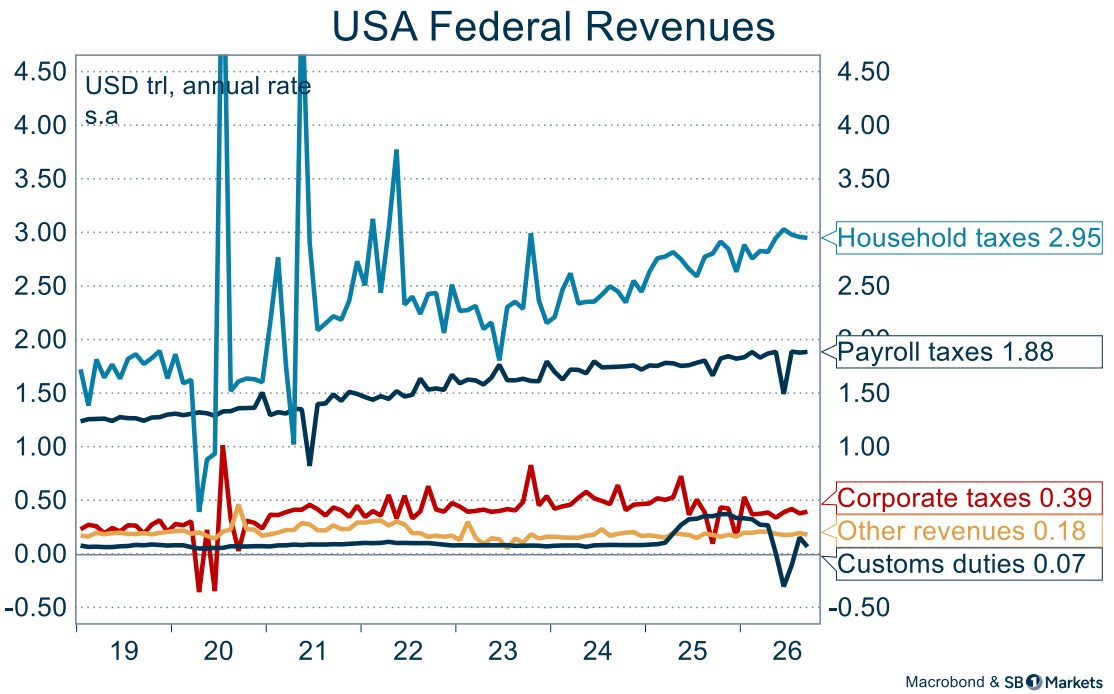


- **The deficit** remains *significant*, especially considering the *robust economy and low unemployment rates*. The primary deficit will probably widen in 2026 (OECD assumes 0.7 pp of GDP, IMF 1.0 pp), followed by a similar tightening in 2027. Time will tell.
- The total **public sector deficit** is larger, at above 7% as state and local governments run deficits.

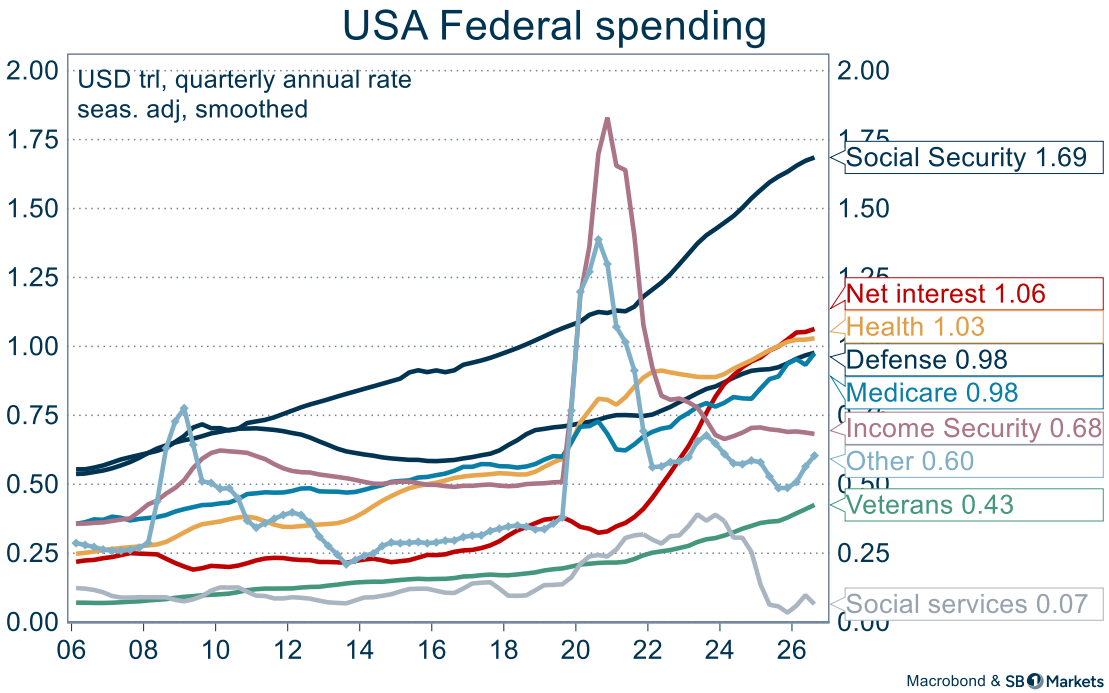
Net tariff payments positive again, still below ‘normal’. Household taxes trend up

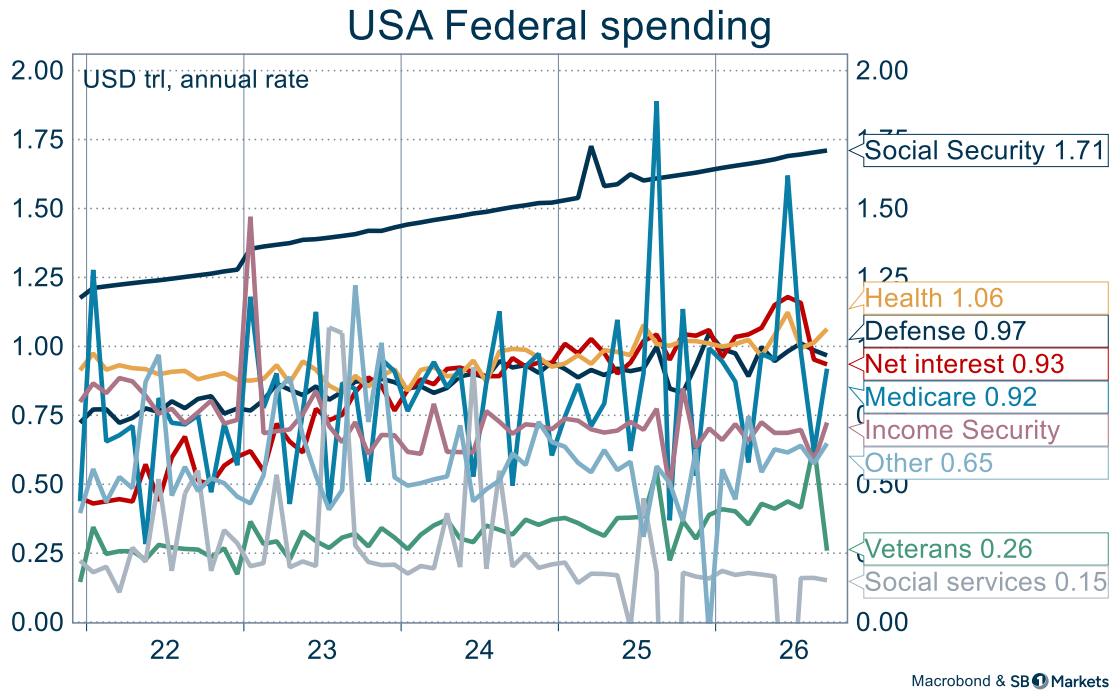
… corporate taxes not. Tariff payments equalled 1.2% of GDP at the peak in late 2025 but have since fallen. Net tariff payments have been negative or low since May, due to the refunds of the illegally collected tariffs.





Some federal spending has been cut, most sectors are still on the way up

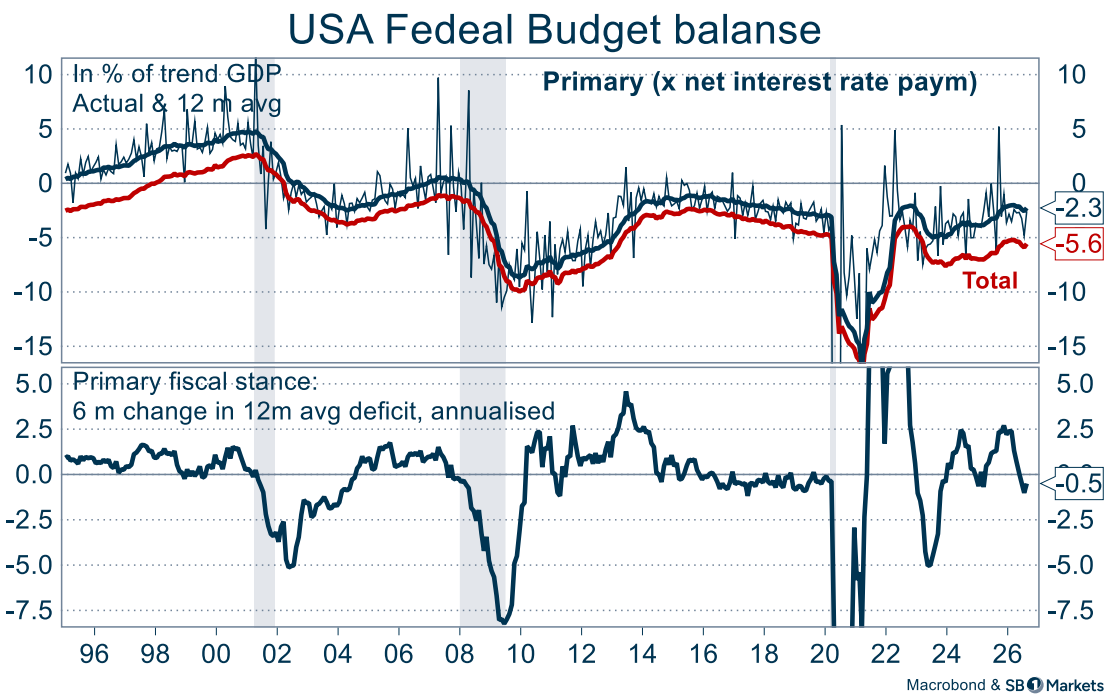


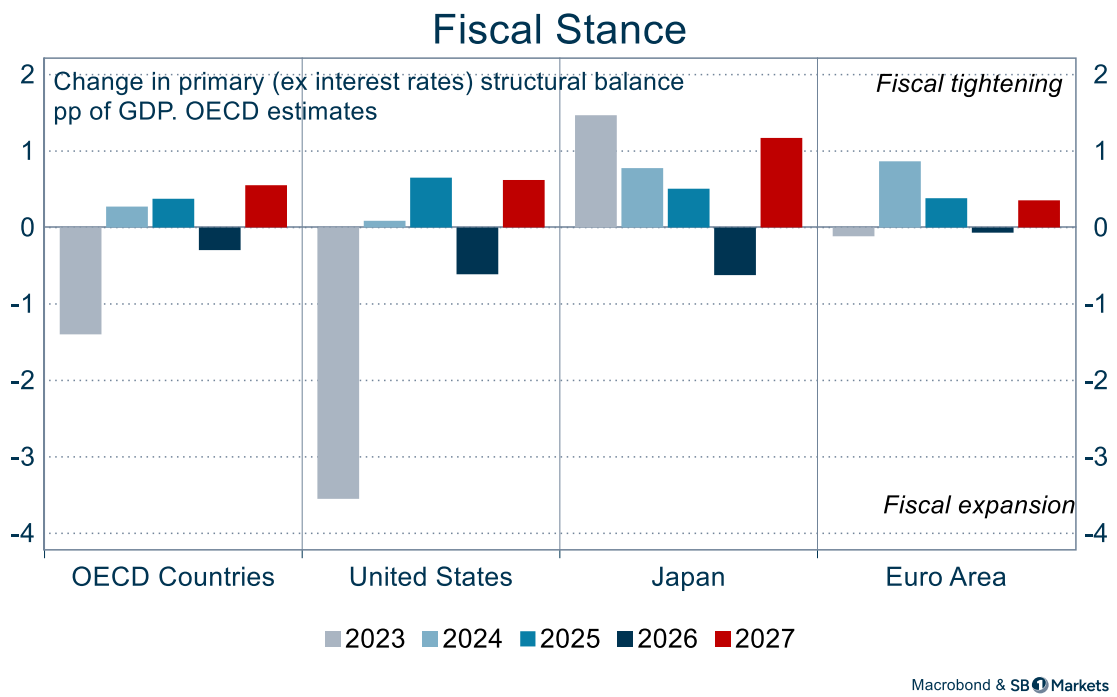


- **Social security expenditures** (including pensions) have risen sharply in recent years, largely due to inflation adjustments – and more pensioners.
- Spending on **income security** remains significantly above pre-pandemic levels, although it has been gradually decreasing.
- **Healthcare** expenses, primarily related to Medicaid and support for low-income individuals, are increasing once more after stabilising following the pandemic. Costs for **Medicare** (covering those aged 65 and over) are also on the rise, despite considerable monthly fluctuations in the data.
- Expenditure on **social services**—which covers education, training, and employment initiatives (excluding state unemployment benefits)—has been particularly unstable recently, with spending reaching a low point last year. These cuts are probably related to 'DOGE' cuts, but also a strong labour market.
- **Interest payments** on debt have fallen in recent months but given the current yield curve, a reversal seems more likely than a further decline. Additionally, debt growth outpaces GDP growth, increasing the overall burden. Currently, (smoothed) **net interest payments** represent 3% of GDP — ***one-fifth of all federal revenue***.

OECD/IMF expect a widening of the US primary deficit in 2026 before a tightening in 2027

The OECD expects no material fiscal expansion in the Euro Area in 2026, followed by tightening in 2027 (that is, no signs of a fiscal stimulus due to defence or infrastructure investments).

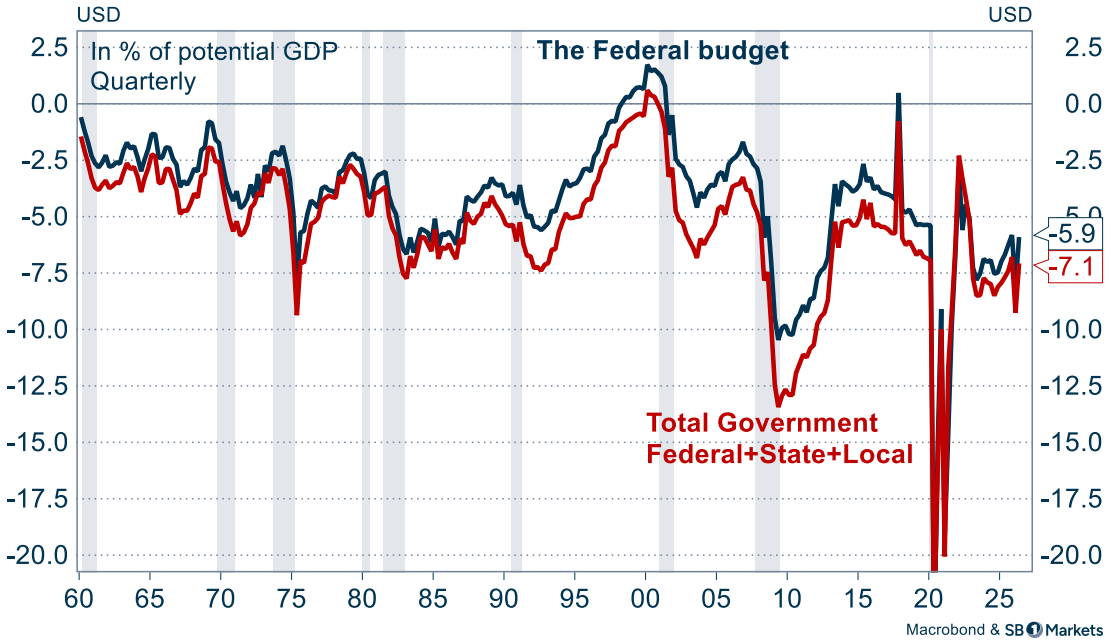




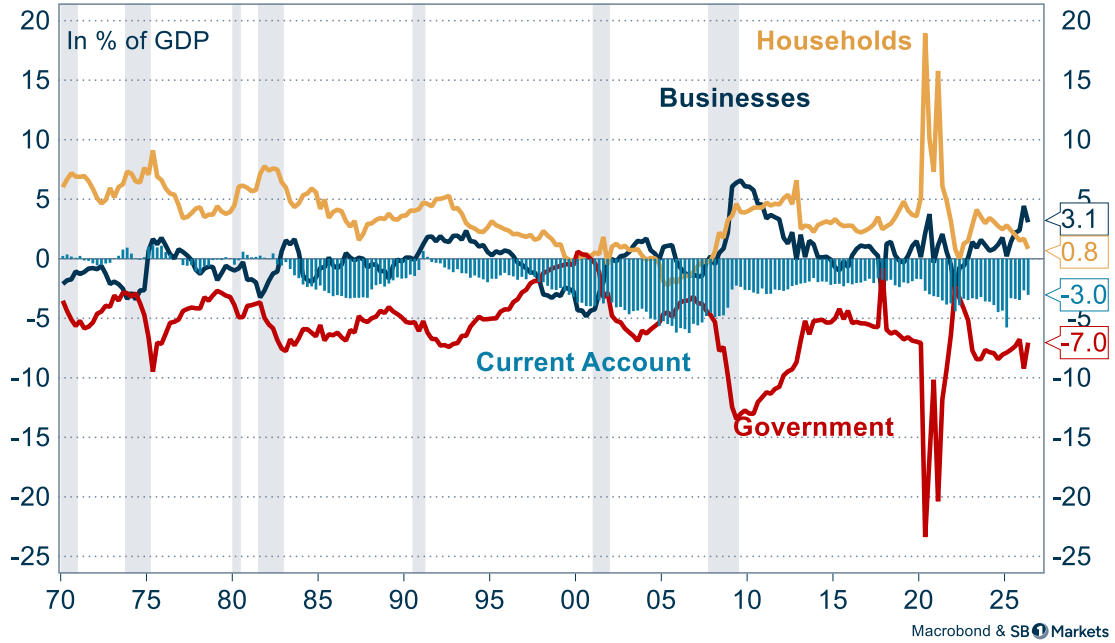
The total government deficit at 7% of GDP in Q2. 3.9% is funded at home, 2.8% abroad

… aka the current account deficit. Businesses run a far larger cash surplus than normal, 3.1% of GDP. Households' cash surplus is far smaller than normal, equalling 0.8% of GDP.

USA Budget balance

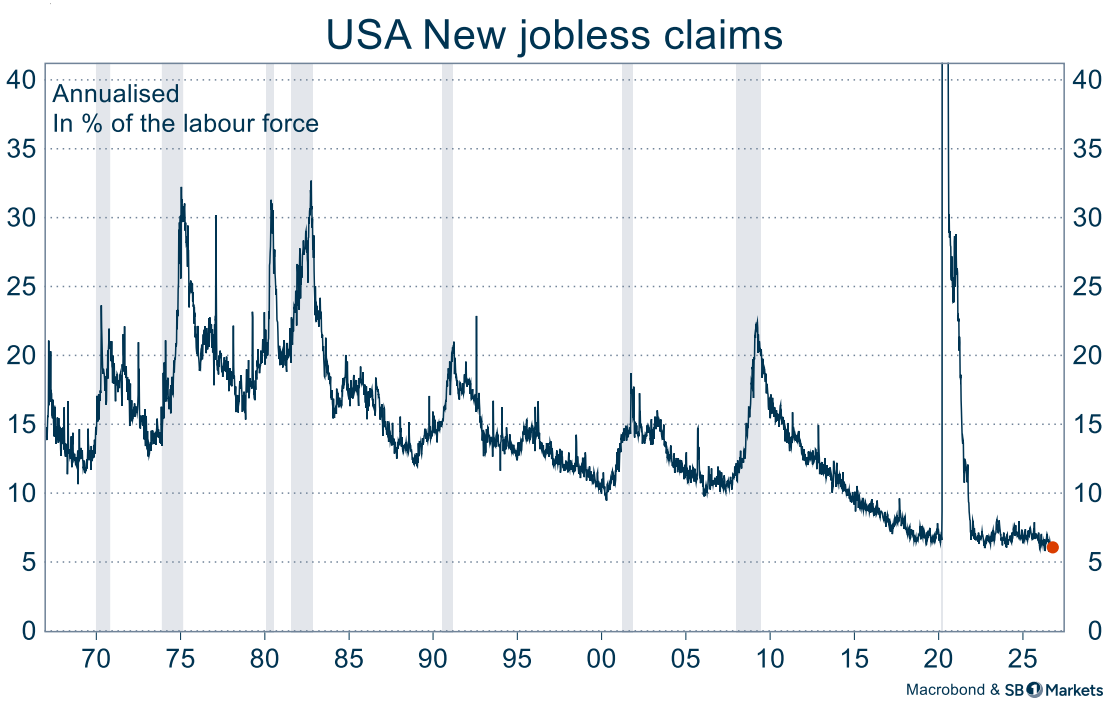


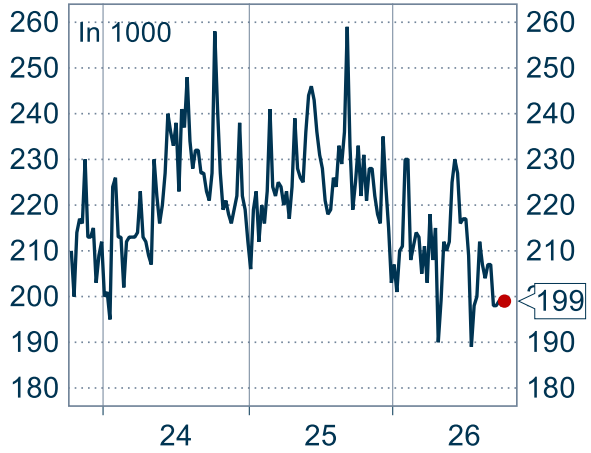
USA Financial balances



The inflow of jobless claims remains at a very low level

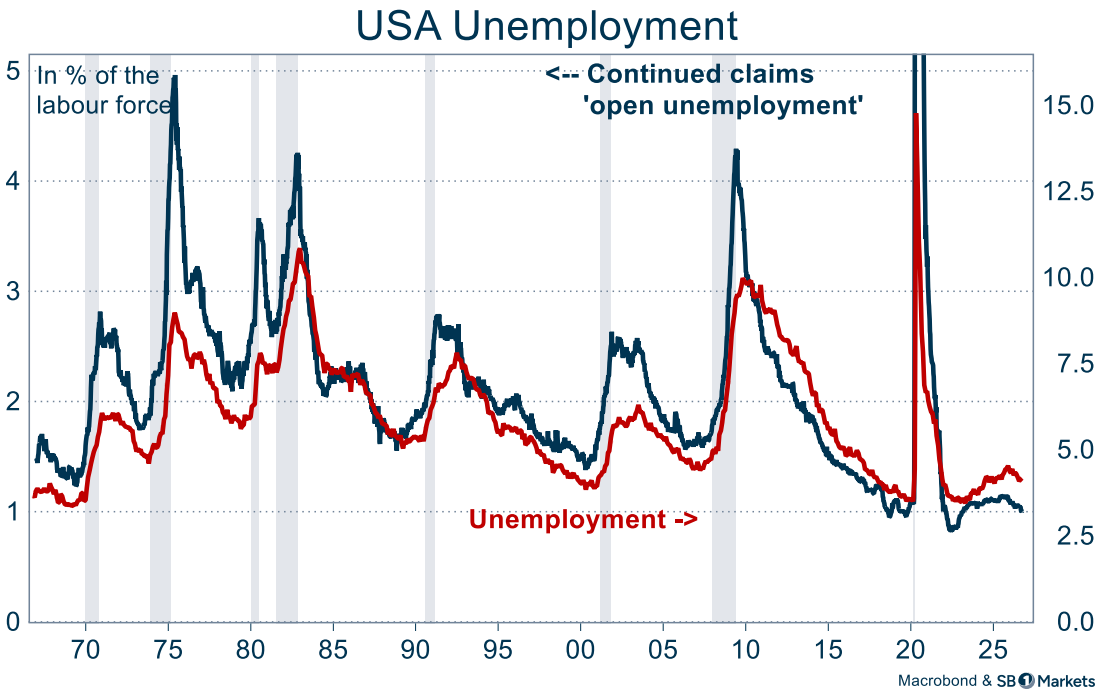
Still below 200,000 last week – and one of the lowest prints ever, in % of the labour force.

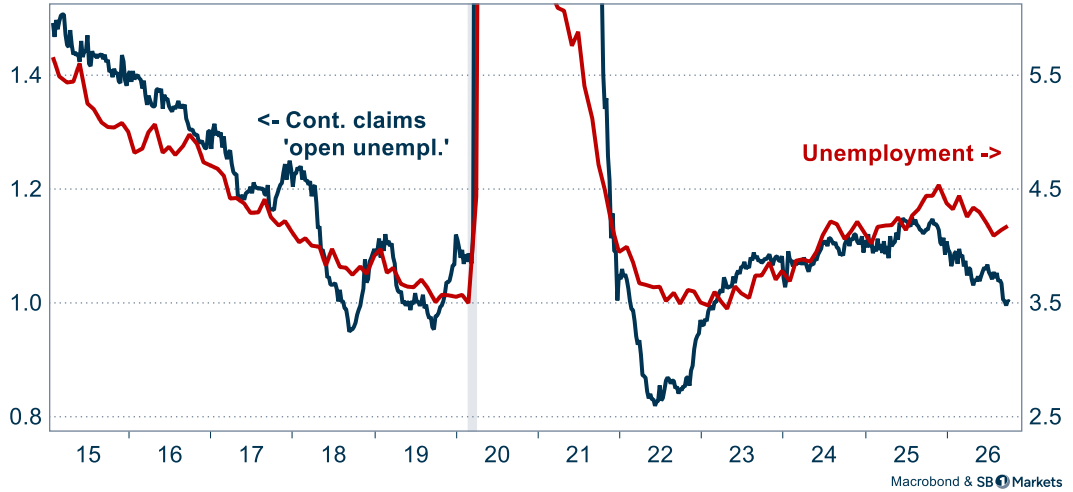


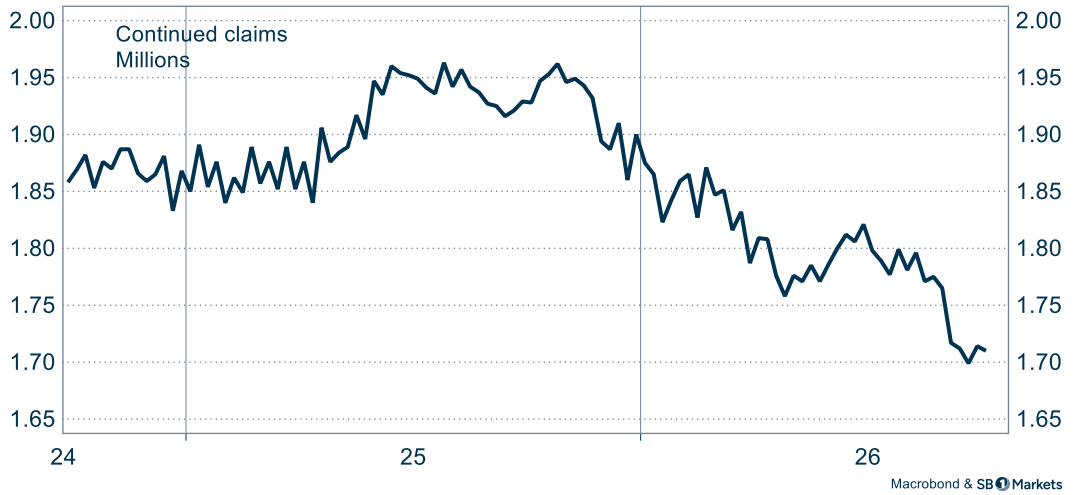


Continued jobless claims remain at a very low level too

The count of persons receiving unemployment benefits fell sharply in the previous week and indicates a decline in the official unemployment rate.

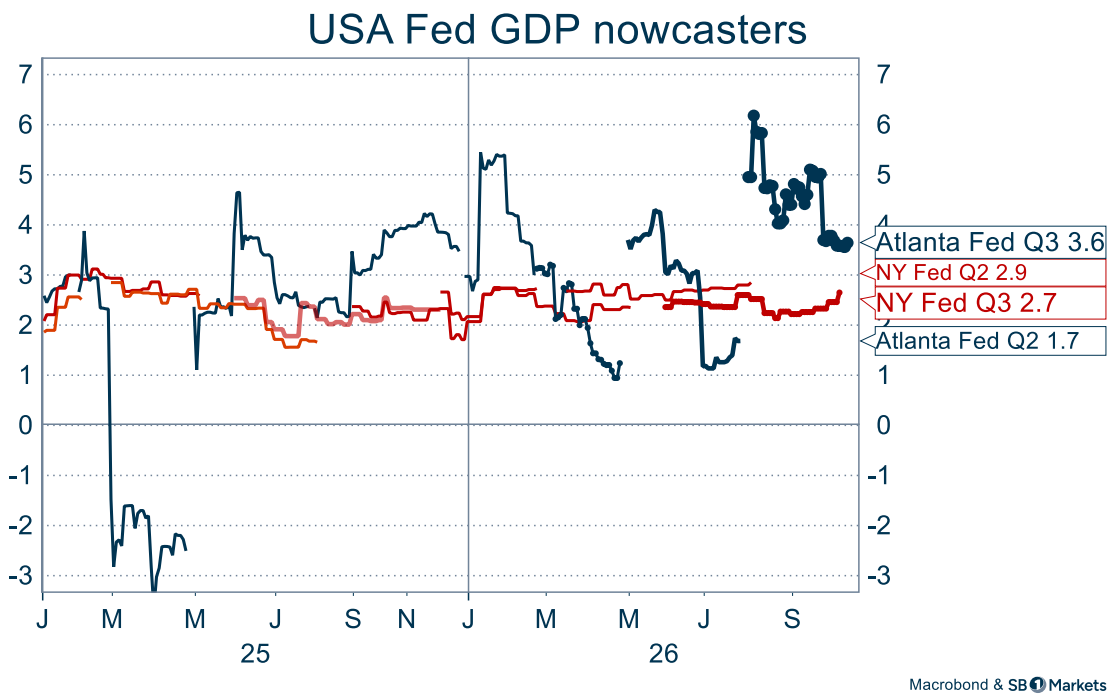


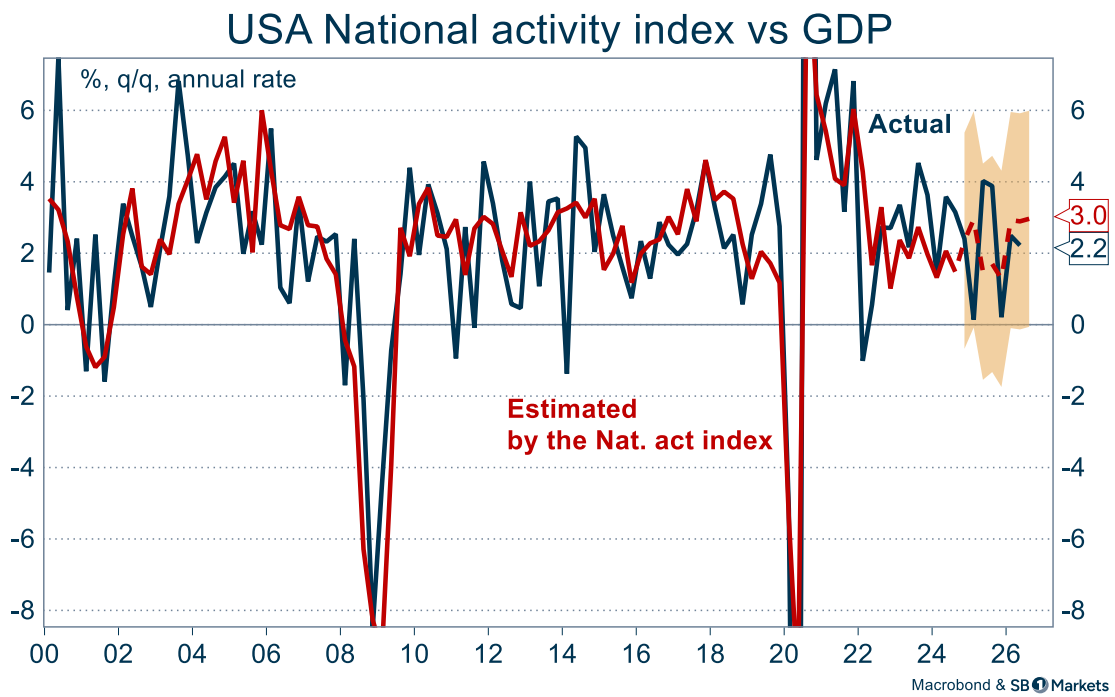




Atlanta Fed’s Q3 GDP nowcast still impressive, at 3.6%

Growth is driven by consumption and investment in business equipment. Net exports are negative, but inventories are expected to be replenished. The National Activity Index suggests a 3.0% growth pace. Actual Q2 growth was revised up by 0.7 pp to 2.2%.





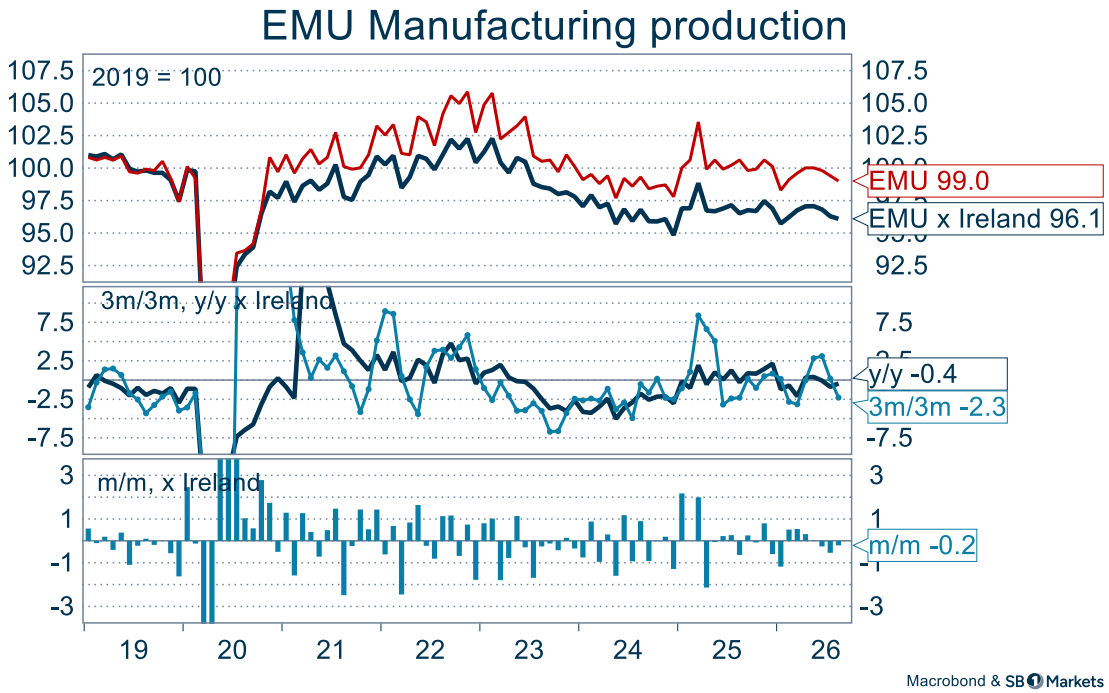
SB 1 Markets

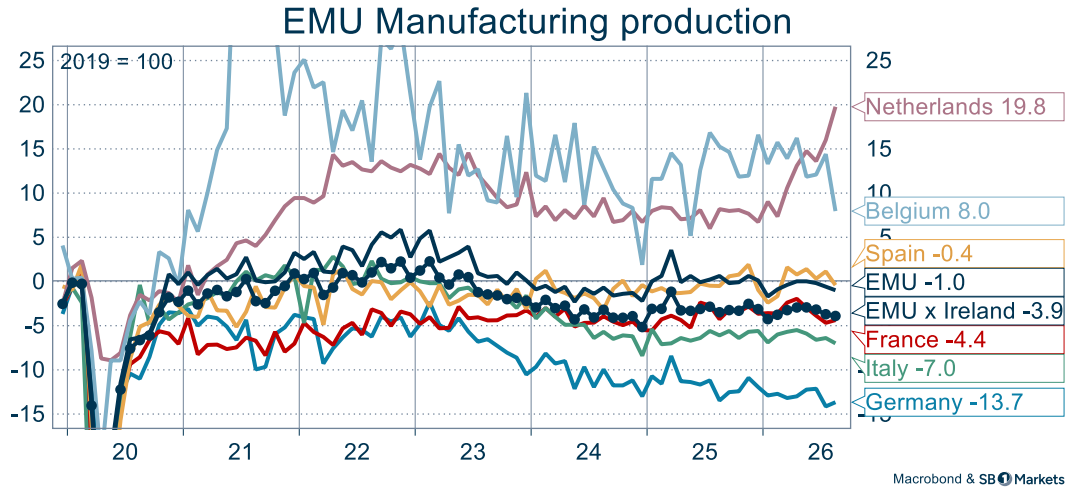


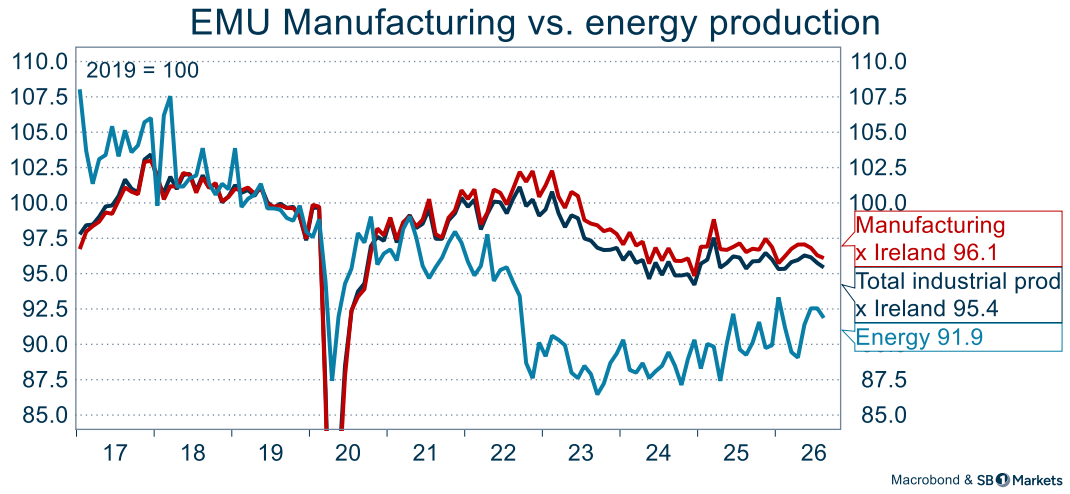
Euro Area

Manufacturing production trends flat – at best

Production (ex. Ireland) declined 0.2% in August and was down 2% 3m/3m. Total industrial production was up 0.2%, as expected. Germany is still the laggard.





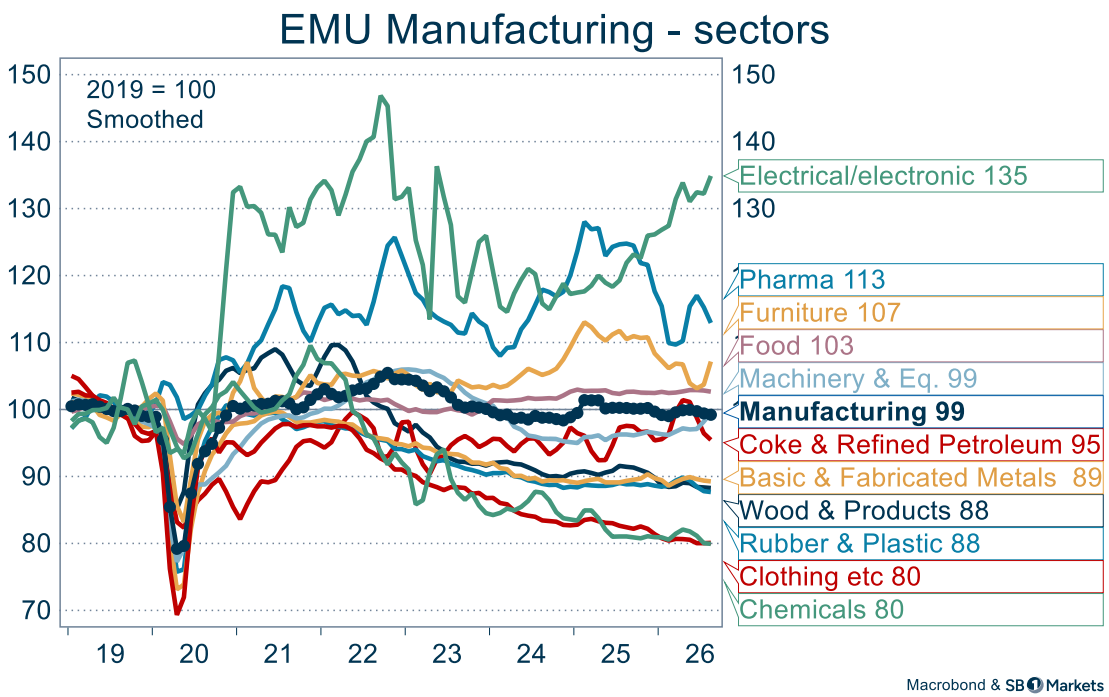


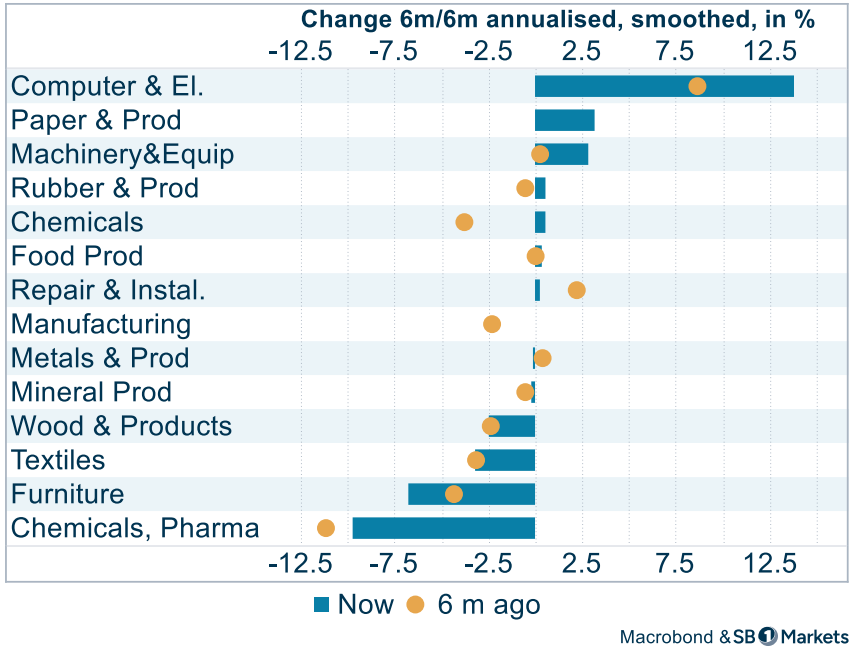
- **Manufacturing production** ex. Ireland is 3.9% below the 2019 average (but -1% including irrelevant Irish data).
  - Germany is down 14% from 2019, Italy -7%, France -4%, Spain is close to flat, the Netherlands up 20%.
- **Energy production** is slowly on the way up but production is still down 8% from the 2019 level.
- **Surveys** signal growth in manufacturing production that so far has not been seen.

Ireland often reports extremely large changes in manufacturing and industrial production, mostly due to huge changes in the 'modern' IT/software sector, at least partly tax-motivated. The level is also extremely high, and far from 'for real'.

SB1 Markets

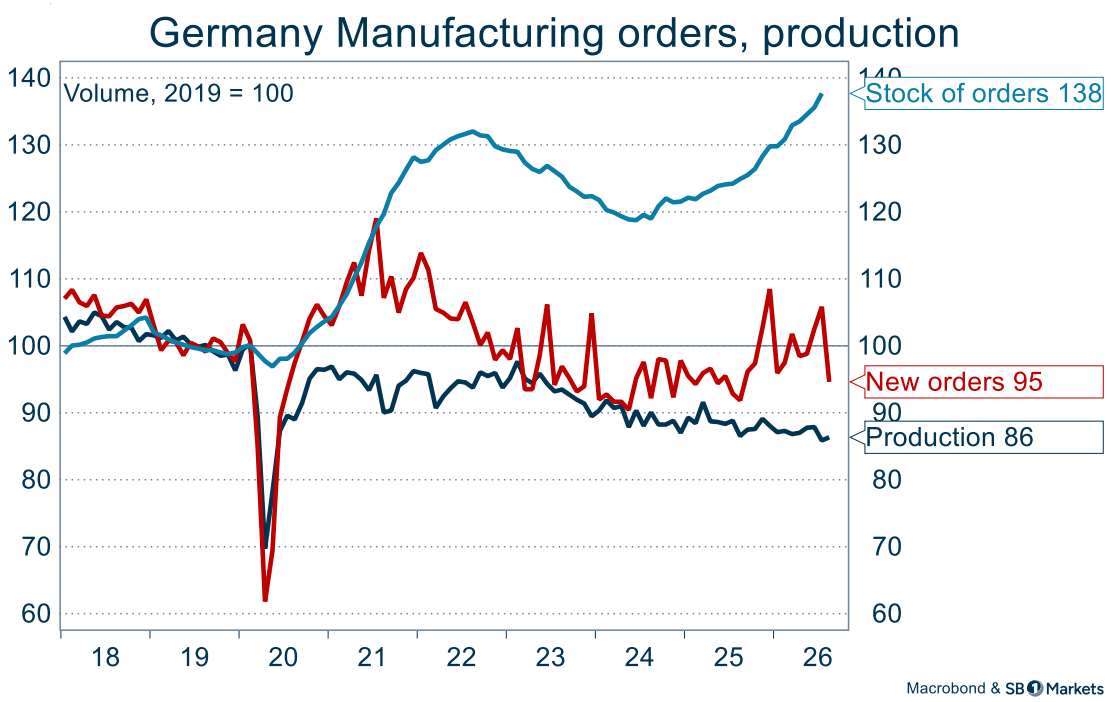
A few sectors are doing well, several are not

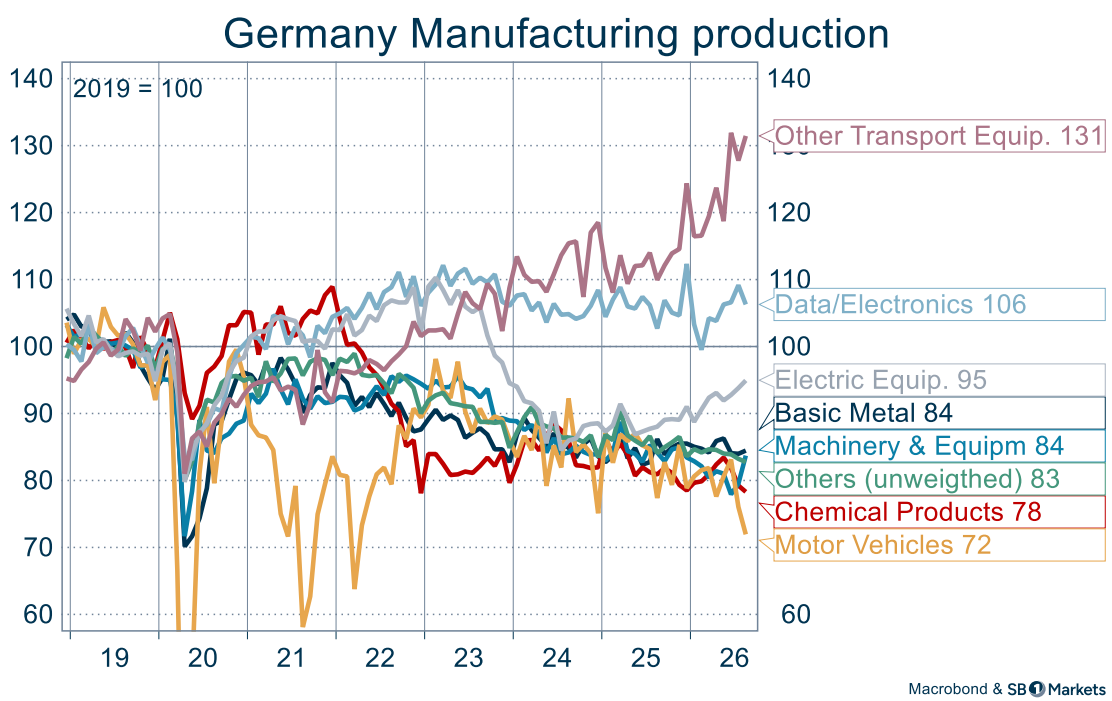




Germany: Modest orders, but no sign of a production setback

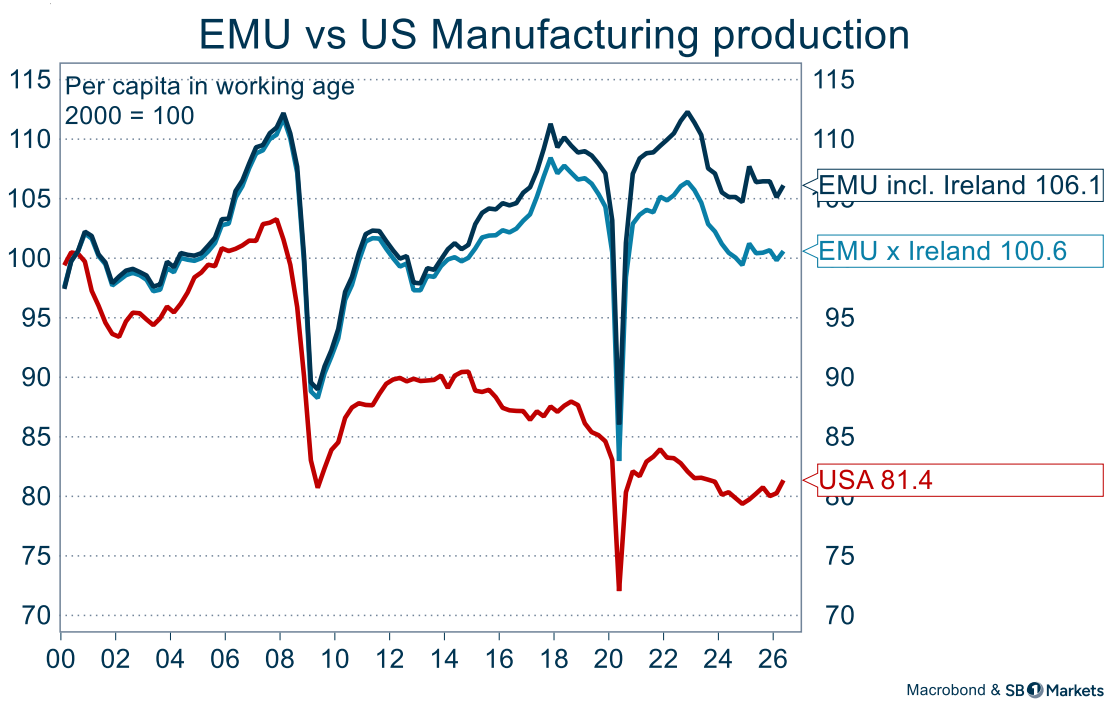
Manufacturing production is still sagging in several sectors, like machinery, chemicals, metals and motor vehicles.

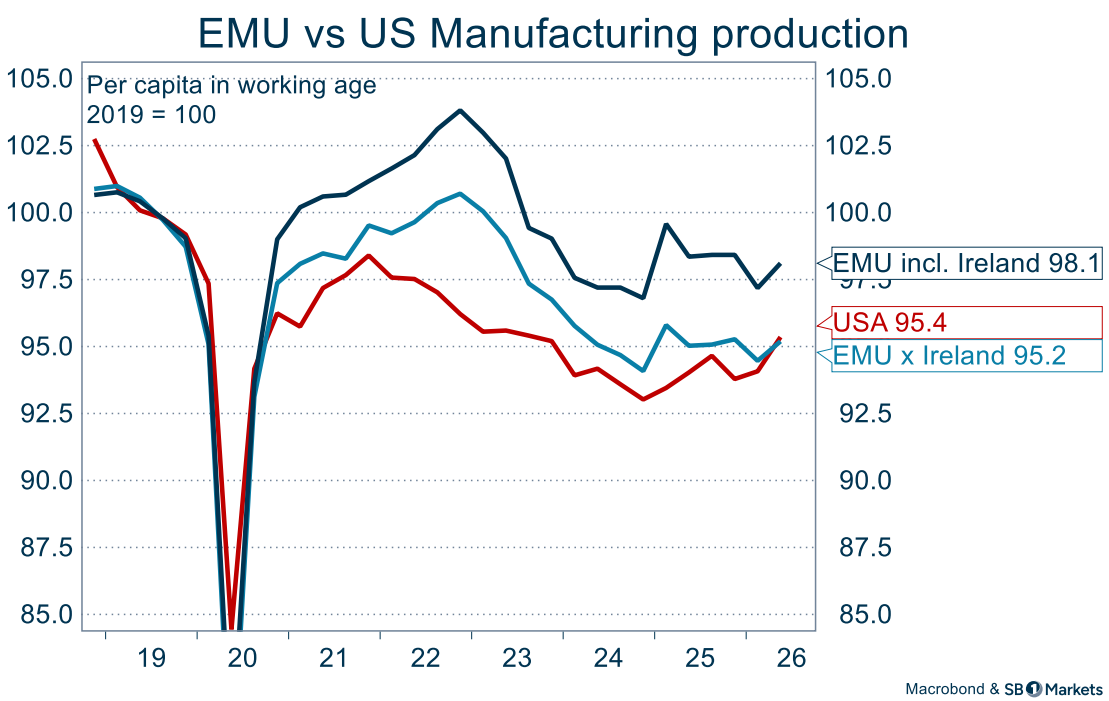




Da capo: Europe surely has some challenges. But so does the US?

Check the data





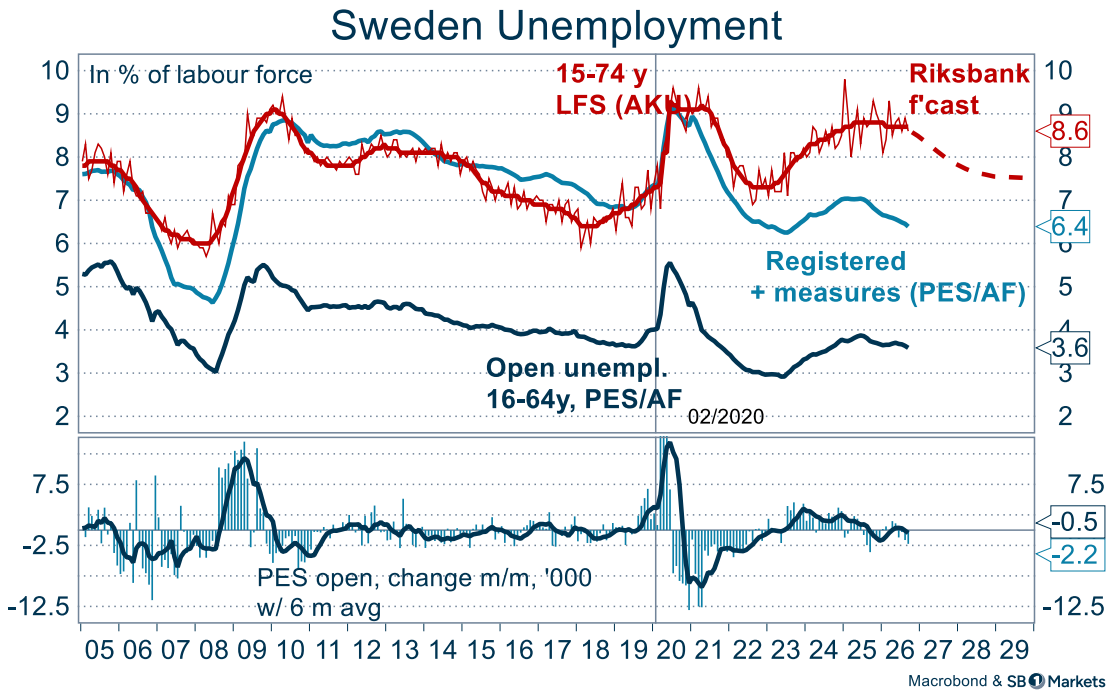
SB 1 Markets

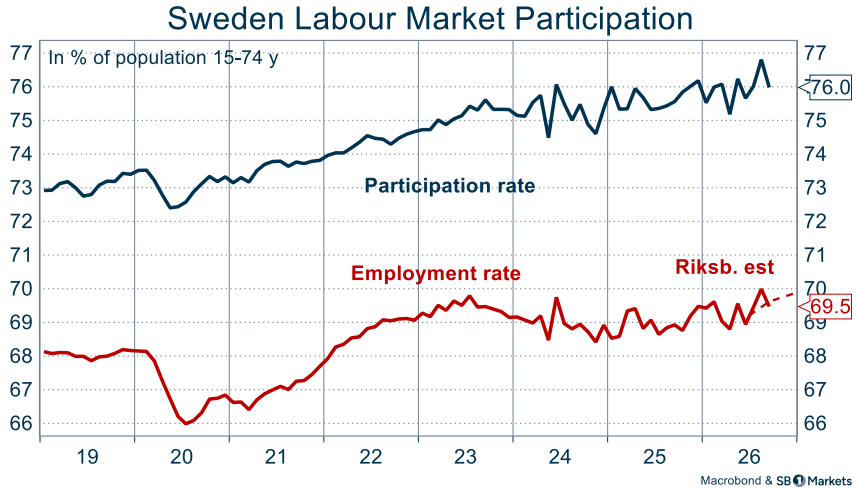


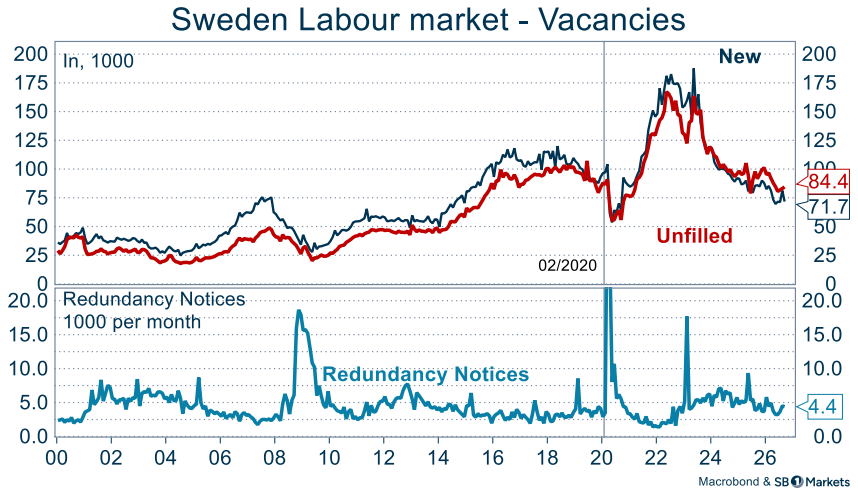
Sweden

PES unemployment heads down, LFS unemployment has peaked, employment trends up

The PES unemployment rate fell 0.05 pp, but was unchanged at 3.6% after rounding. The trend is slowly down. The LFS rate fell 0.3 pp to 8.6% and has peaked. The employment rate declined but trends up. The participation rate is at a record high level. Vacancies may have flattened, at a 'low' level.



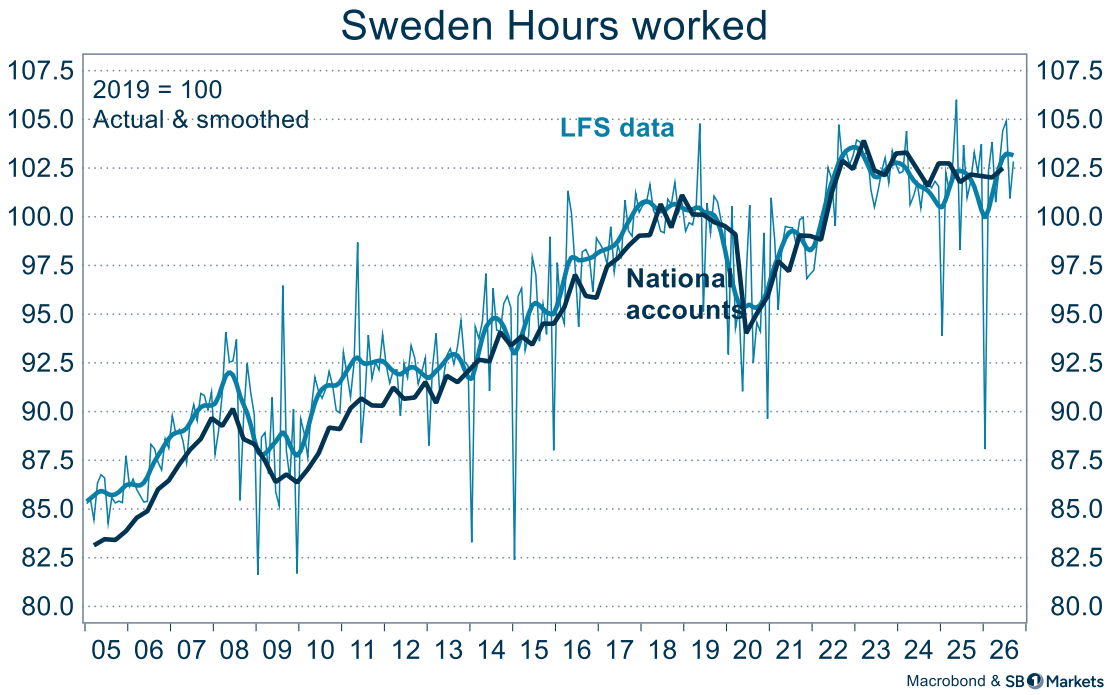


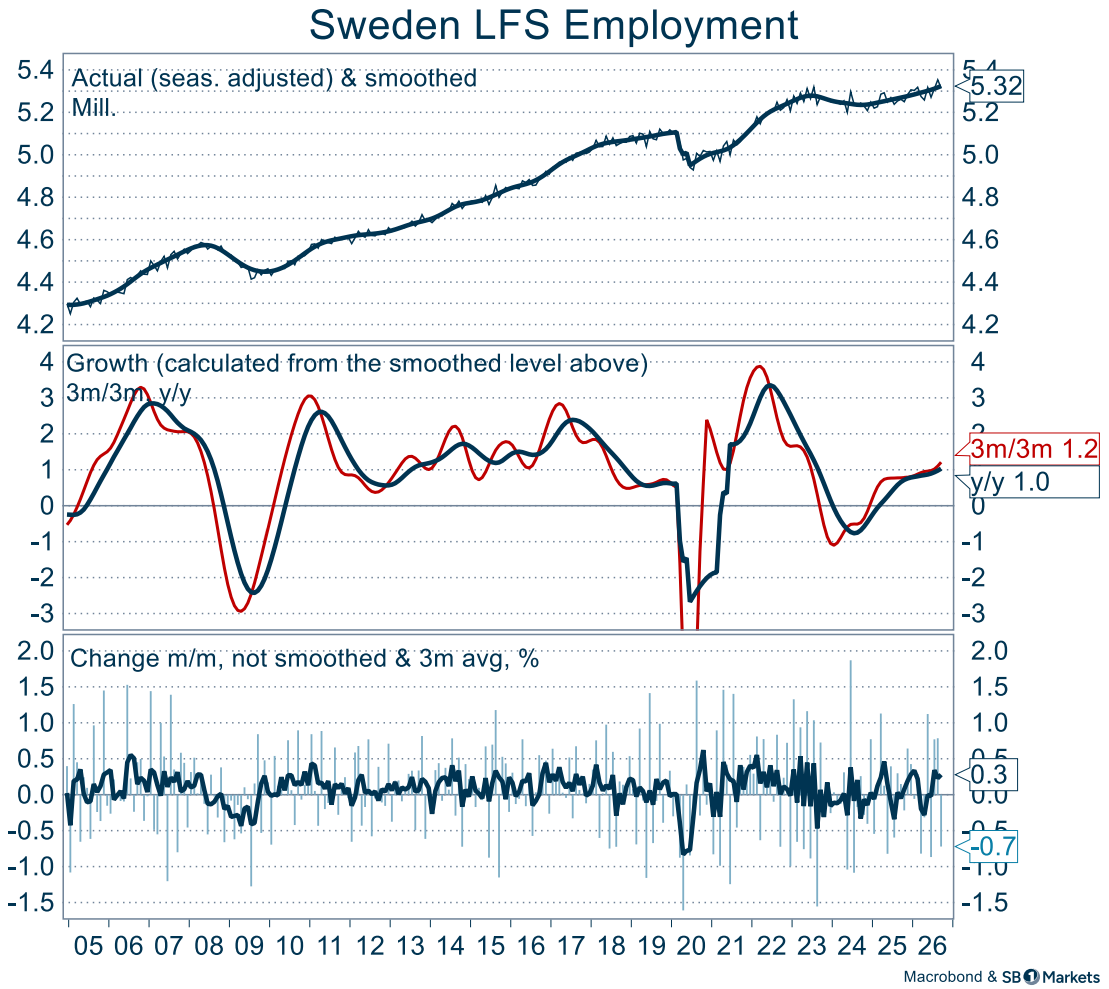


- The employment rate trends upwards, from a local trough in late 2024 – in line with the Riksbank's forecast. In September, a small decline, by 0.5 pp to 69.5%.
- The participation rate fell more in September, but trends up, and the level is at a record high!
- Vacancies have fallen sharply from a very high level in mid-23. In August, a small uptick. Vacancies on average lead unemployment by some 9 months.

Hours worked may be turning

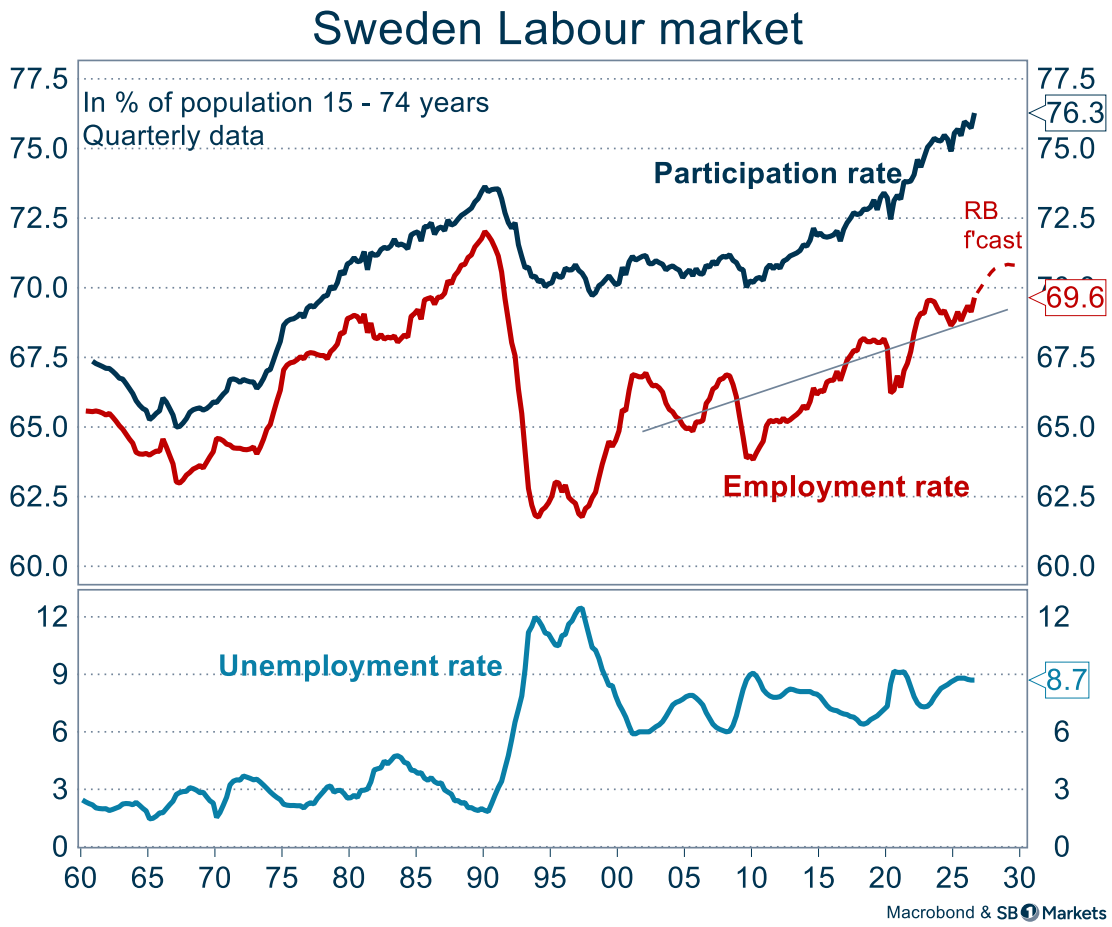
National accounts have reported a steady decline, at least until late 2025. The tide may be turning.

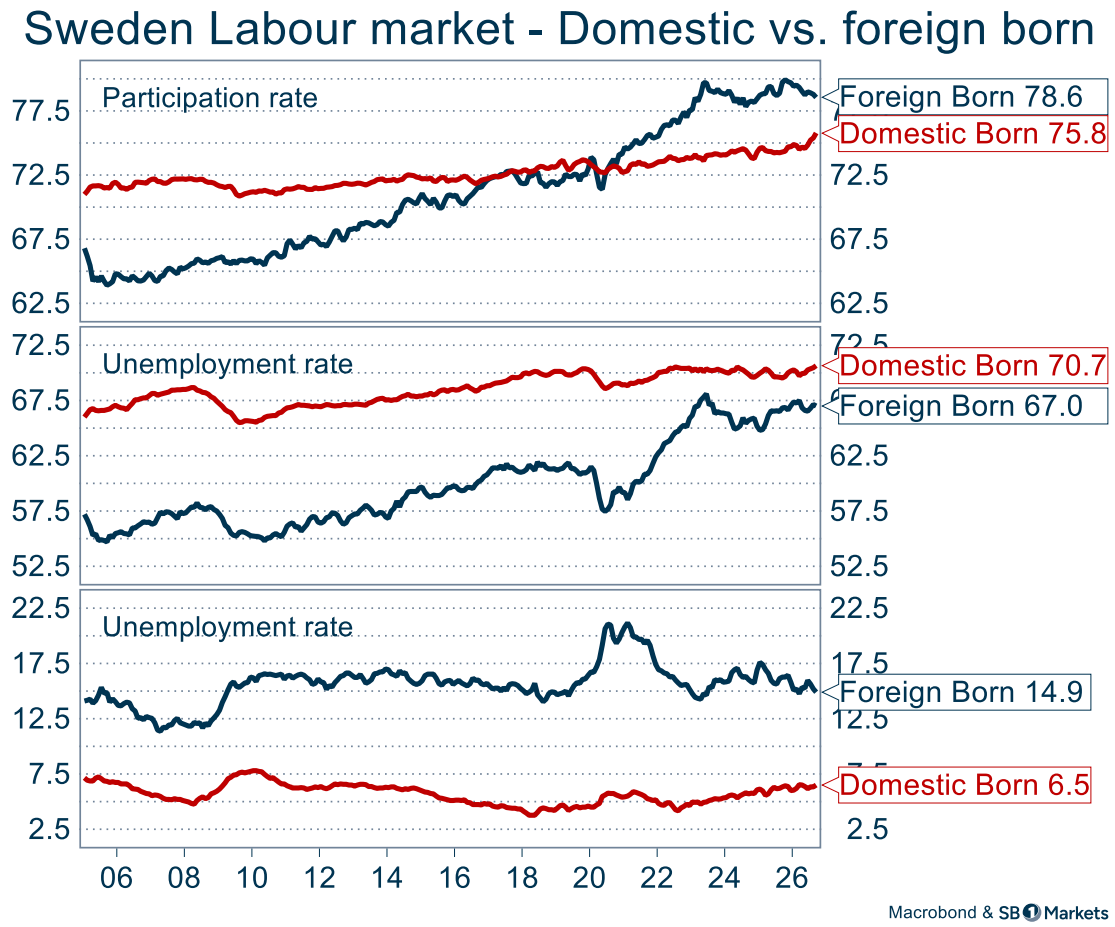




Participation is at a record high. Employment has risen over the past 2y

Employment is up 1.2% 3m/3m, 0.2 pp above the annual growth rate. The Swedish labour market has been recovering since late 2024 – even though the unemployment rate has remained high.





SB 1 Markets

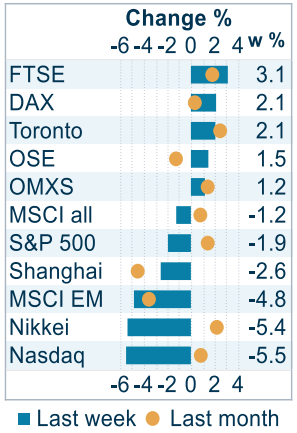


4. Financial Markets

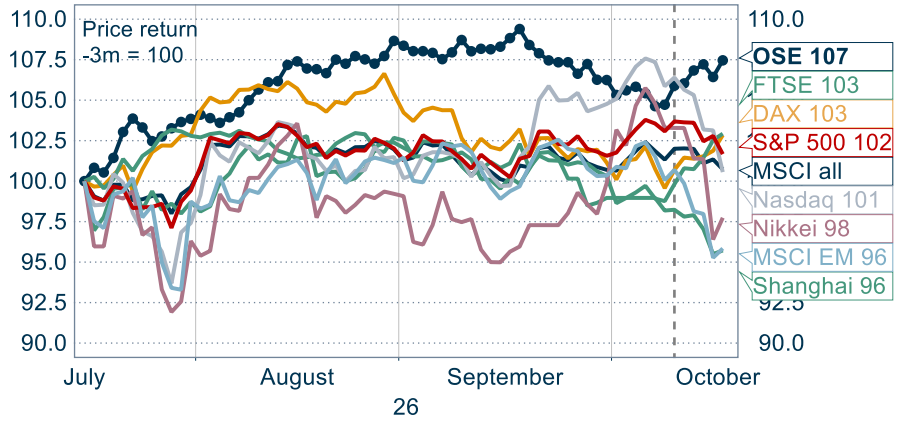
*Picture source: ChatGPT

Equity markets mostly down, bond yields down, metals down, energy up, nat. gas the most

The decline in bond yields was not triggered by

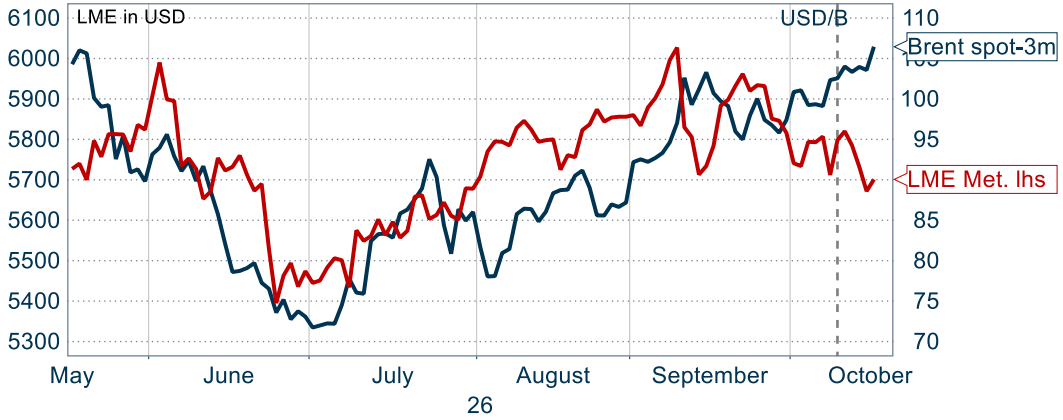


Equity Indices



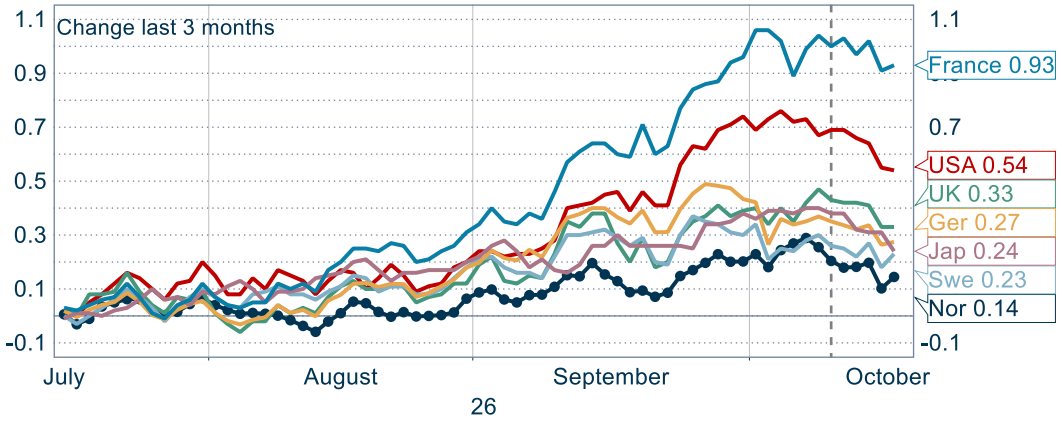
Macrobond & SB1 Markets

Oil vs. metals



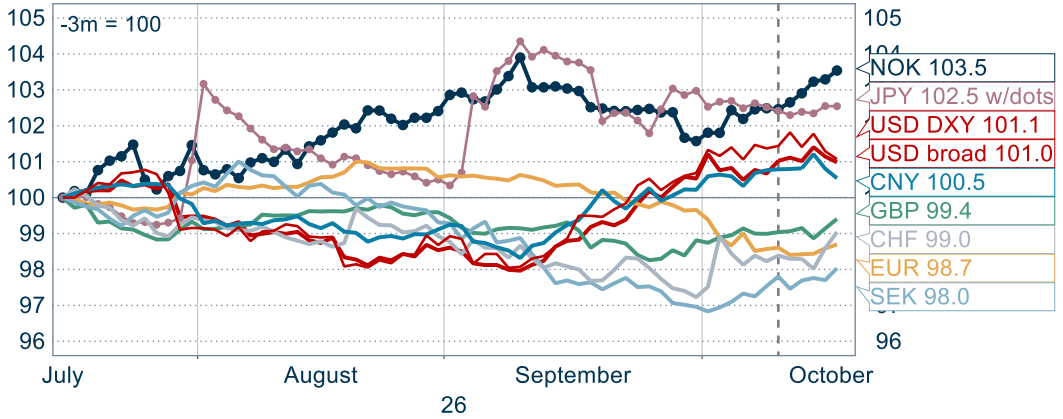
Macrobond & SB1 Markets

10 y Government bond yields



Macrobond & SB1 Markets

Currency indices

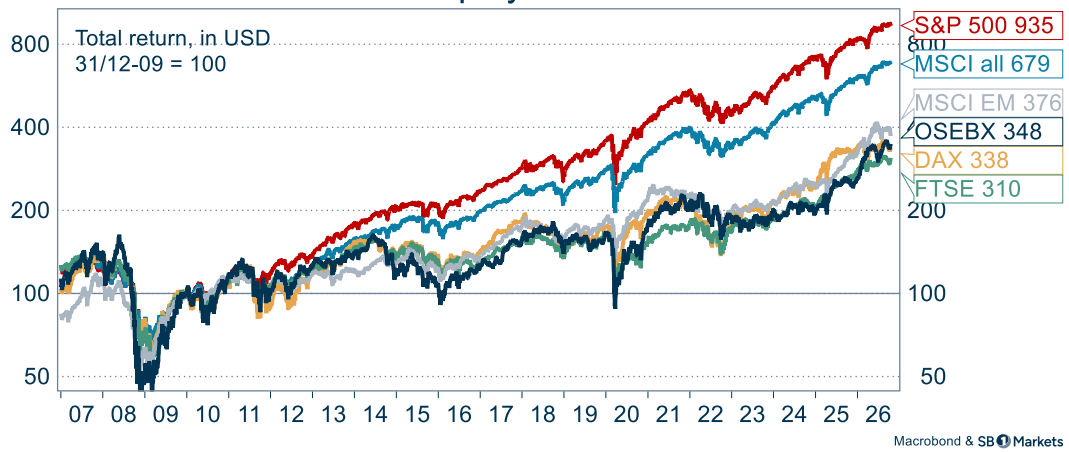


Macrobond & SB1 Markets

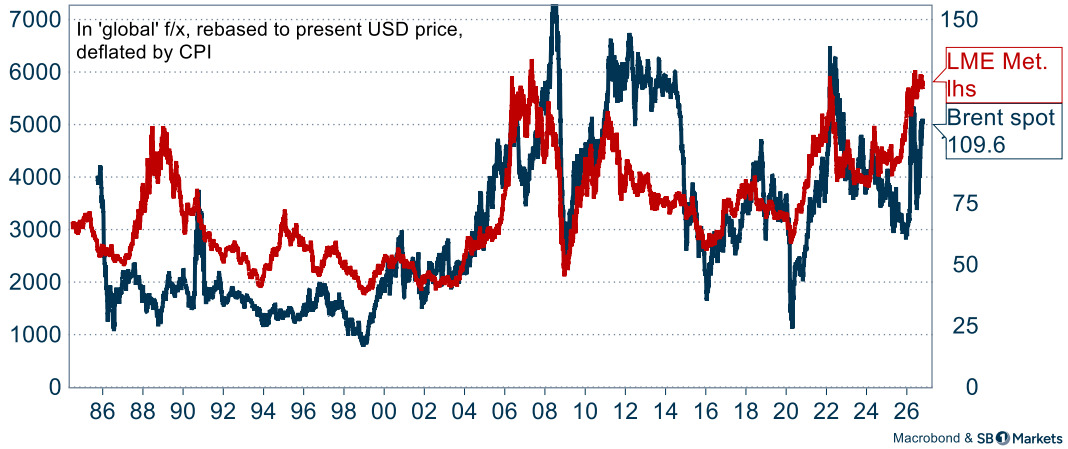
Big picture: Equity markets, bond yields and metal prices are on the way up

JPY is the main FX loser, and the USD was the winner until early 2025 (with the CHF, which is one of the big losers in 2026). NOK has recovered substantially so far in 2026. The oil price is at a normal (real) level.

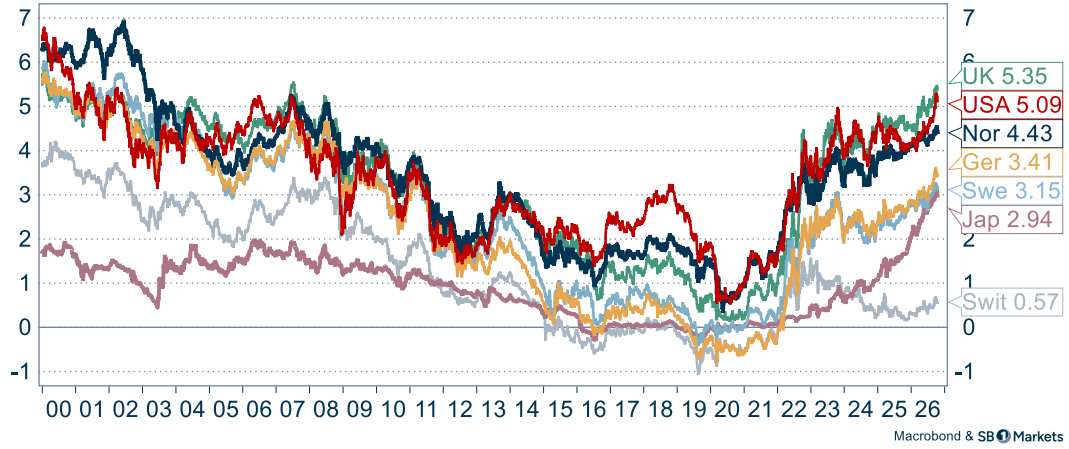
Equity Indices



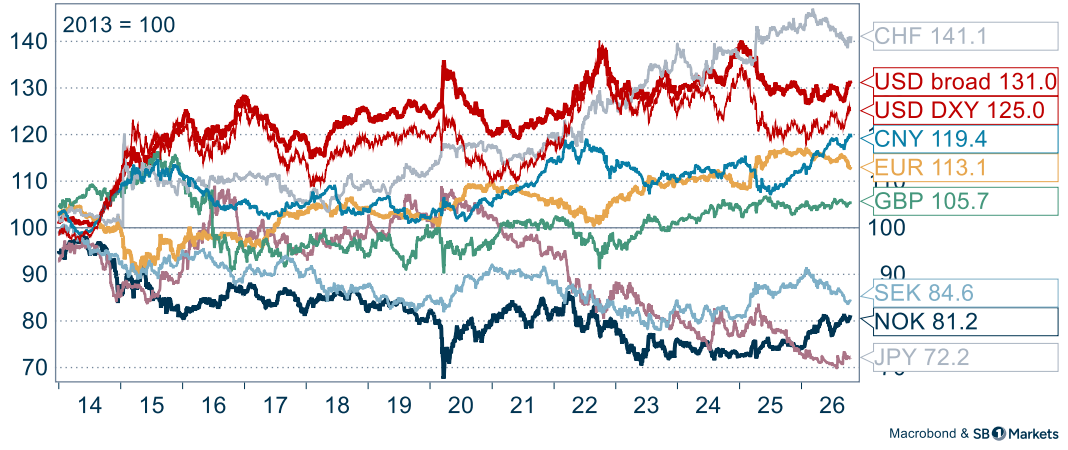
Oil vs. metals



10 y Government bond yields



Currency indices



SB 1 Markets

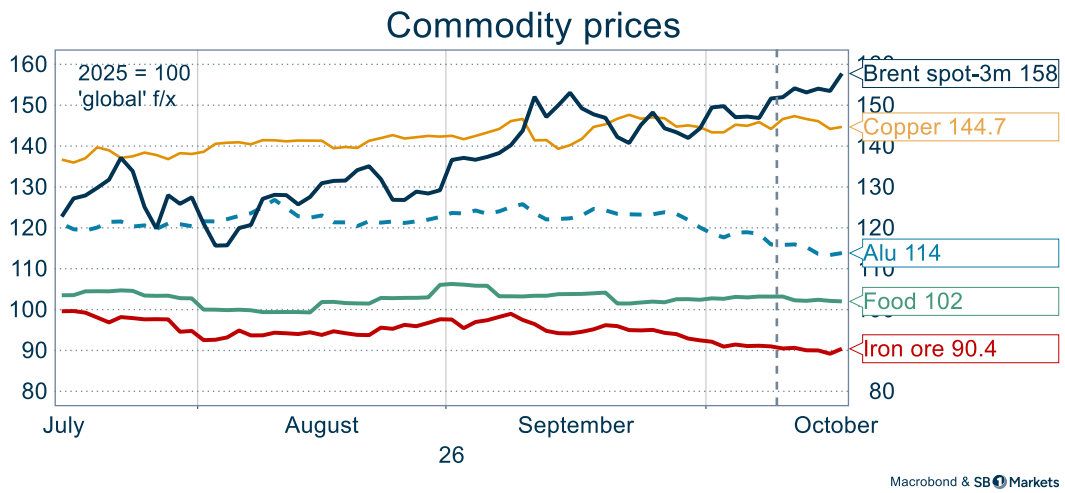


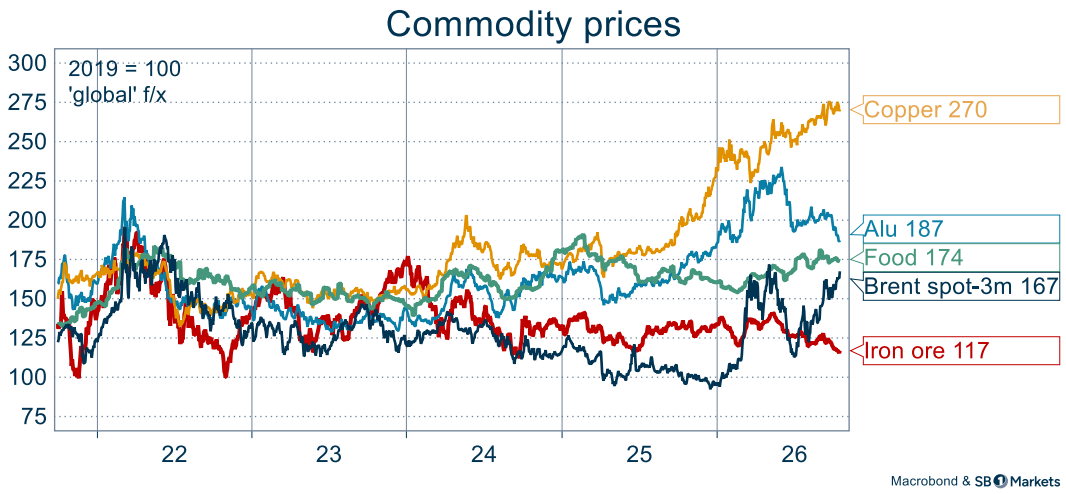
4.1 Commodities

*Picture source: ChatGPT

Commodity prices: European gas prices at a cycle high, oil up (but crack spreads down)

Food and metal prices fell further. Tanker rates are soaring, while dry freight rates are falling





Commodity prices

In 'global' f/x % change	last w	last m	last y	YTD
Nethl. TTF gas 1-12m	9	13	133	166
WTI oil	8	3	75	74
Nethl. TTF gas 1st m	8	10	163	200
Nordic electr. spot - 1y	6	2	66	66
Brent spot-3m	4	6	75	76
Brent spot-12 m	4	9	63	64
Brent 1-6y	1	4	24	26
Brent spot	1	4	82	81
Iron Ore 3m fwd	0	-4	-12	-12
USD global f/x	0	1	1	1
Food	-1	-2	9	8
Wheat	-1	-11	42	38
Copper 3m fwd	-1	2	37	17
Aluminium 3m fwd	-2	-7	9	1
LME 3m fwd	-2	-1	28	13
US nat gas 1-12 m	-4	-2	-16	-18

-12.5 -7.5 -2.5 2.5 7.5 12.5

Last week ● Last month

In 'global' f/x % change	last w	last m	last y	YTD
VLCC tanker 1y TC	11	73	469	426
Drewry Container freight	3	0	168	104
Gold	-1	-2	-3	-3
Bitcoin	-2	8	-24	-6
Silver	-7	-9	6	-20
Baltic dry freight	-14	-24	24	35

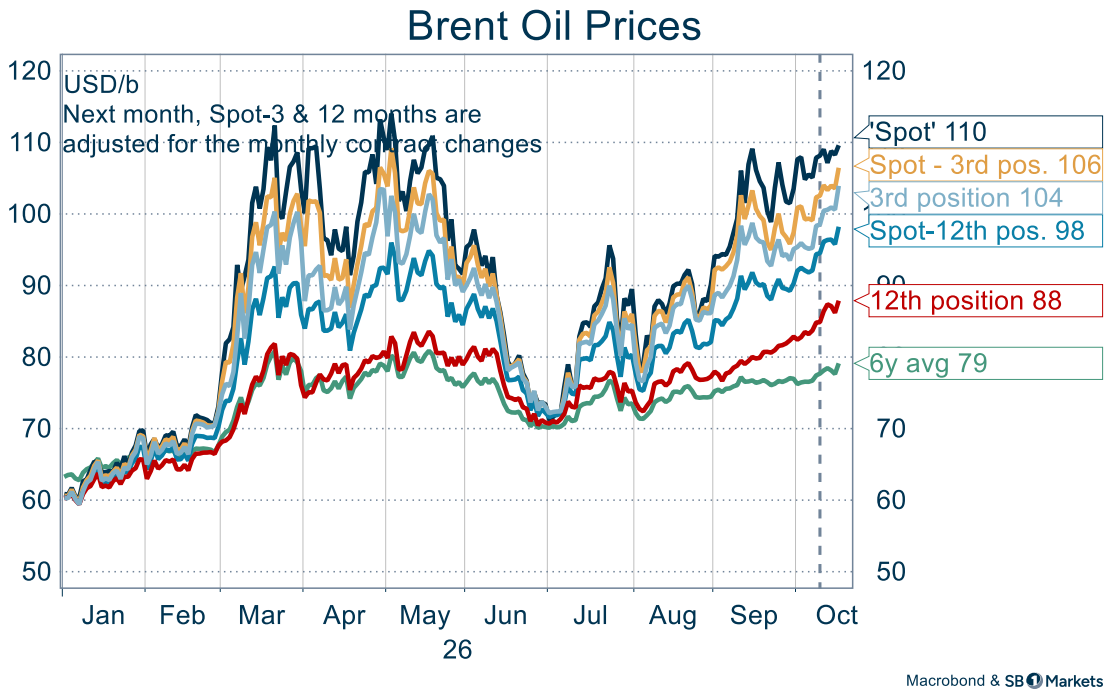
-30 -10 10 30 50 70

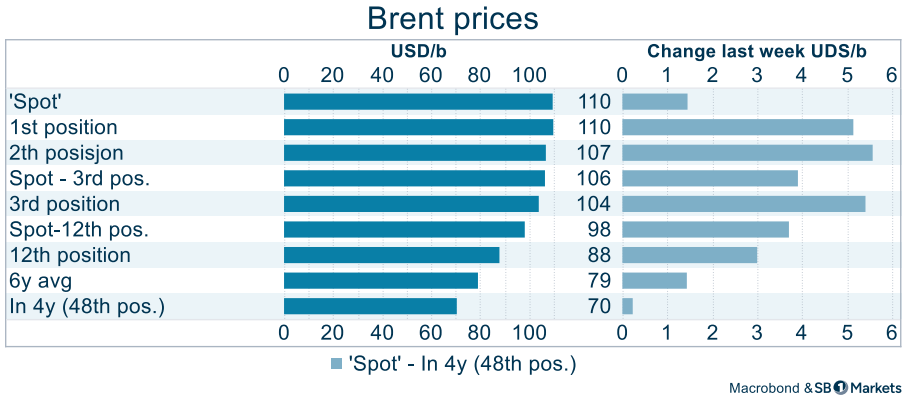
Last week ● Last month

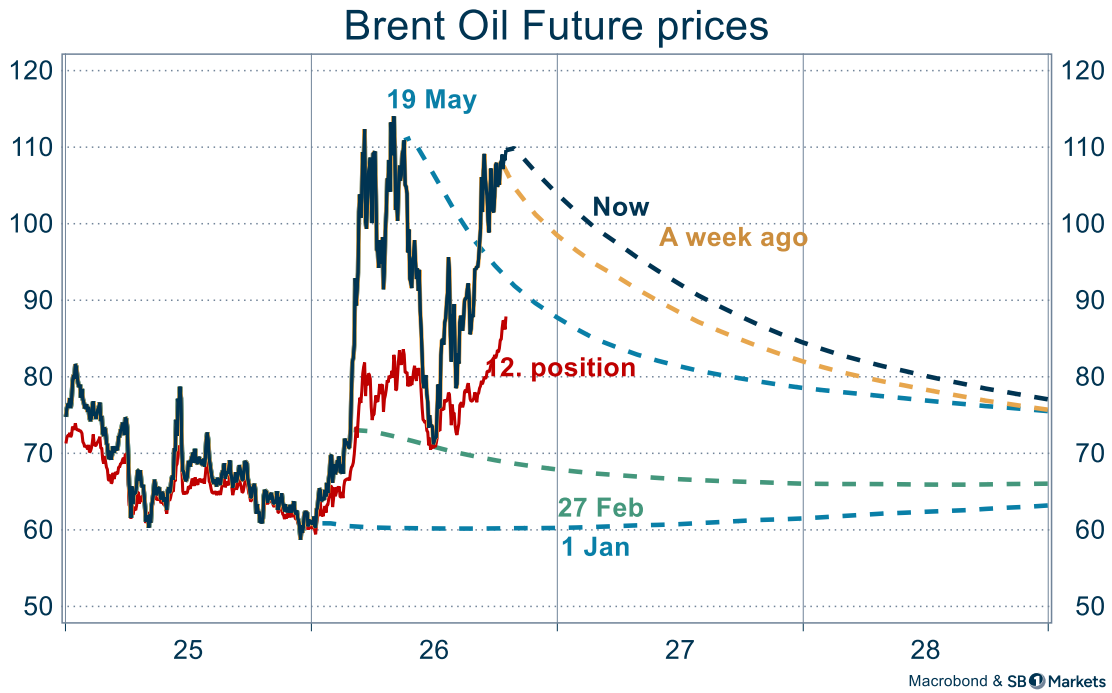
Macrobond & SB1 Markets

Prices in a 'global' FX measure. We have divided the table on the right into two sections, with the lower part showing the (normally…) most volatile elements. The spot–12m data are the average price for the coming year.

Oil prices further up, all over the curve

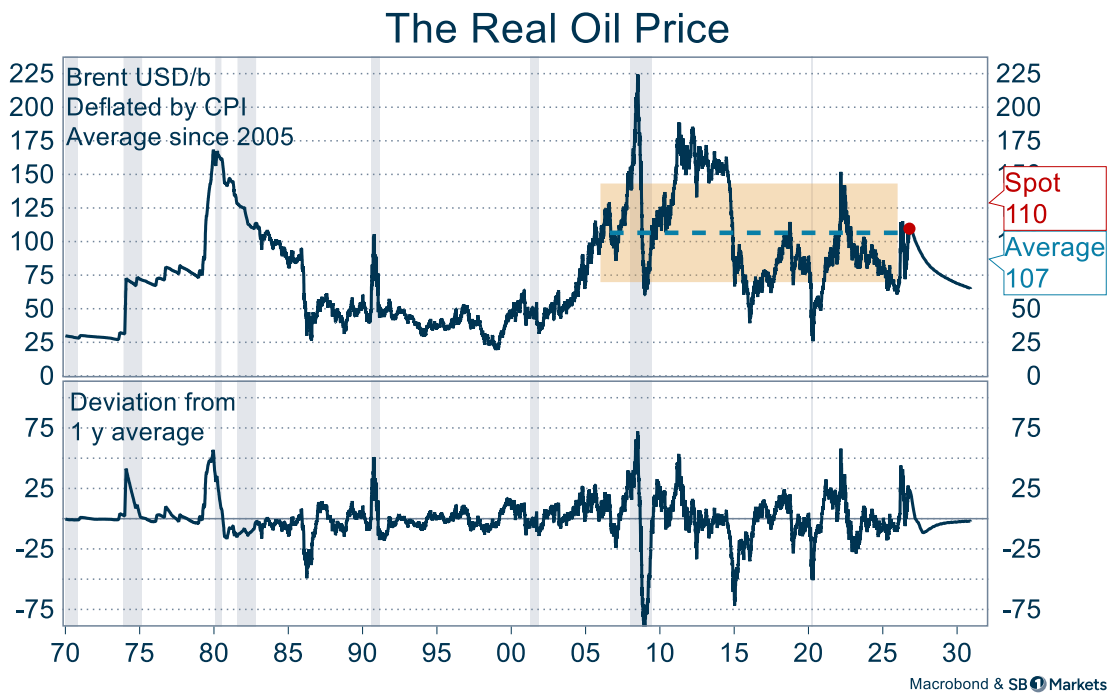


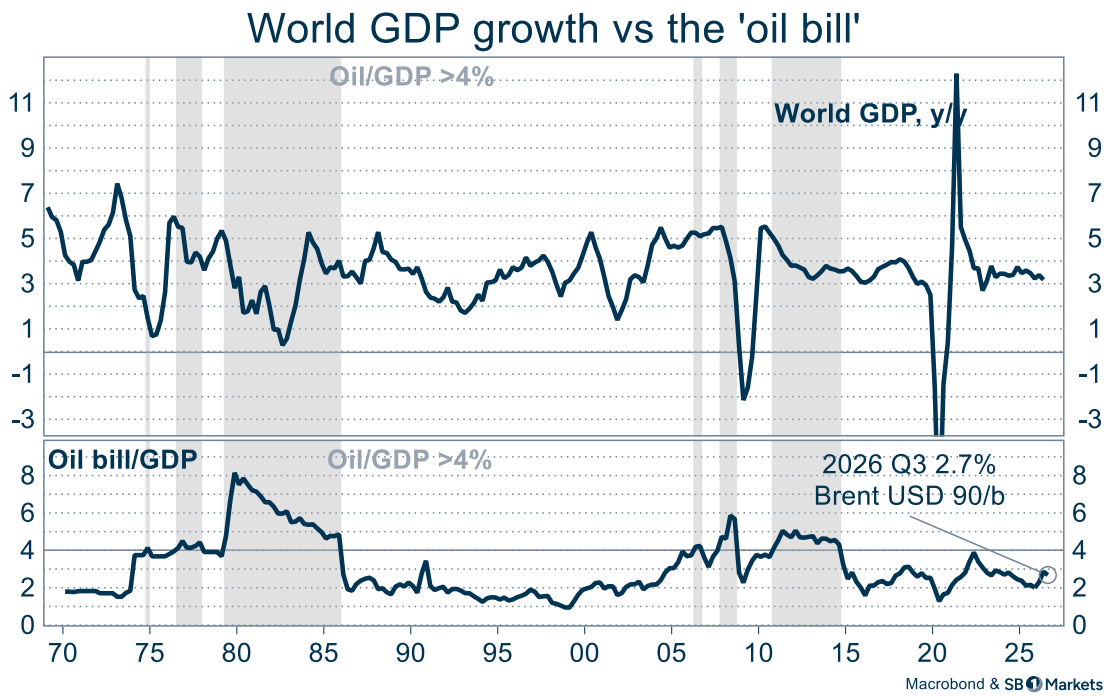




The current oil spot price is *not the problem*

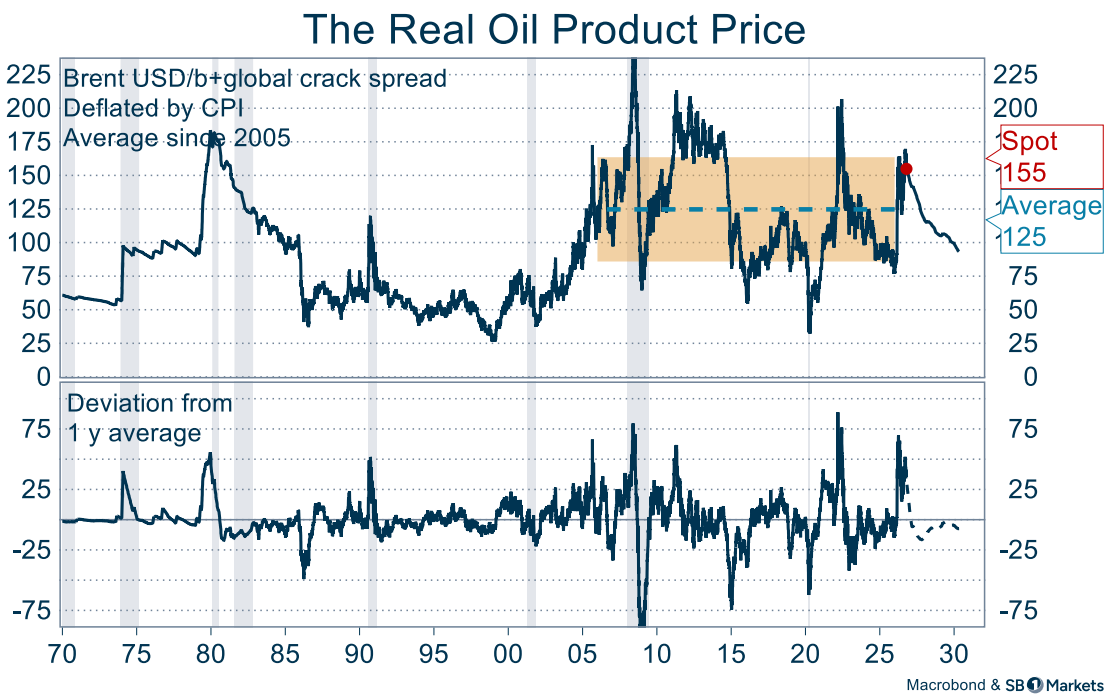
Over the long term, oil consumption has consistently declined relative to GDP, leading to a notable reduction in oil dependence. At current price levels, oil does not pose a significant cost issue.

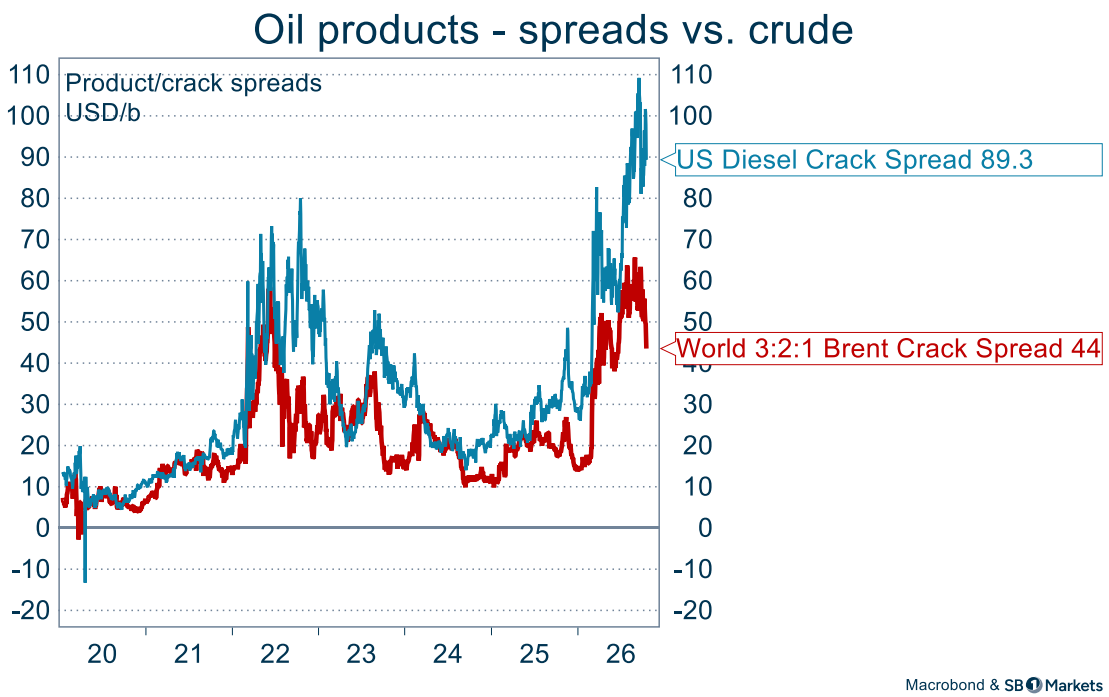




Including product spreads, the price level is 30% above the 20y average

… but still lower than in the 2011–2014 period. And well below the spring 2022 level. (*More product spreads on the next page.*)



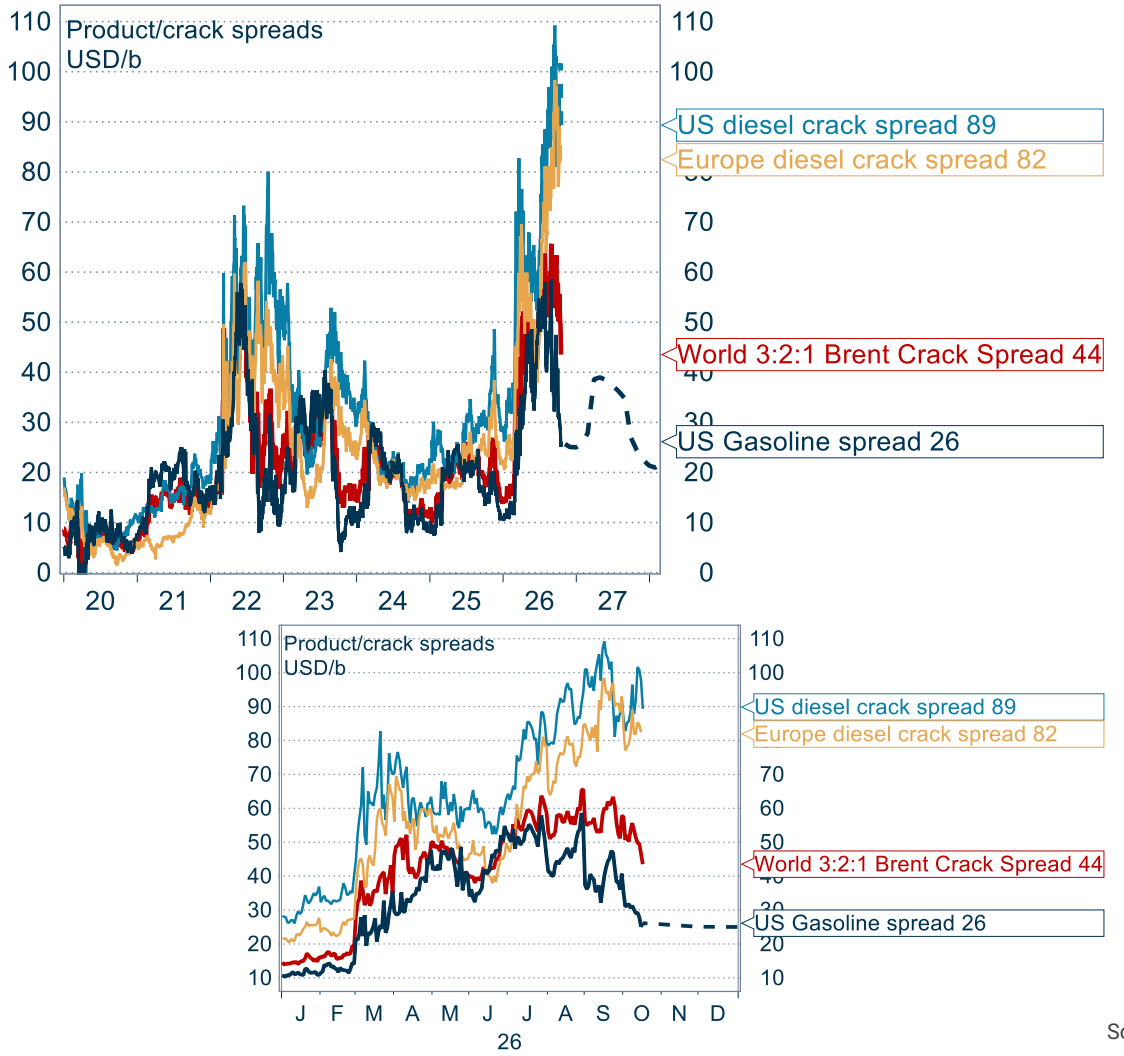


We have added the global average crack spread, the red line in the right-hand chart.

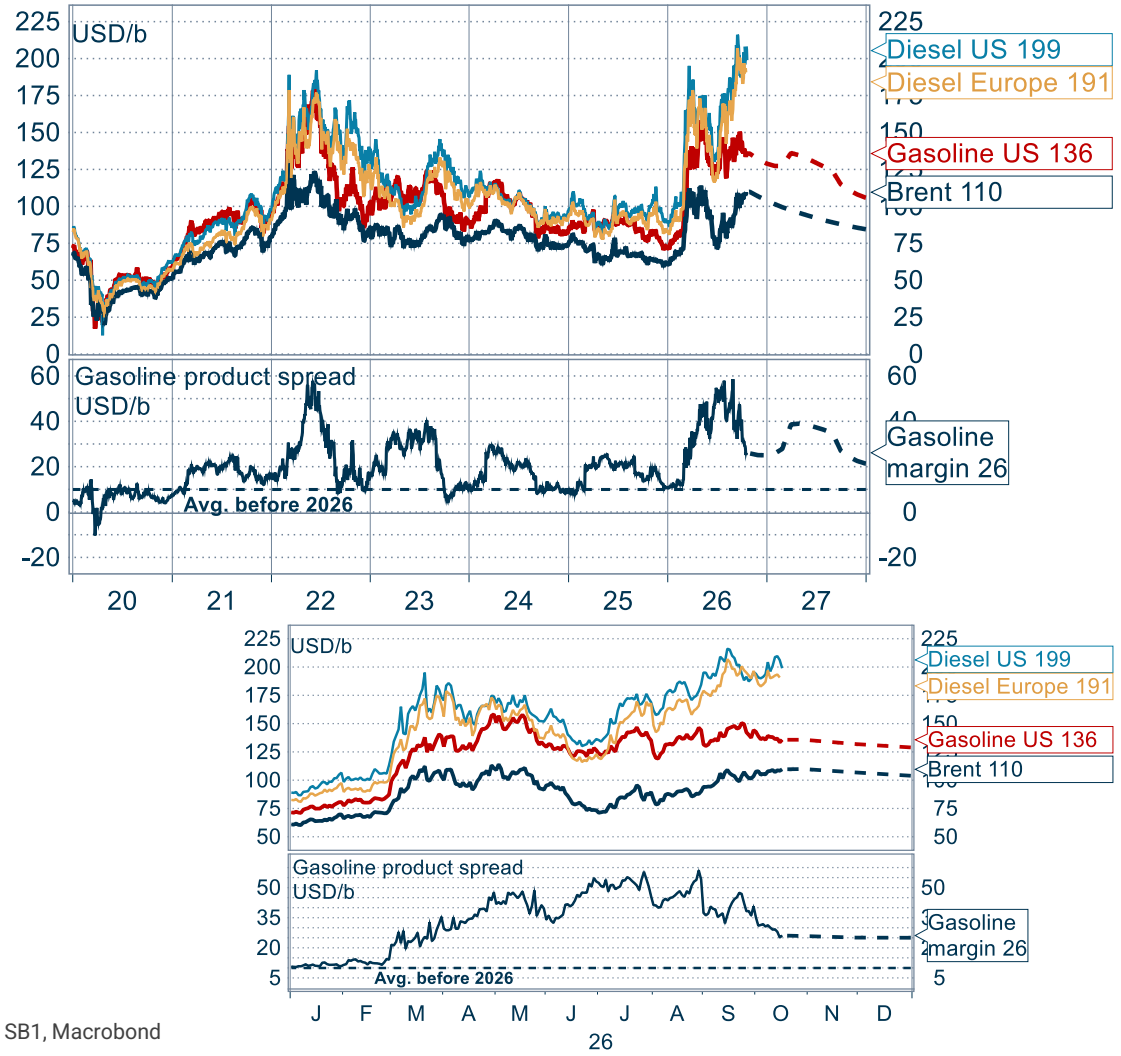
Oil products: spreads fell last week, but not due to the (possible) Trump/Putin deal

Spreads narrowed on Friday, and both gasoline and diesel crack spreads fell. The world avg. spread fell to USD 44/b, from >USD 60/b at the peak. The US gasoline spread has fallen to USD 26/b, from almost USD 60/b at the peak. However, the oil price rose further last week.

Oil products - spreads vs. crude



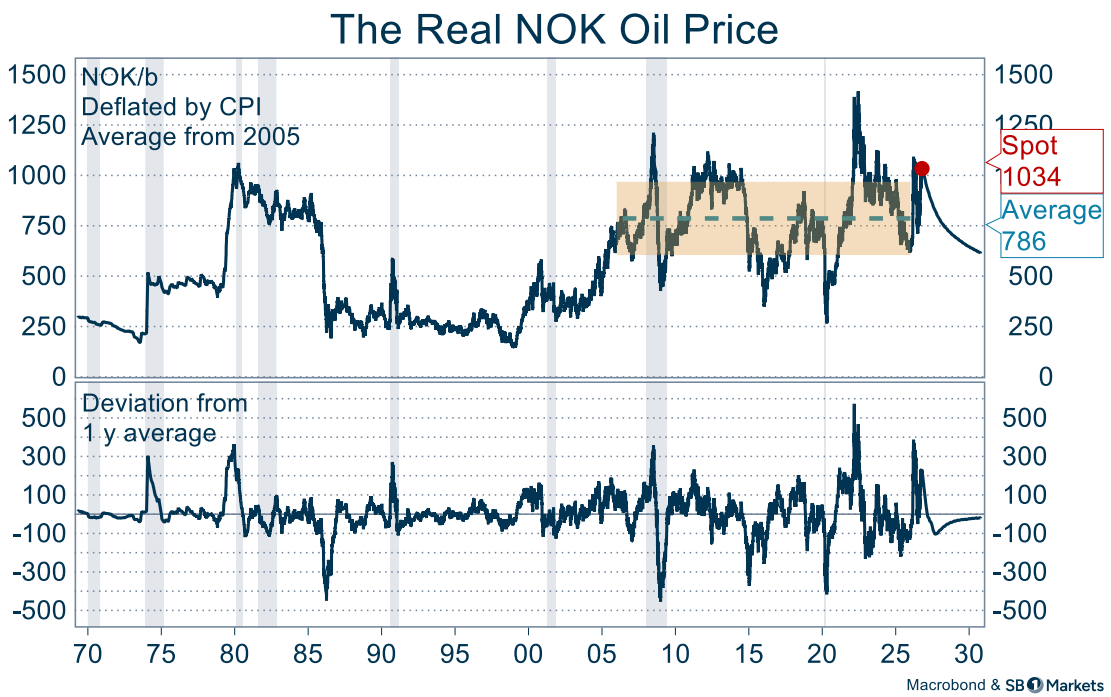
Crude vs product prices

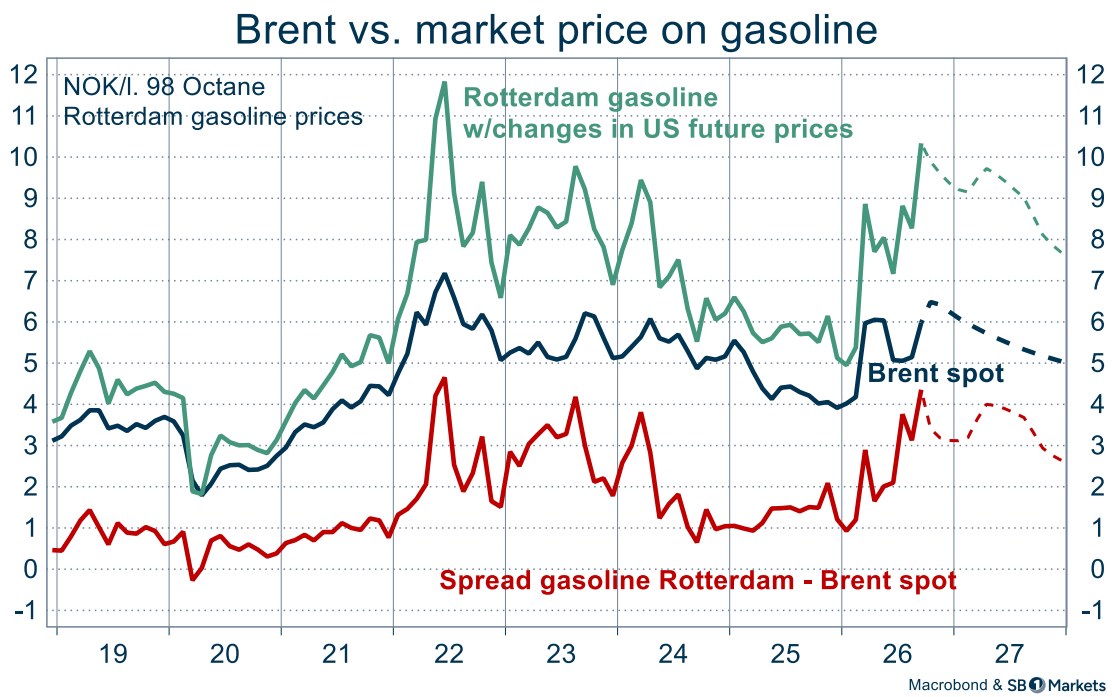


Sources: SB1, Macrobond

Measured in a weak NOK, the real oil price is 30% above the 20y average

Gasoline prices (fob refineries) are higher vs. the long-term average, as refinery ('crack') margins are wider than normal (and some product spreads are higher than the gasoline spread). However, futures prices point towards lower prices towards the end of the year.

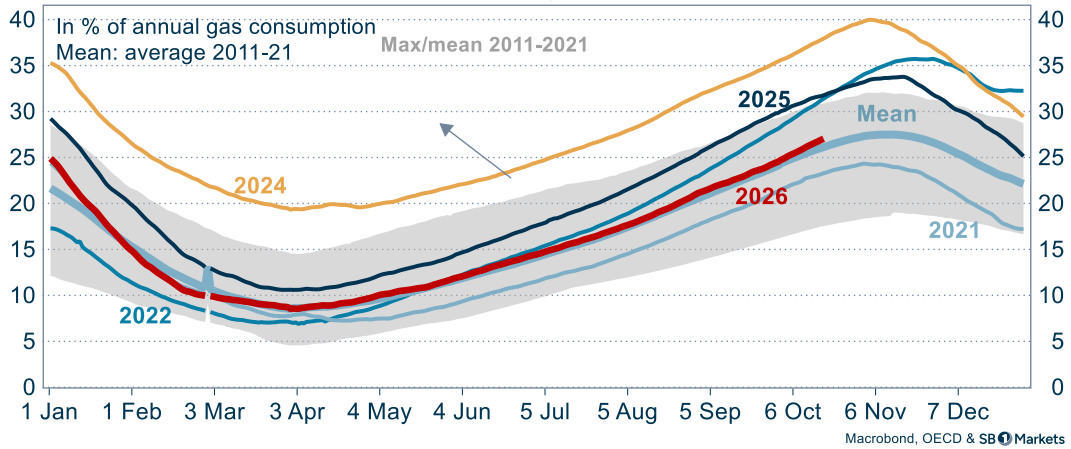




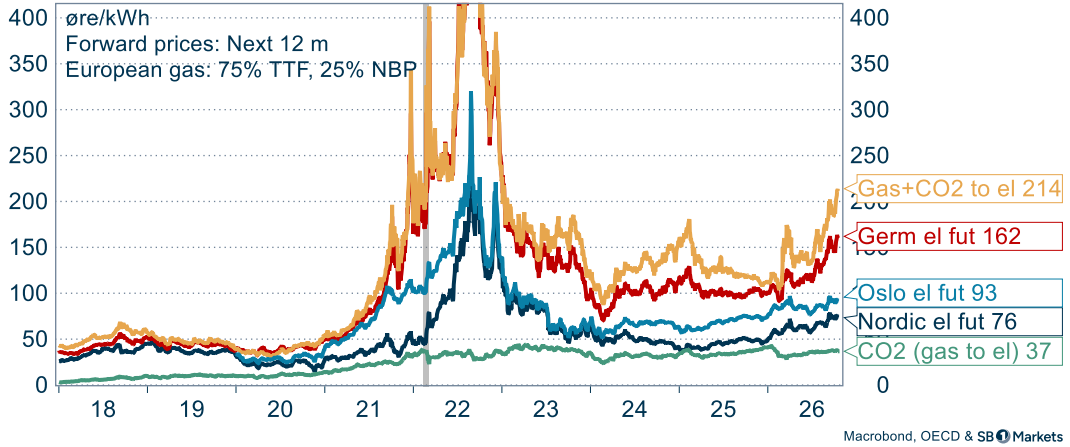
European natural gas stocks are record-low, but not vs. gas consumption (which is down)

The inventory is at an average level vs. annual gas consumption. However, prices shot up to a cycle high last week

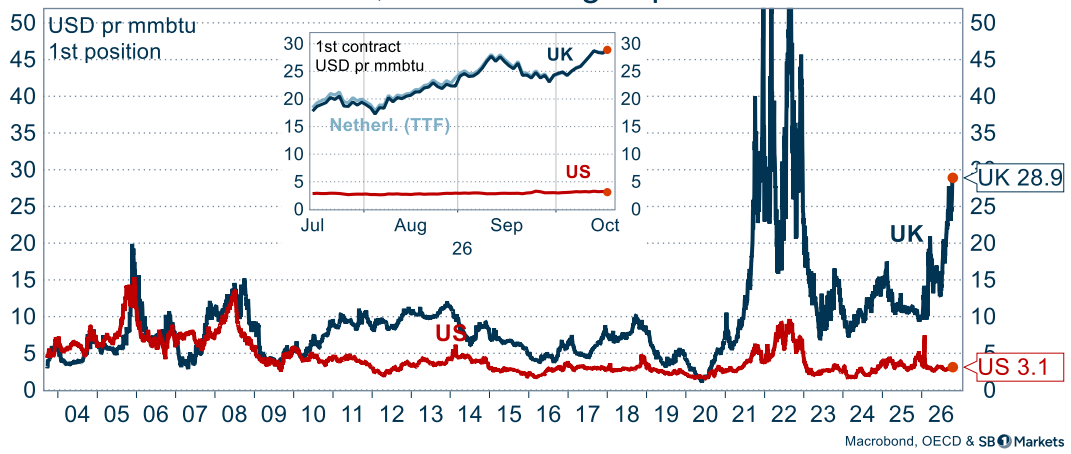
EU natural gas stocks



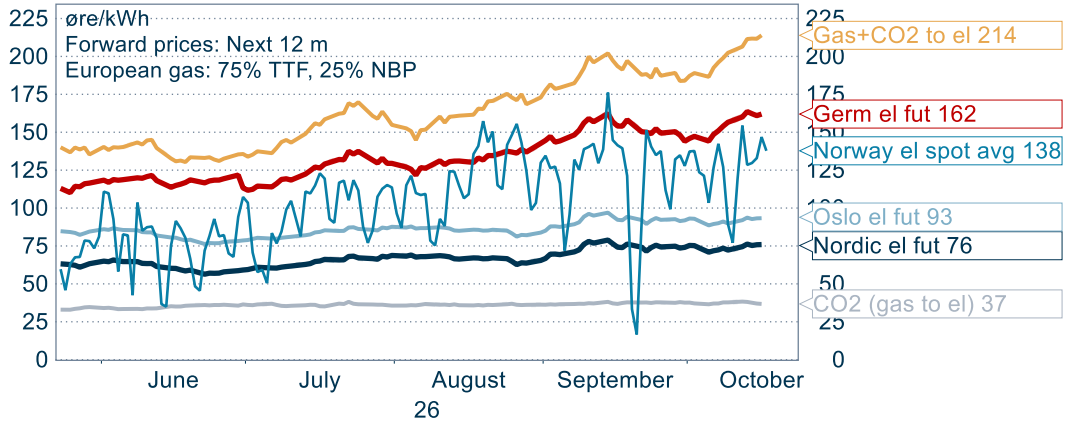
Electricity/gas future prices



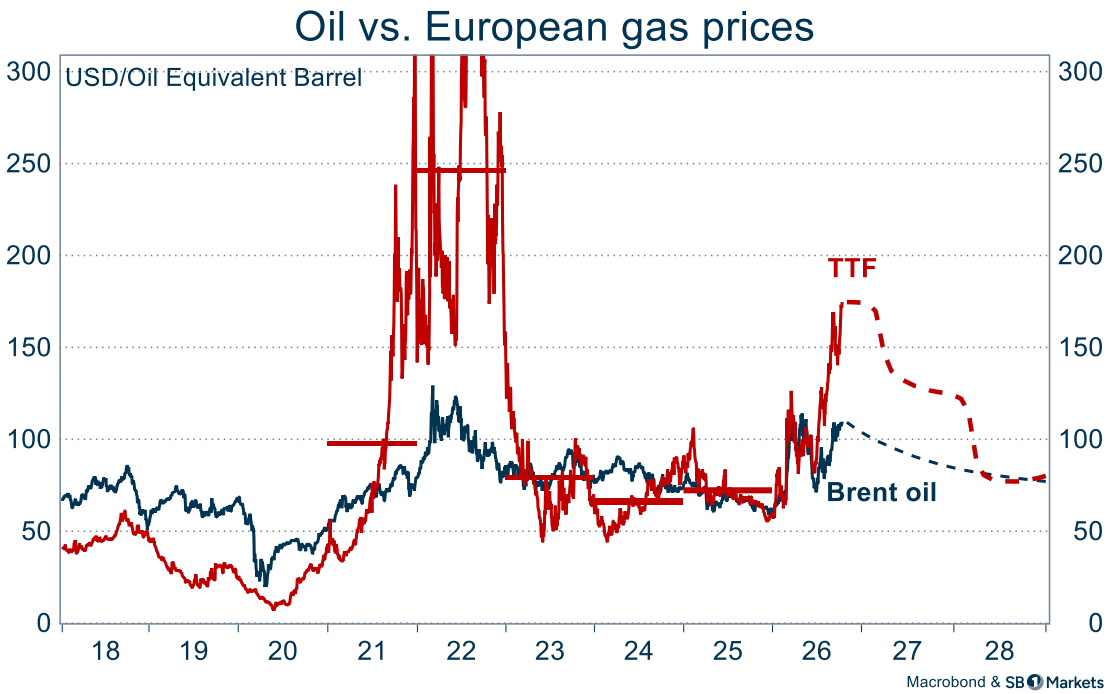
UK, US natural gas prices

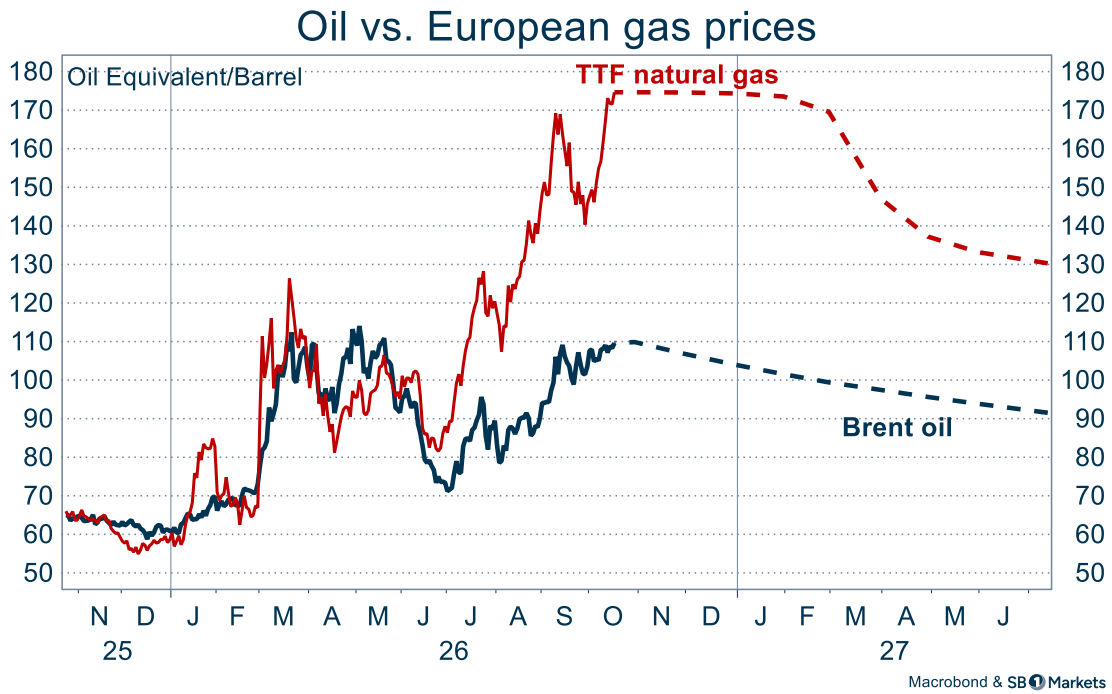


Electricity/gas future prices



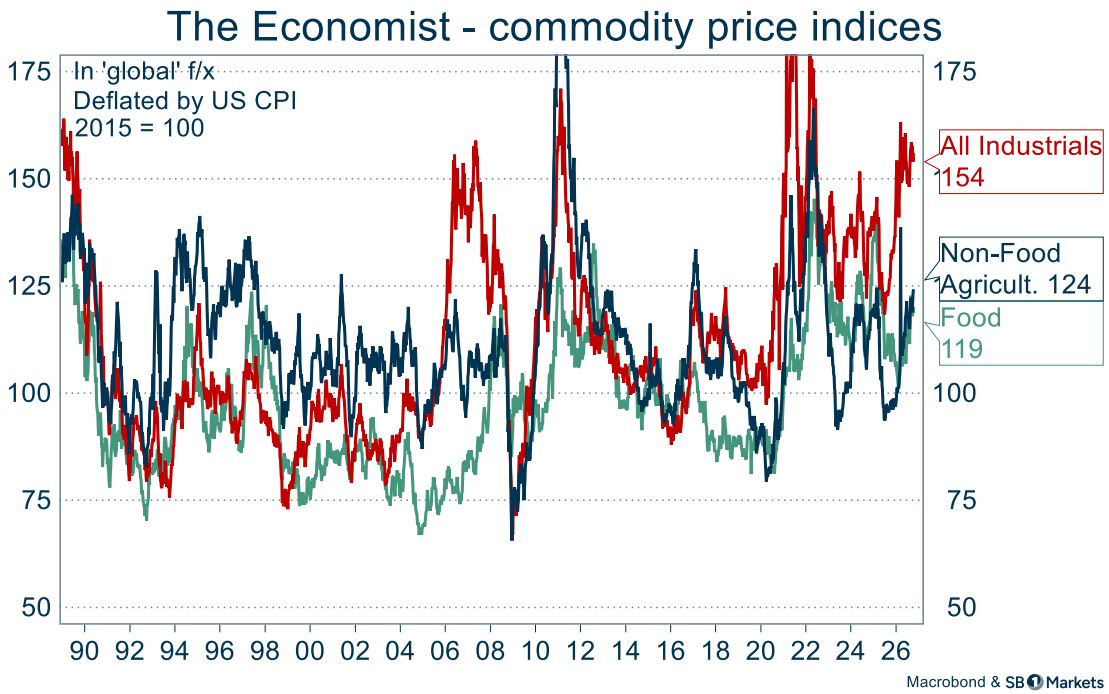
European natural gas prices turned up again, *to a cycle high*

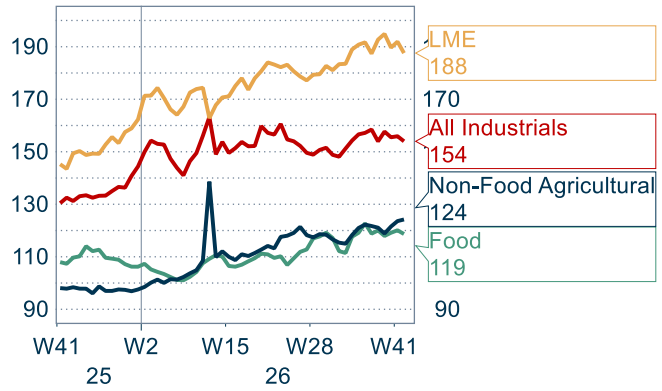


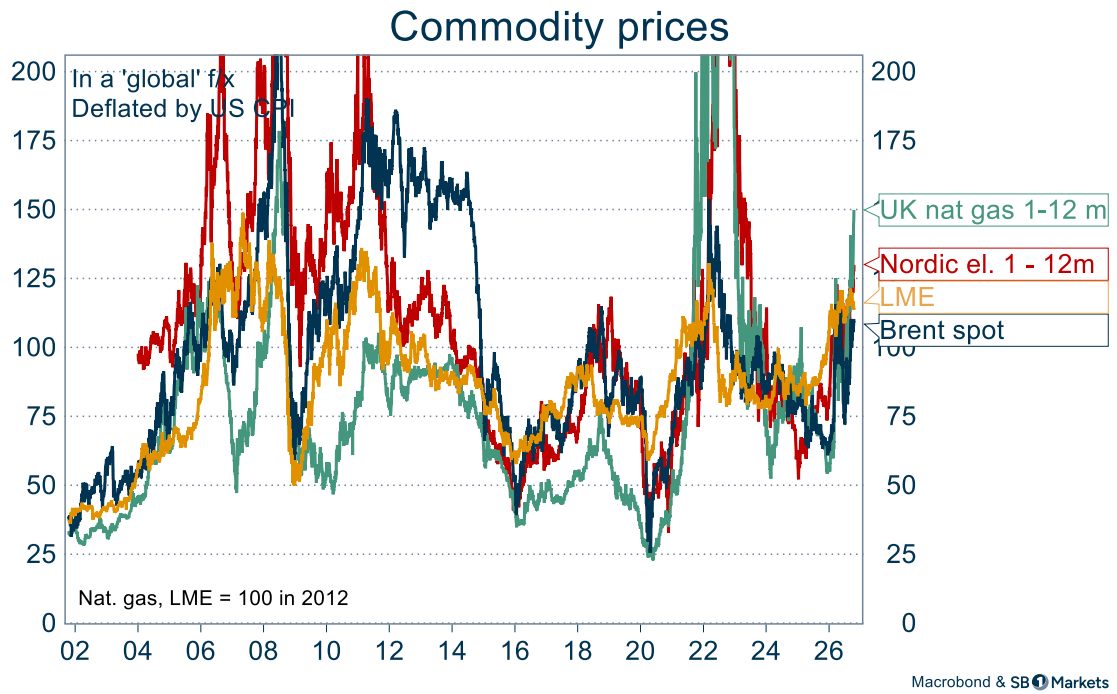


Big picture: industrial commodities far above normal levels, have flattened in 2026

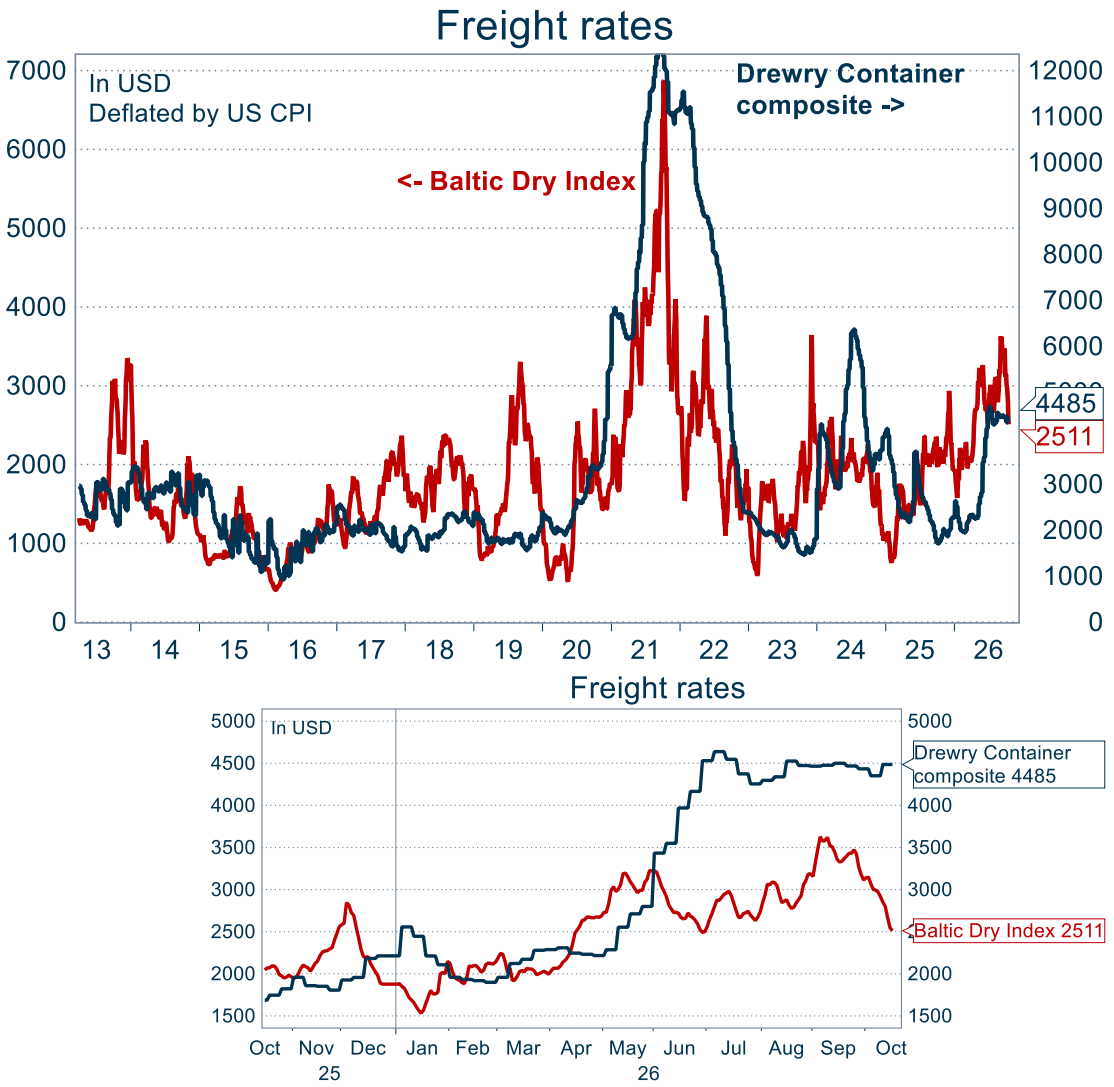
Food prices have been trending down since the war in Ukraine started but are up 10% in 2026. Non-food agricultural prices are up 25%. Industrial material prices are high overall, driven by metals, but have flattened. *Taken together, still some inflationary signals.*

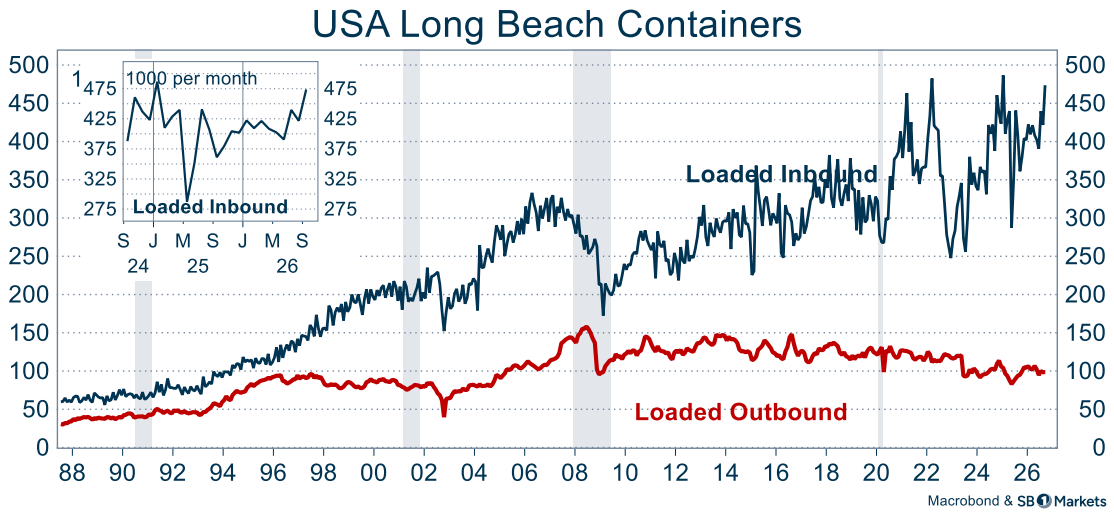


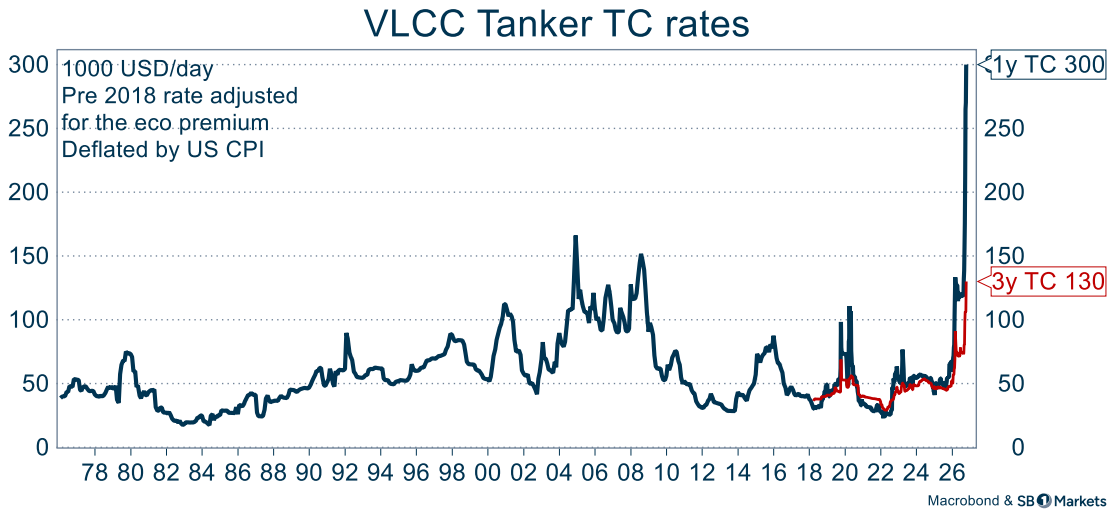




Tanker rates are surging, while dry bulk rates have fallen in recent weeks

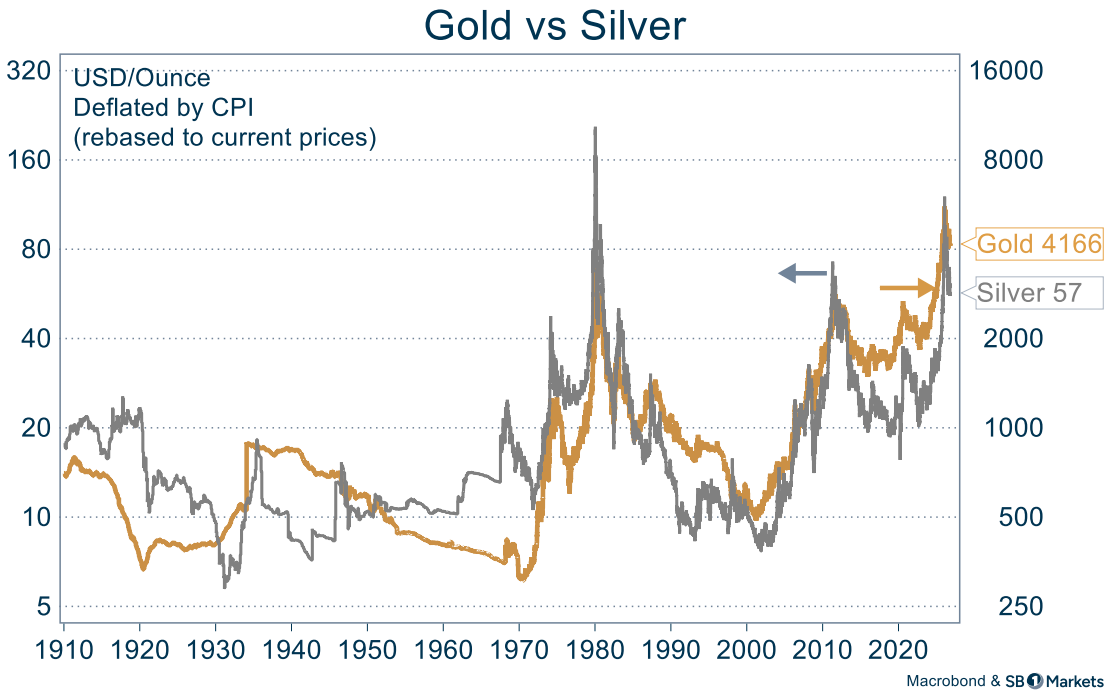






Gold and silver prices are trending down

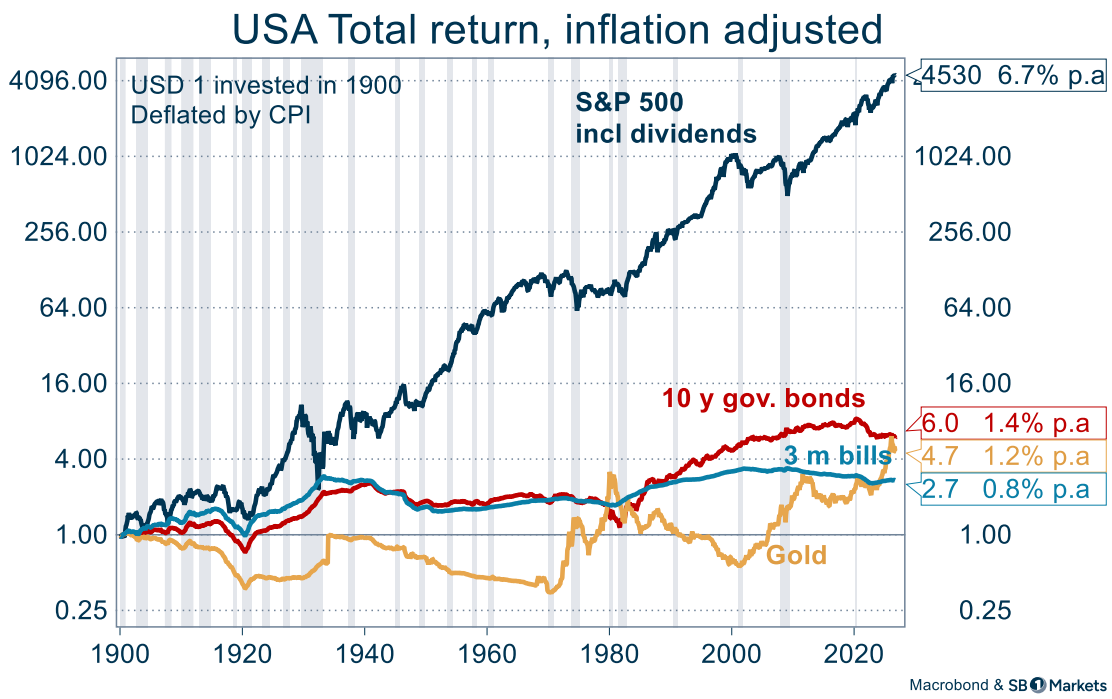
Real prices are still very high vs. historical averages.

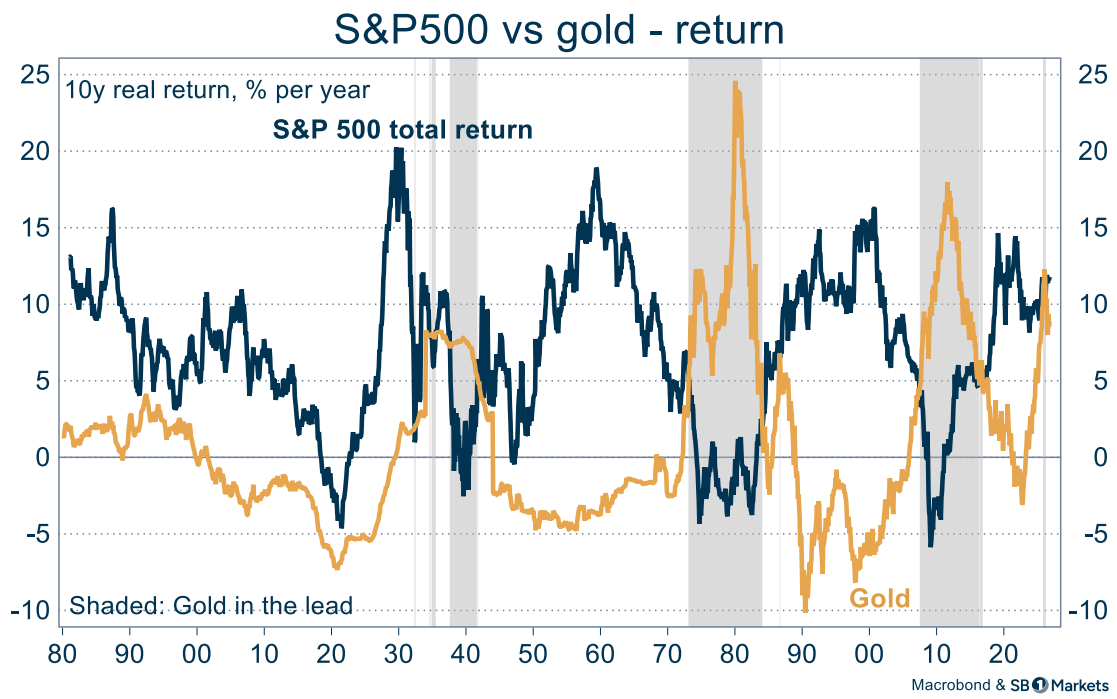




Gold and equities rising together – not seen since the ’30s (at least not over a longer period)

Long-term risk-adjusted returns look modest. Historically, gold has hedged equity drawdowns over the medium term, but less consistently over the past decade – and both gold and US equities now appear richly priced.





SB 1 Markets

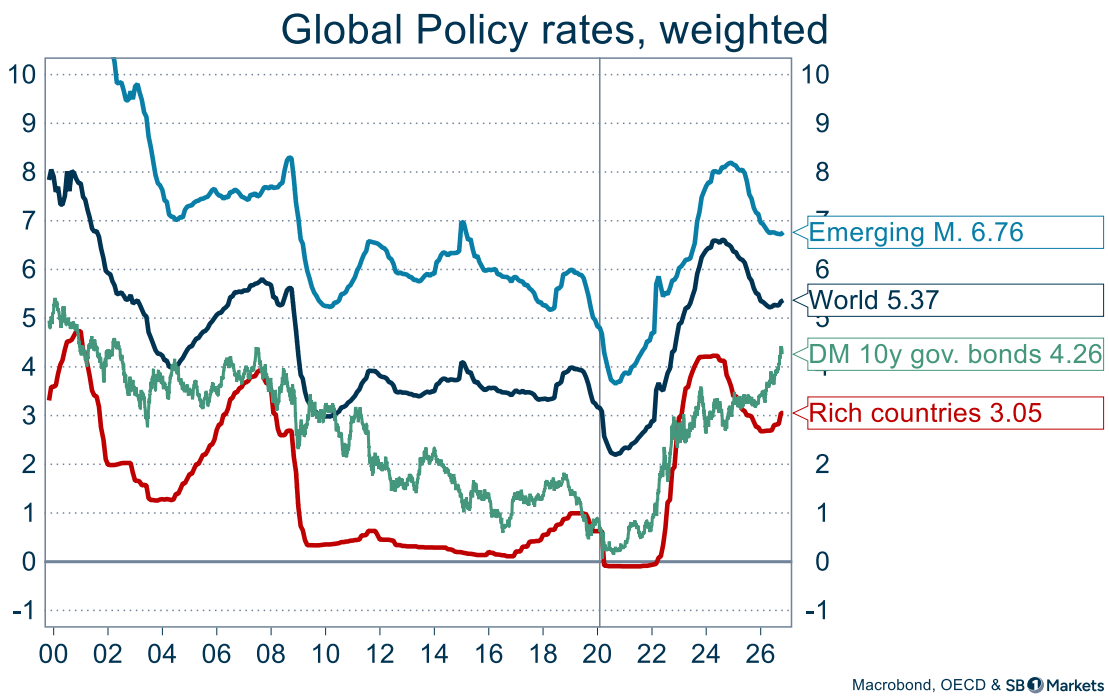


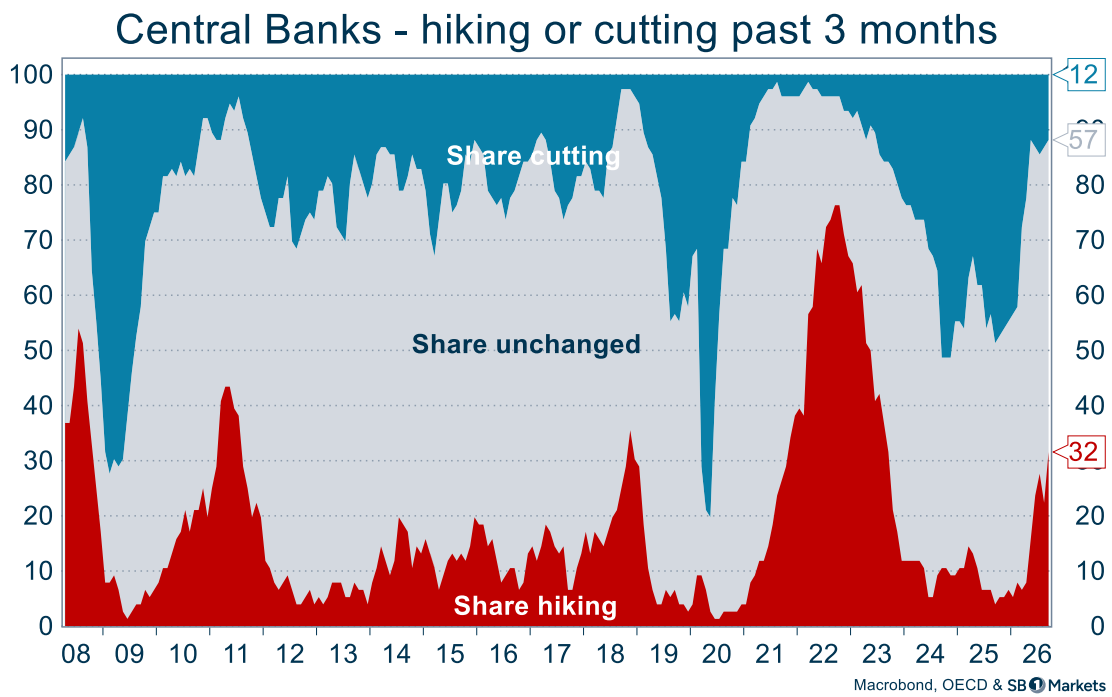
4.2 Interest rates & credit markets

*Picture source: ChatGPT

In the past 3 months, 32% of central banks have hiked, while 12% have cut

The global average policy rate is slightly up from the bottom in 2025, as a majority of DM central banks have hiked lately. The global average is at 5.4%. In DM, 3.05%. The average DM long-bond yield has trended up to the highest level since before the Financial Crisis, at 4.26%.

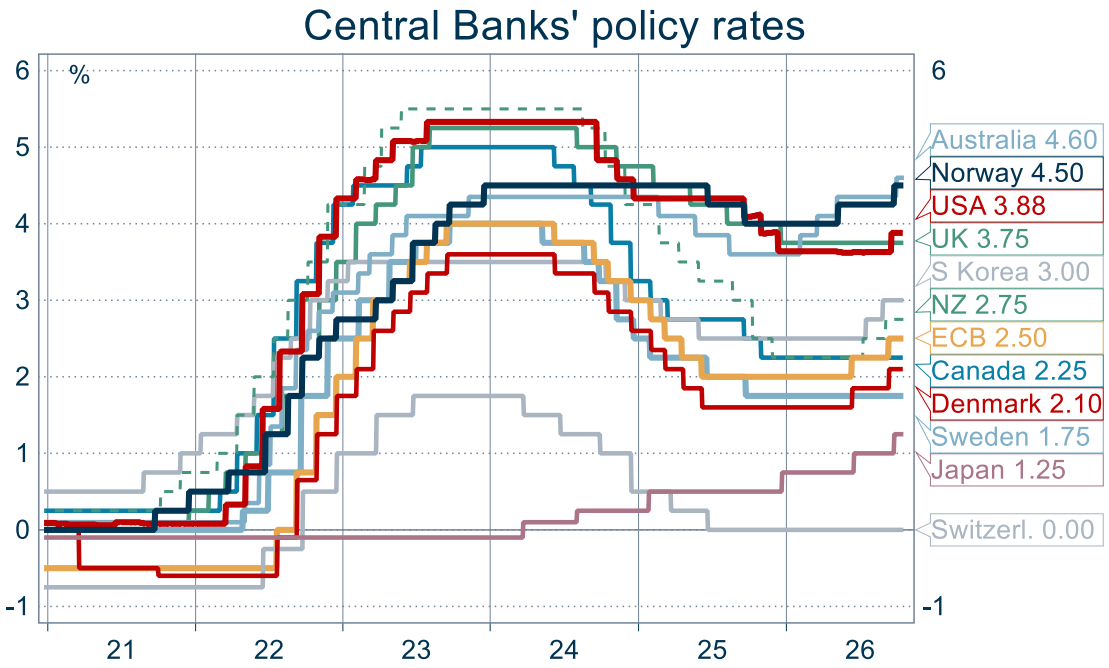


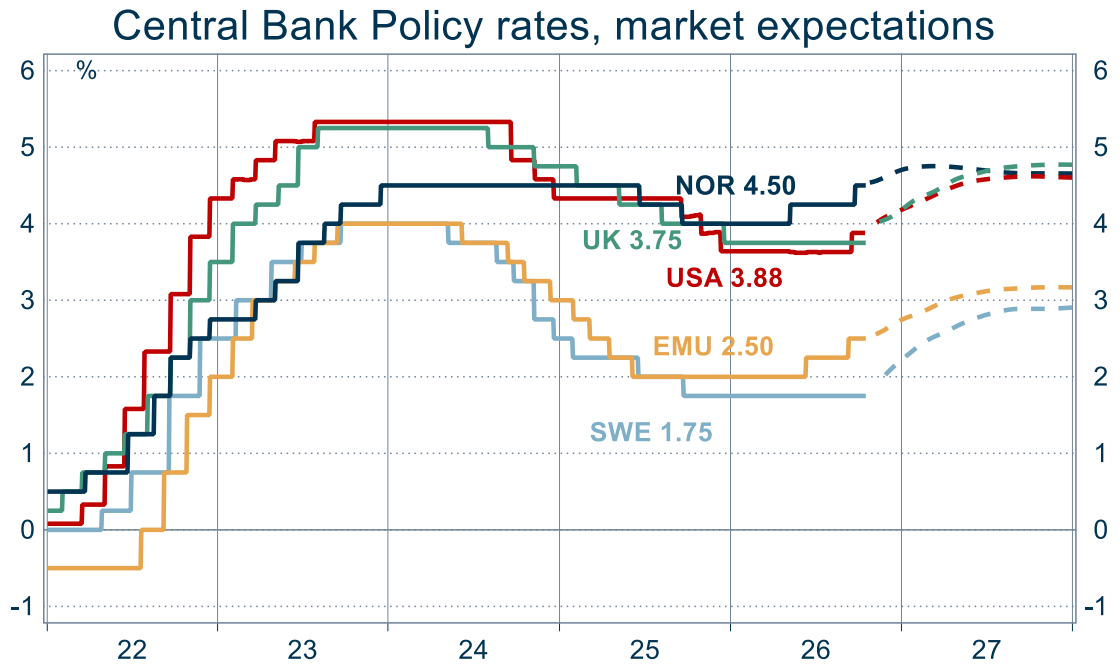


DM 10y government bond yield: a weighted average of US, Japan, UK, Germany, France, Italy, Spain and Canada

Rates turned down in most places last week, but not by that much

One more ECB hike in 2026 to 2.75% is still most likely. By the end of 2027, 2 more hikes. In the US 1+2; UK 1½+2½; Sweden 1+2½. In Norway, 60% for another hike in 2026, or 100% in Q1-27. The curve is just marginal down until Q2-28, where a cut becomes likely.





The list of cutters

- Canada (-275 bps, to 2.25%)
- Sweden (-225 bps, to 1.75%)
- Switzerland (-175 bps, to zero!)
- UK (-150 bps, to 3.75%)

The list of hikers

- Japan (+130 bps, to 1.25%)

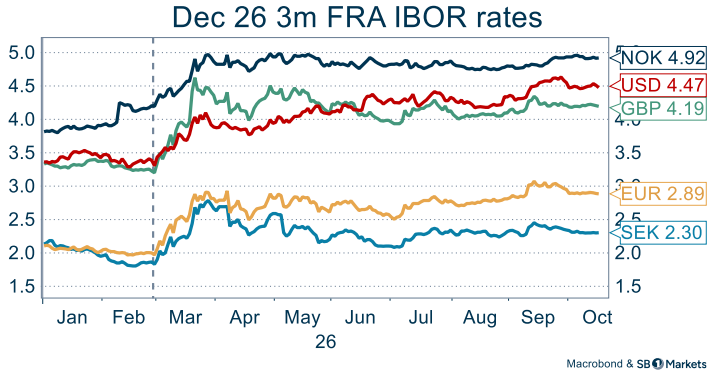
The list of cutters that have hiked

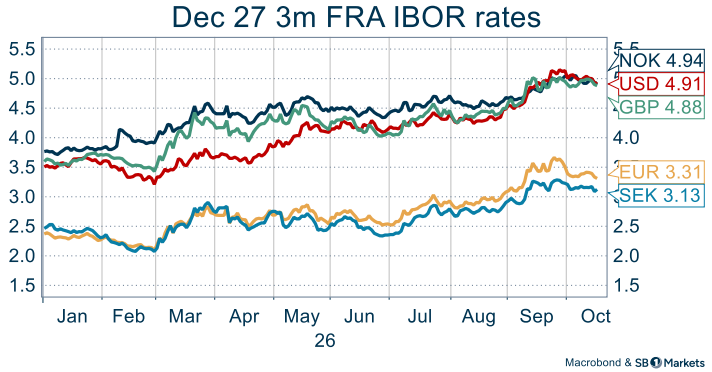
- Australia (+100 bps, to 4.60%)
- Norway (+50 bps, to 4.50%)
- South Korea (+50 bps, to 3.00%)
- EMU (+50 bps, to 2.50%)
- Denmark (+50 bps, to 2.10%)
- USA (+25 bps, to 3.88%)
- New Zealand (+25 bps, to 2.75%)

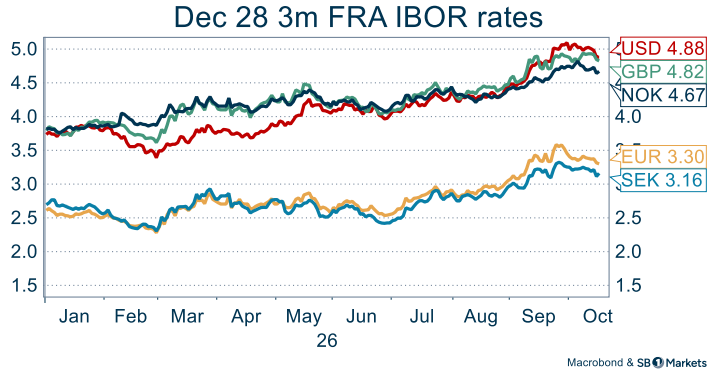
Policy rates, market exp.	USA	UK	EMU	Sweden	Norway
2024 Peak	5.33	5.25	4.00	4.00	4.50
...Change from peak	*-1.45*	*-1.50*	*-1.50*	*-2.25*	*0.00*
Now	**3.88**	**3.75**	**2.50**	**1.75**	**4.50**
Change until end of 2026	*0.27*	*0.36*	*0.20*	*0.25*	*0.17*
End of 2026 (market)	**4.15**	**4.11**	**2.70**	**2.00**	**4.67**
... Change last week	*0.01*	*0.00*	*0.00*	*0.01*	*0.02*
Change through 2027	*0.46*	*0.66*	*0.47*	*0.87*	*-0.01*
End of 2027 (market)	**4.61**	**4.77**	**3.17**	**2.87**	**4.66**
... Change last week	*-0.08*	*-0.08*	*-0.08*	*-0.02*	*0.01*

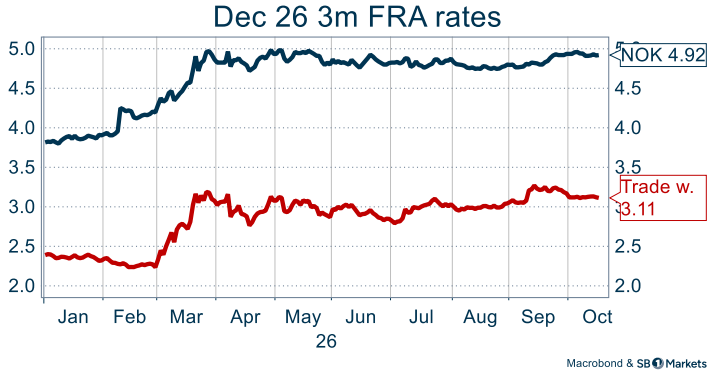
Source: SB1M, Macrobond

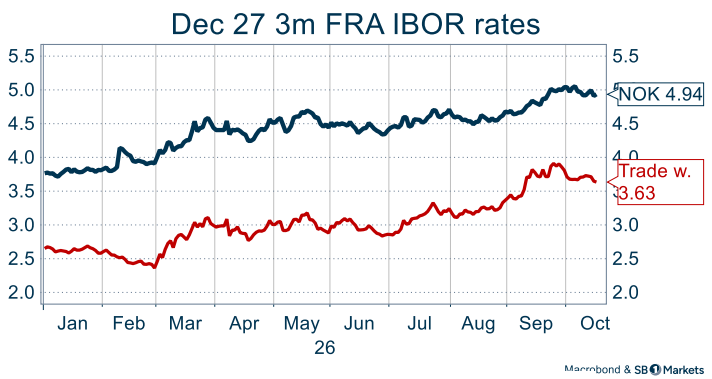
FRAs: all unchanged in the very short end. All but NOK rates down in 2027 and 28

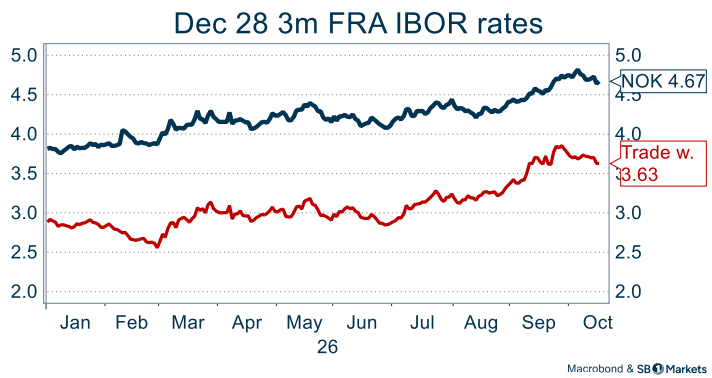












Dec 26 3m FRAs

	Close	1w	1m	YTD
NOK	4.92	0.01	0.12	1.11
USD	4.47	-0.01	-0.08	1.11
GBP	4.19	-0.01	-0.03	0.86
EUR	2.89	-0.01	-0.11	0.78
SEK	2.30	0.00	-0.11	0.17

Macrobond & SB1 Markets

Dec 27 3m FRAs

	Close	1w	1m	YTD
NOK	4.94	0.01	0.14	1.17
USD	4.91	-0.10	-0.03	1.41
GBP	4.88	-0.09	0.07	1.29
EUR	3.31	-0.08	-0.12	0.94
SEK	3.13	-0.03	-0.11	0.66

Macrobond & SB1 Markets

Dec 28 3m FRAs

	Close	1w	1m	YTD
USD	4.88	-0.14	0.07	1.15
GBP	4.82	-0.09	0.09	1.03
NOK	4.67	-0.02	0.13	0.86
EUR	3.30	-0.09	-0.05	0.69
SEK	3.16	-0.07	-0.06	0.47

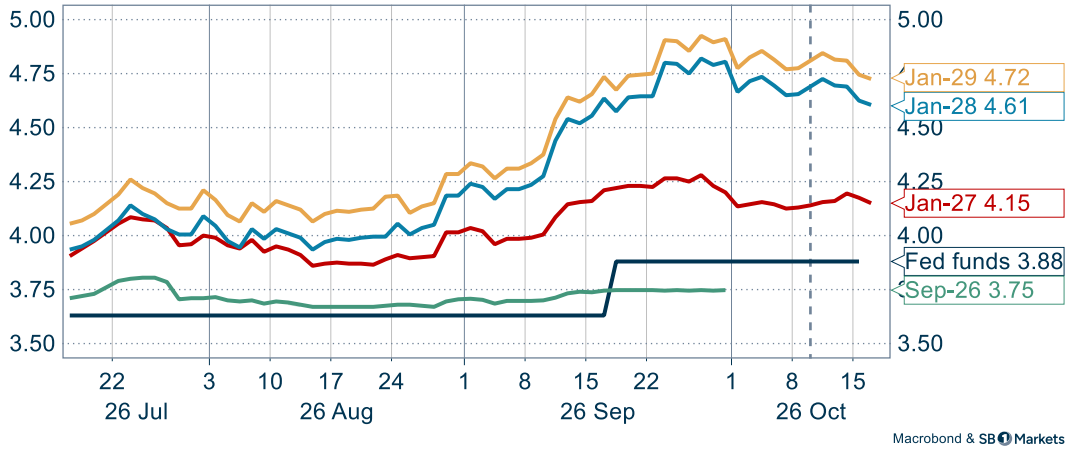
Macrobond & SB1 Markets

GBP and USD rates are SONIA- and SOFR-adjusted, with stable IBOR spreads to make them comparable to EUR, SEK and NOK IBOR-based FRAs.

Fed funds: Just small twists last week, down in the 'long' end

Just 15% probability of a hike next week. A December 2026 hike is still discounted (in sum 89% in favour of October or December), and two more hikes next year.

Fed funds future



USA Fed funds rate

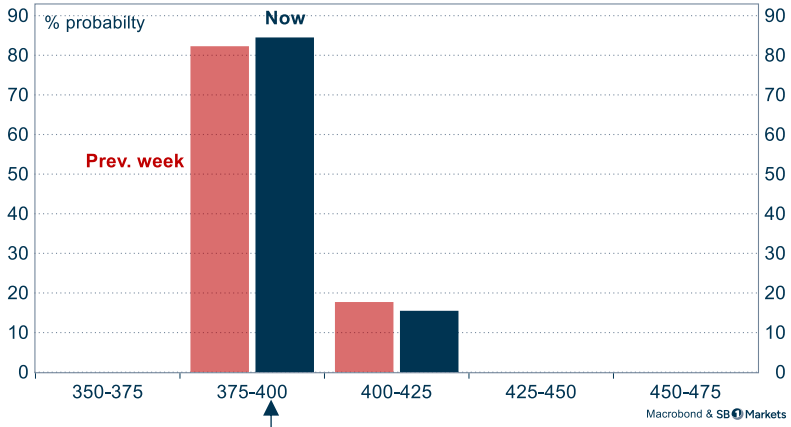
FOMC meetings	Actual and expected effective Fed fund rate (2.5 3.0 3.5 4.0 4.5)	Level	Change in bps last week (-3 -2 -1 0 1)	Change
Now		3.88		0
28 Oct		3.93		0
9 Dec		4.15		1
27 Jan		4.25		1
17 Mar		4.42		0
28 April		4.50		-1
9 Jun		4.59		-3

Macrobond & SB1 Markets

USA Fed funds - probability 2 hikes in 2026



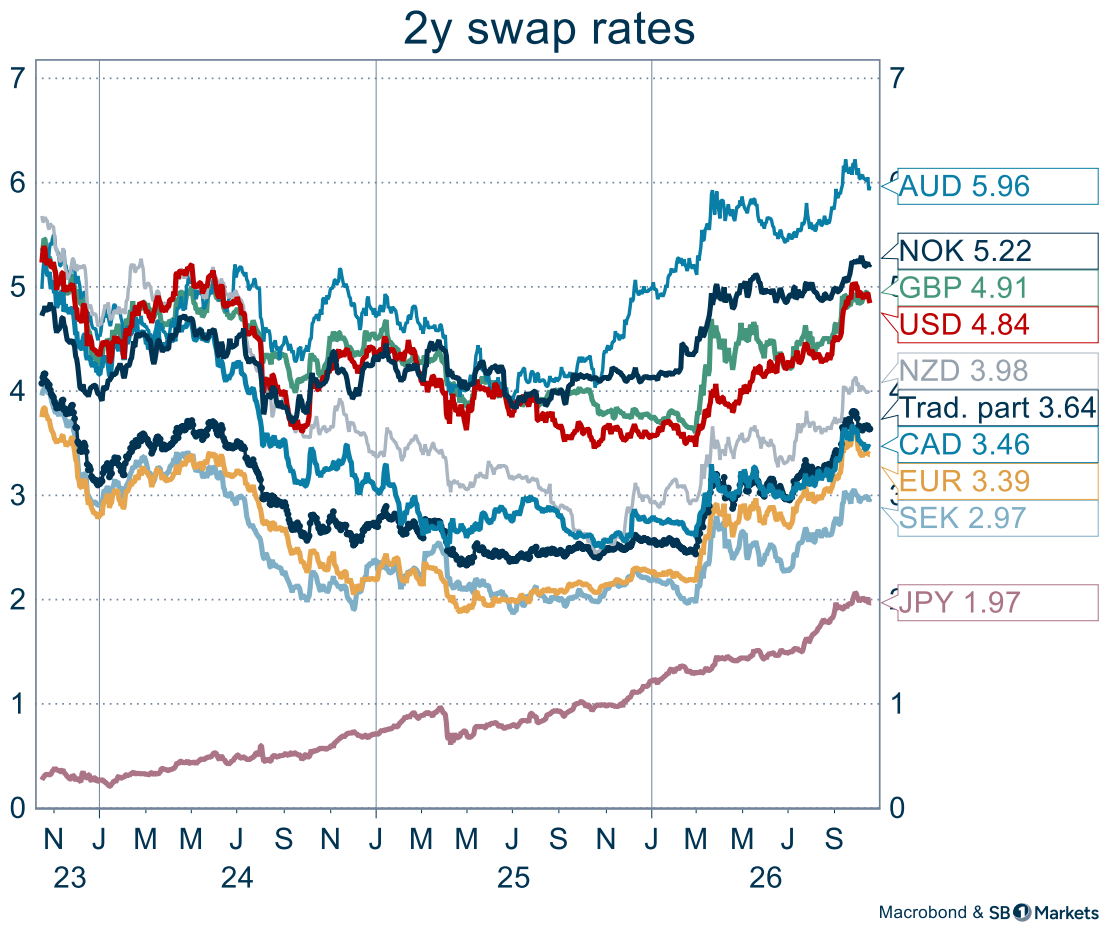
USA 12 Oct-28 FOMC Meeting, Fed Funds Rate, distribution

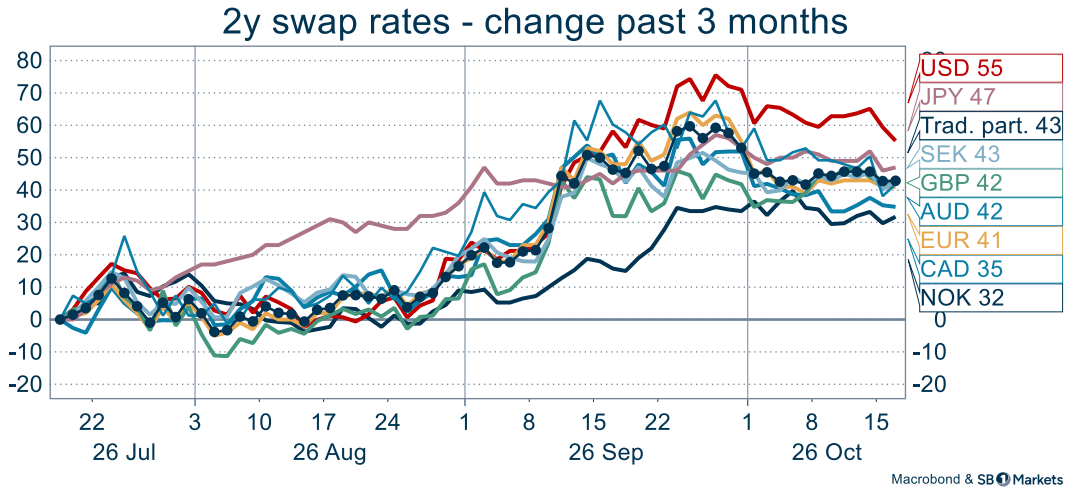


The current Fed funds rate

2-year swap rates mostly down

Our trading partners were down just 1 bp, as were EUR rates. The USD fell 8 bps. The NOK 2y swap was up 2 bps, and is the 'winner' over the past month (but the loser over the past 3 months)





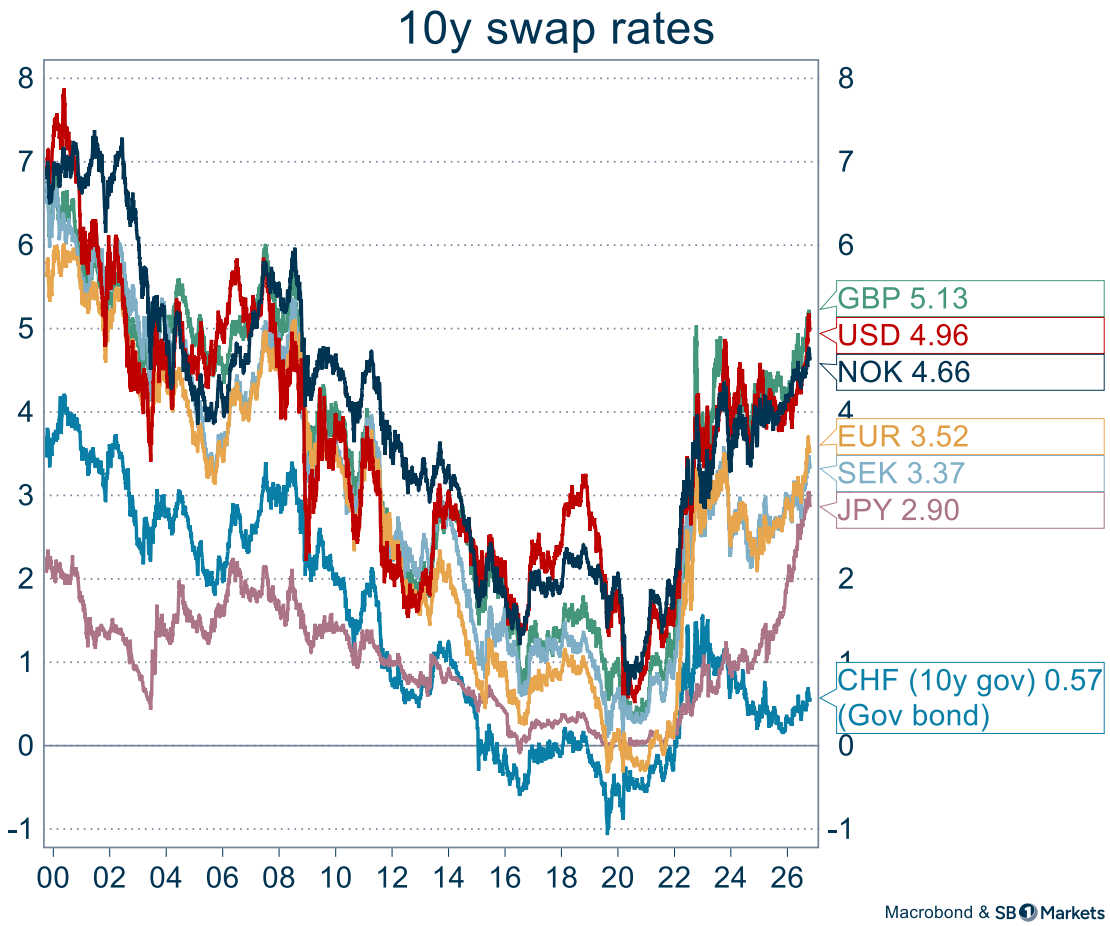
2y swap rates

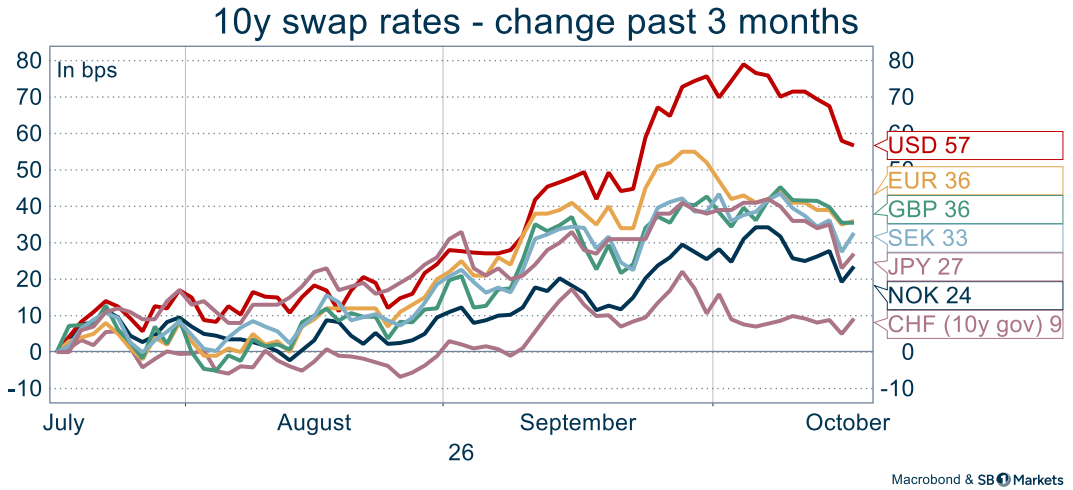
	Level	Change in bps	last week	last month	last 3 m	last 12 m
NOK	5.22		2	16	28	110
CAD	3.46		1	-16	39	92
SEK	2.97		0	-4	43	98
EUR	3.39		-1	-7	43	132
GBP	4.91		-1	10	45	104
Trad. part	3.64		-1	-3	44	123
JPY	1.97		-2	5	45	100
NZD	3.98		-5	-6	33	149
AUD	5.96		-7	-18	43	186
USD	4.84		-8	-3	57	140

Macrobond & SB1 Markets

10-year swap rates down everywhere

Our trading partners were down 6 bps. EUR was down 5 bps, USD rates -15 bps. NOK just -2 bps.





10 year swap rates

	Level	Change in bps	last week	last month	last 3 m	last 12 m
CHF (10y gov)	0.57		-1	-4	9	41
NOK	4.66		-2	7	20	64
EUR	3.52		-5	-2	35	94
CAD	3.92		-5	-9	33	82
GBP	5.13		-6	6	34	90
Trad. part	3.83		-6	0	36	94
SEK	3.37		-7	-1	30	77
JPY	2.90		-9	-1	24	136
USD	4.96		-15	7	55	119
NZD	4.64		-17	-12	29	106
AUD	5.33		-22	-20	35	110

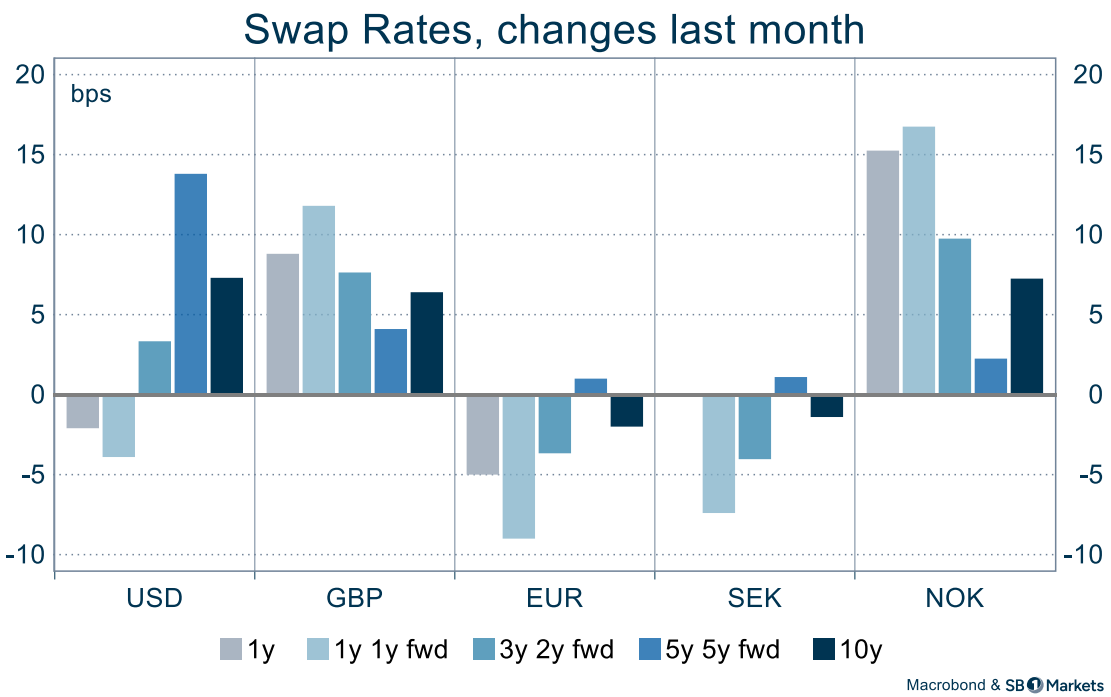
-25 -20 -15 -10 -5 0 5 10

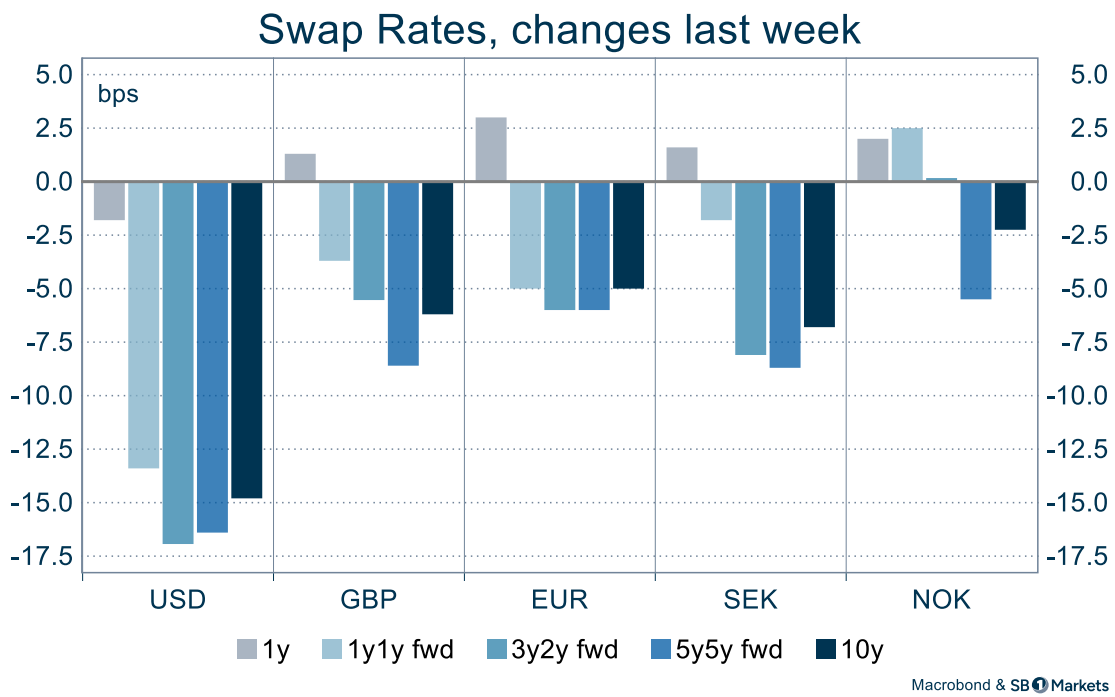
Last week ● Last month

Macrobond & SB Markets

Swap curves: USD rates fell the most, while NOK rates were mixed

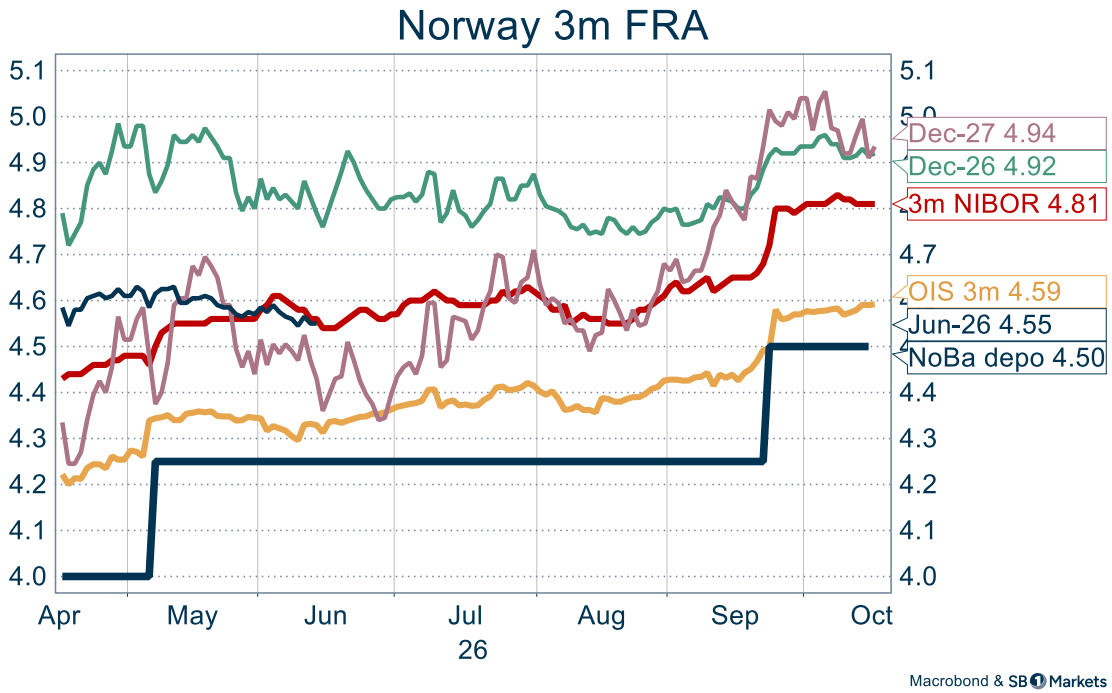
Last month: NOK the 'winner', rate-wise. EUR and SEK rates have fallen.

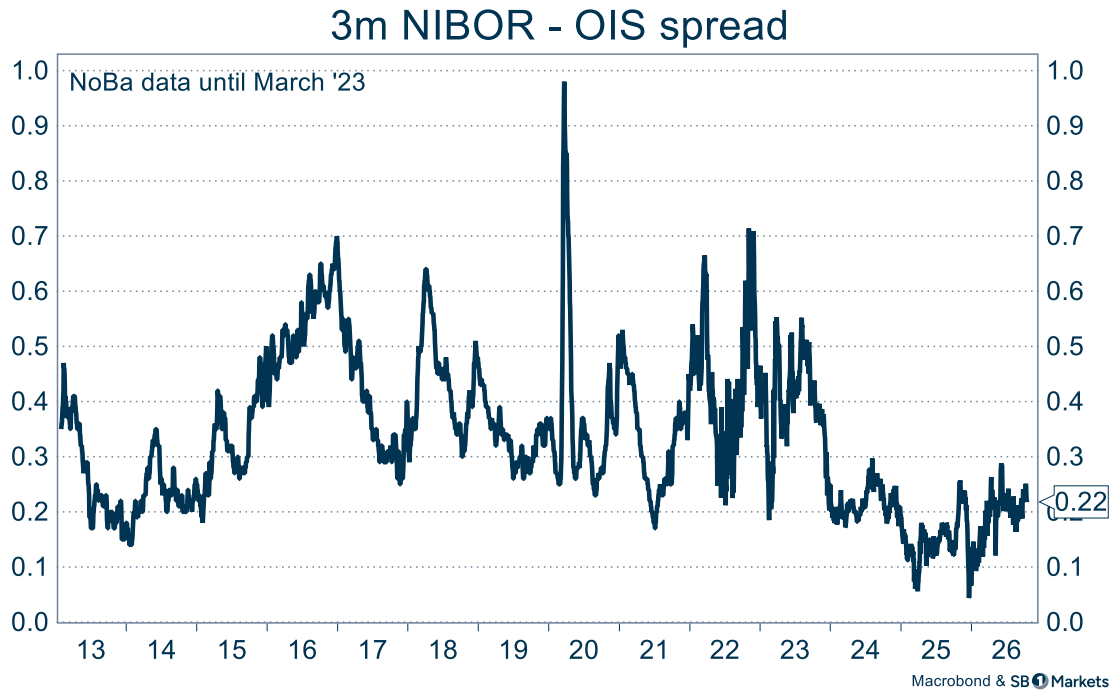




NOK 3m NIBOR: -1 bp to 4.81%, and the NIBOR-OIS spread down 3 bps to 22 bps

Longer-dated FRAs declined but not by much.

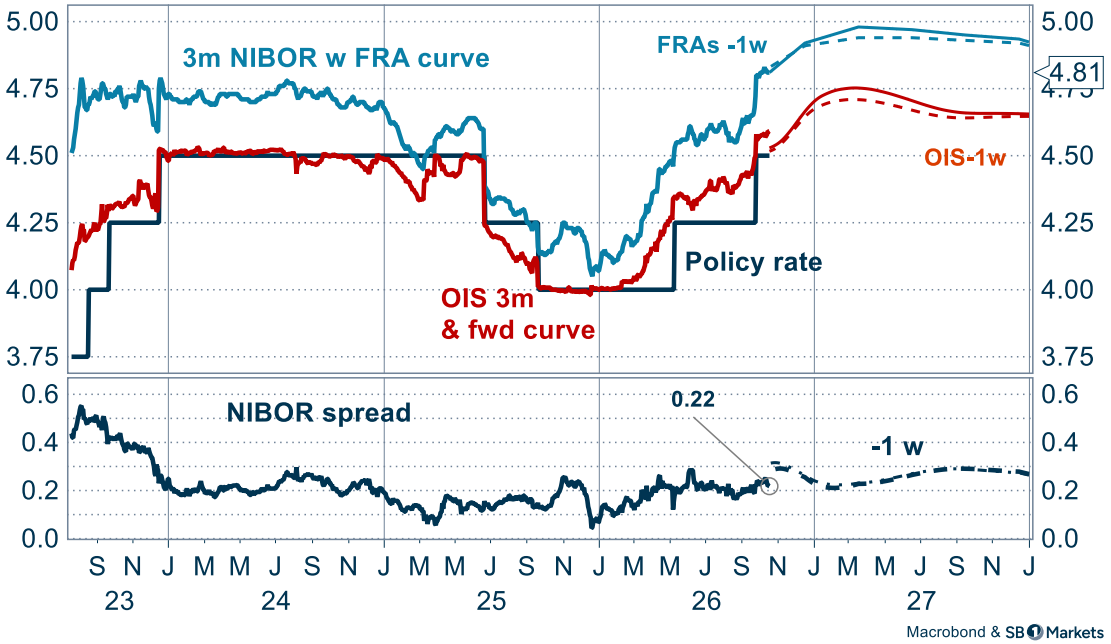




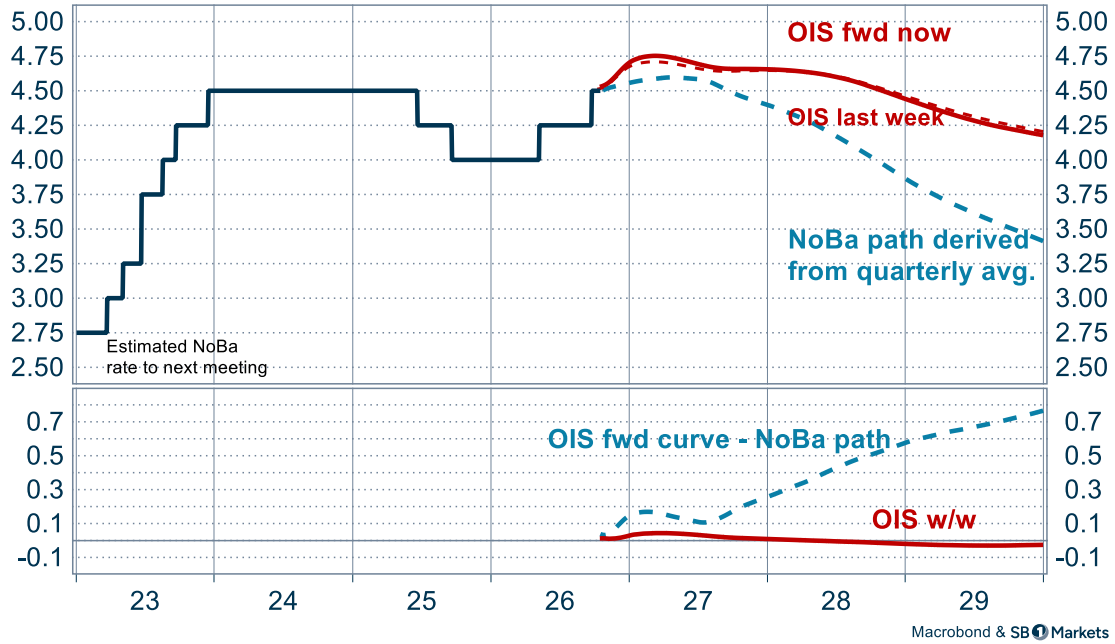
No significant curve changes in the short end

The market curve still discounts another rate hike in December or more likely in Q1-27, to 4.75%. The curve is pretty flat until Q2-28, and well above Norges Bank's rate path

Norway NIBOR, OIS rates



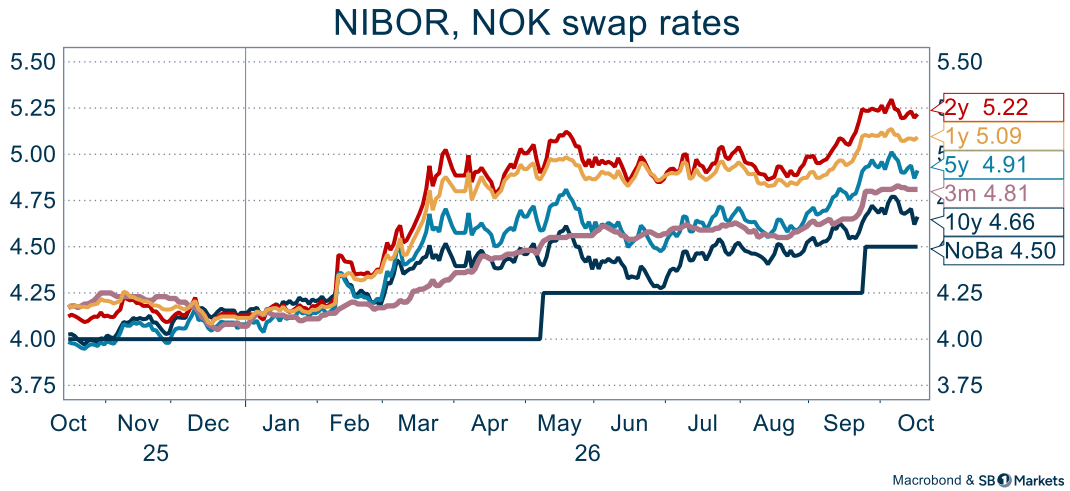
Norges Bank vs market expectations

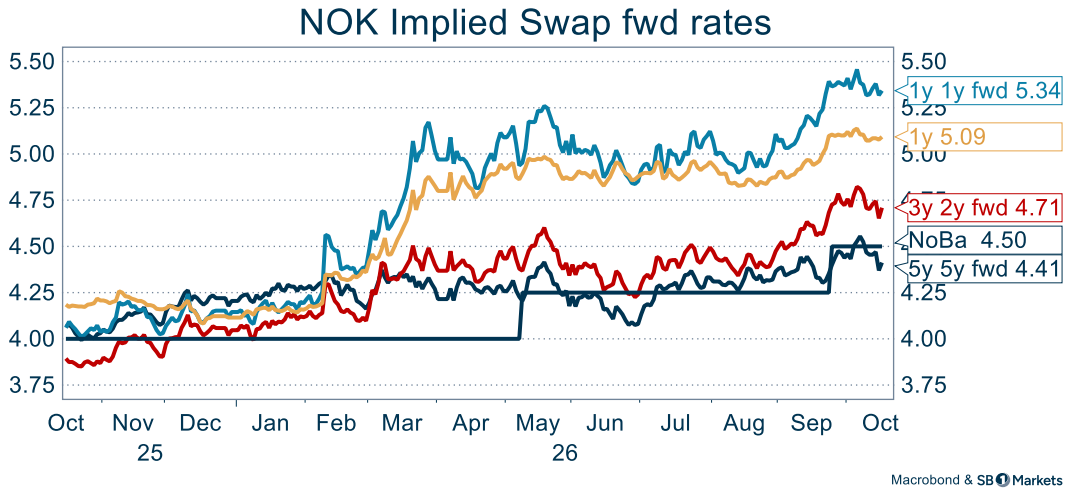


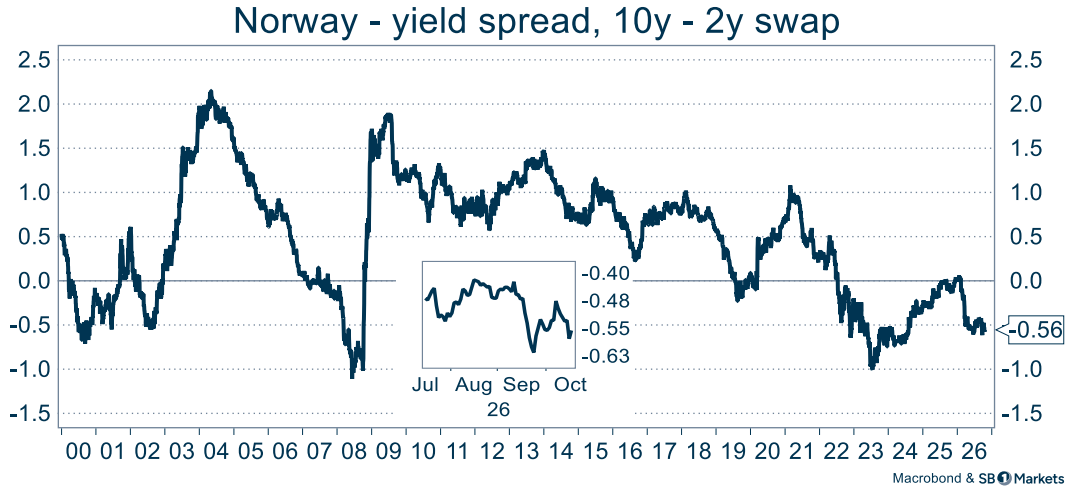
Norges Bank vs. market					
Meeting	NoBa path	OIS fwd	OIS NoBa est.	Alternat. rate	% prob for alt
05-Nov-26	4.50	4.55	4.50	4.75	19%
17-Dec-26	4.50	4.65	4.75	4.50	38%
21-Jan-27	4.50	4.73	4.75	4.50	8%
24-Mar-27	4.50	4.75	4.75	5.00	1%
06-May-27	4.50	4.73	4.75	4.50	6%
17-Jun-27	4.50	4.71	4.75	4.50	18%
12-Aug-27	4.50	4.67	4.75	4.50	32%
23-Sep-27	4.50	4.66	4.75	4.50	37%

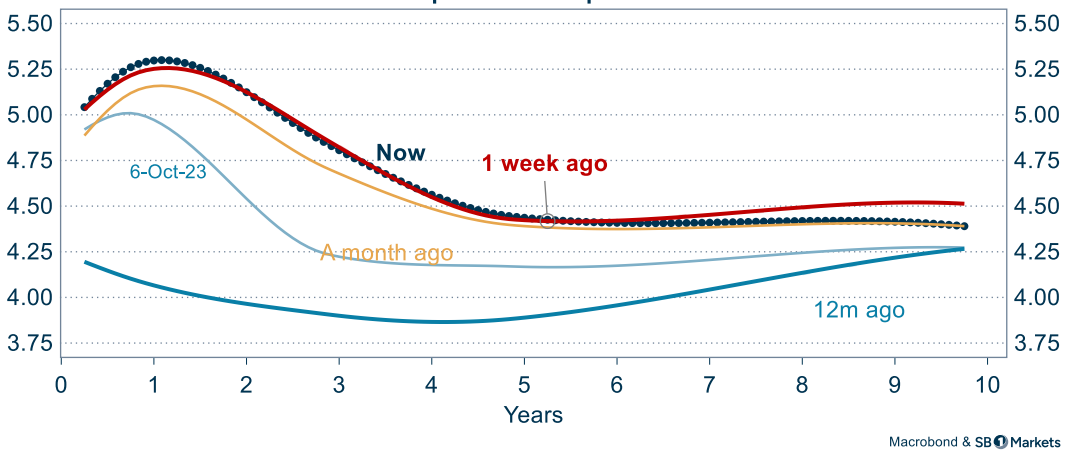
Yellow cells: Norges Bank cut (none now...)
Red cells: Norges Bank hike
Sources: Norges Bank, Macrobond, Infront, SB1M

NOK swaps: marginally up in the short end, slightly down in the long end





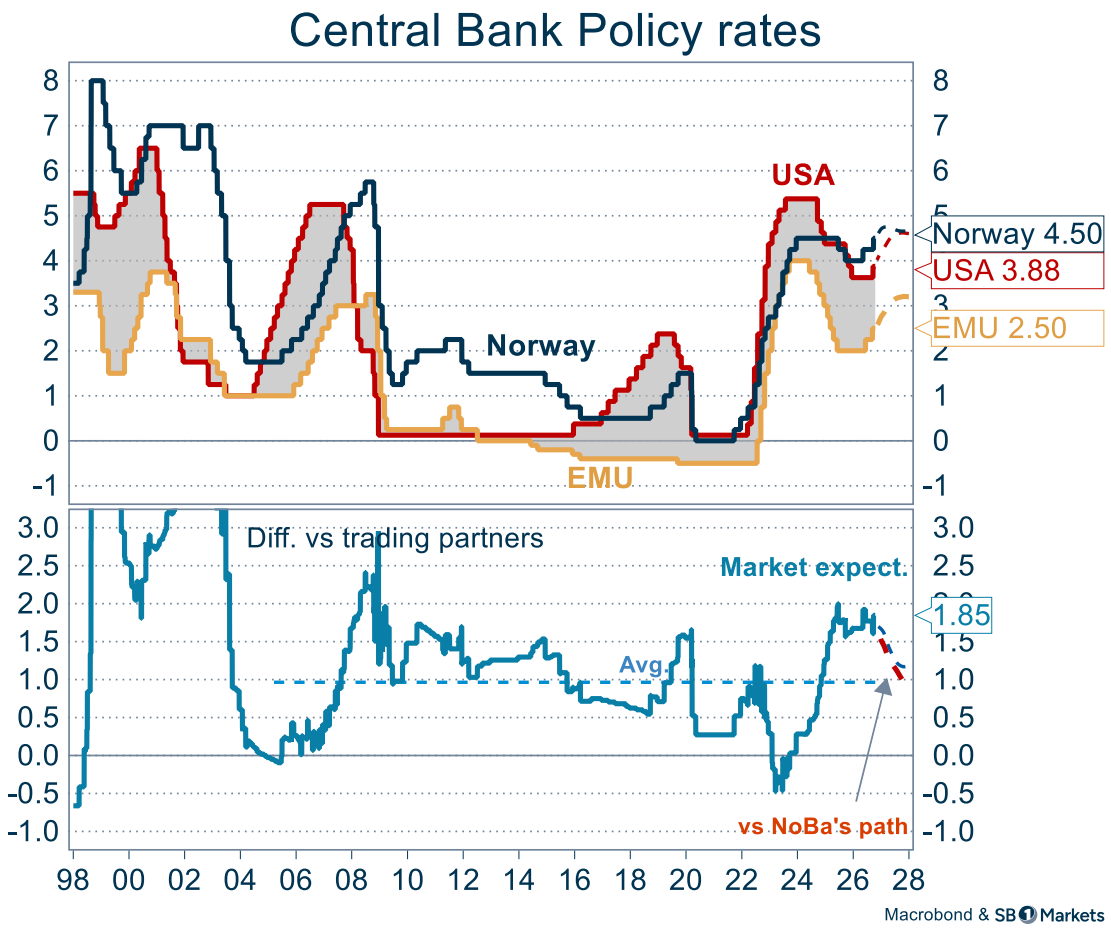




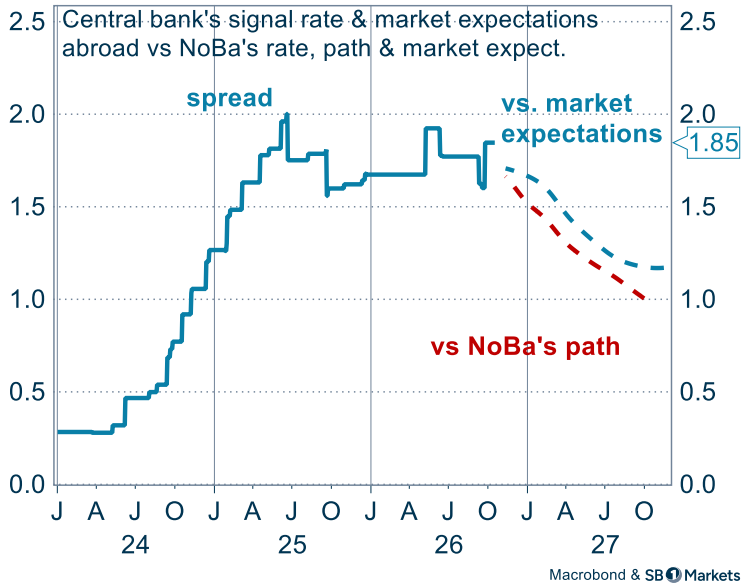
Swap rates are calculated vs. 6m NIBOR, not 3m NIBOR.

Norges Bank's policy rate: 185 bps above the trading partners' average

… which is well above the average level of some 95 bps (over the past 20 years).

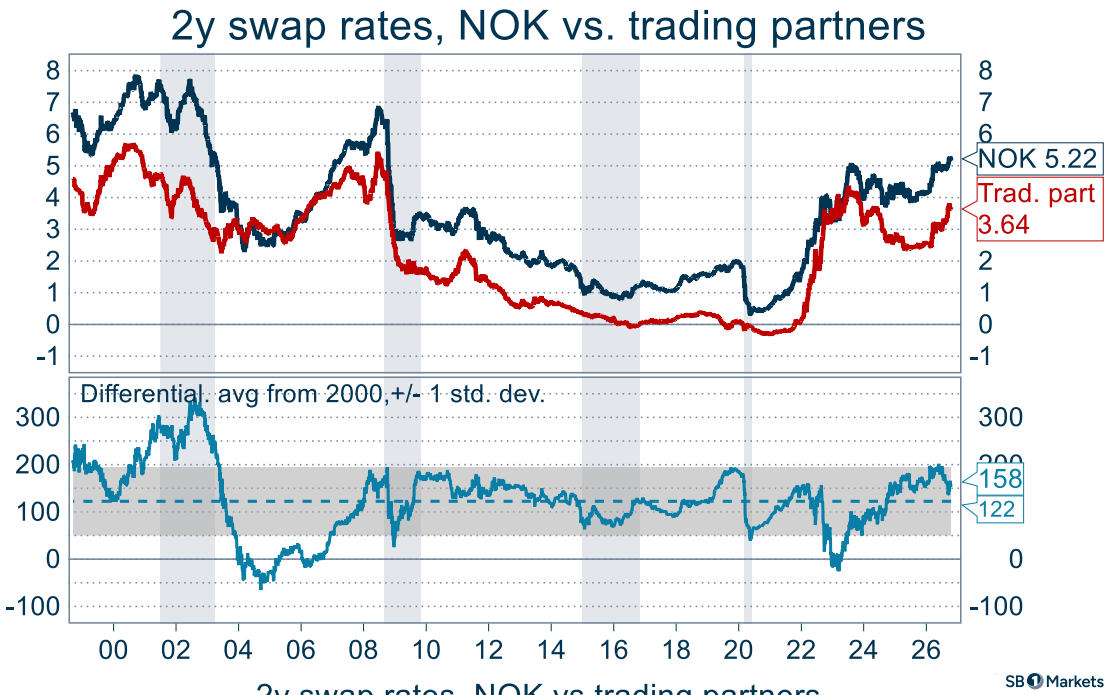


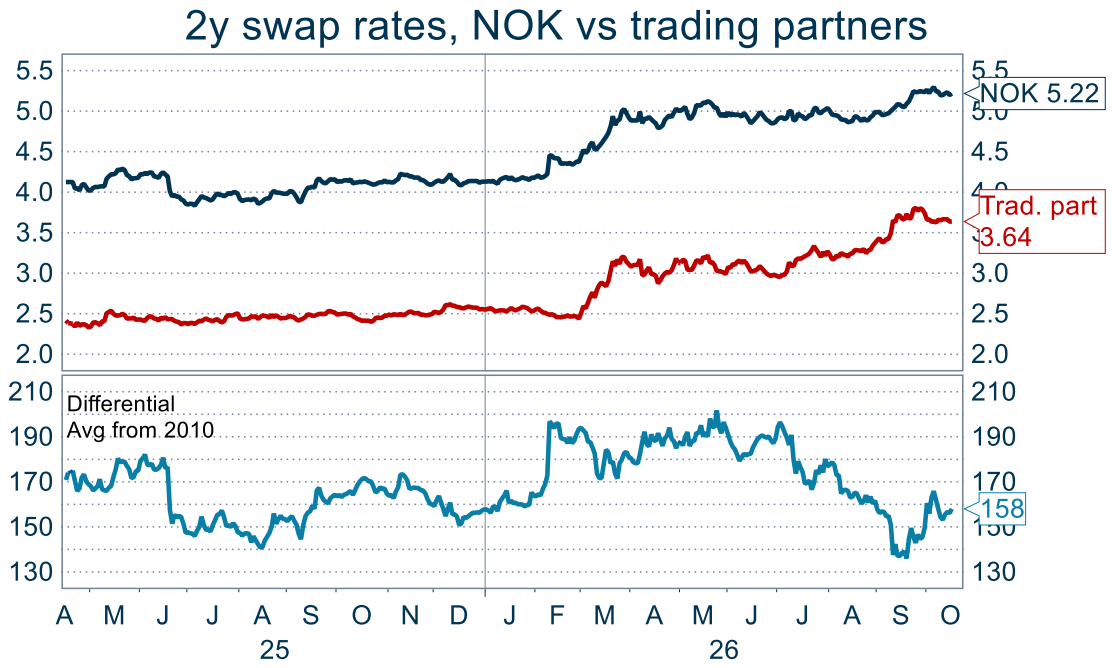
- The peak difference in policy rates over the past 20 years was 225 bps (barring a few days in 2008).
  - In the current cycle, the 2y NOK swap rate has been up to 200 bps above the average rate among our trading partners.
- If **Norges Bank** follows the rate path presented in the MPR, the spread will narrow to a normal level by the end of 2027.
- **The market** has a slightly different view…

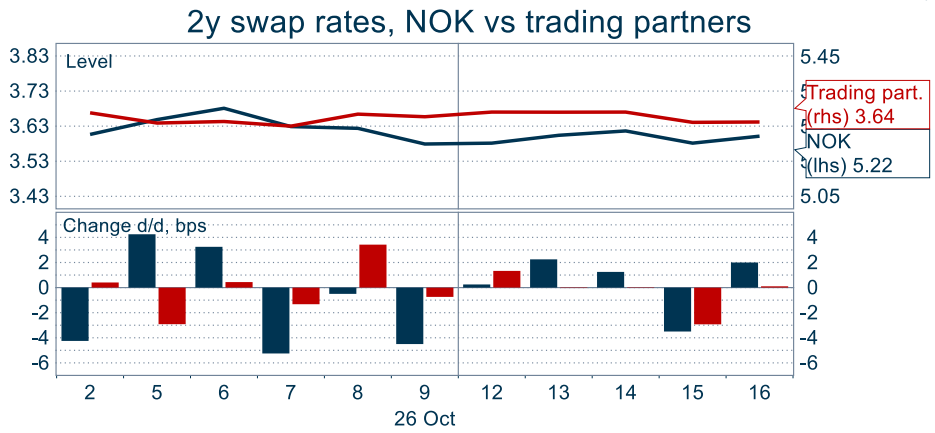


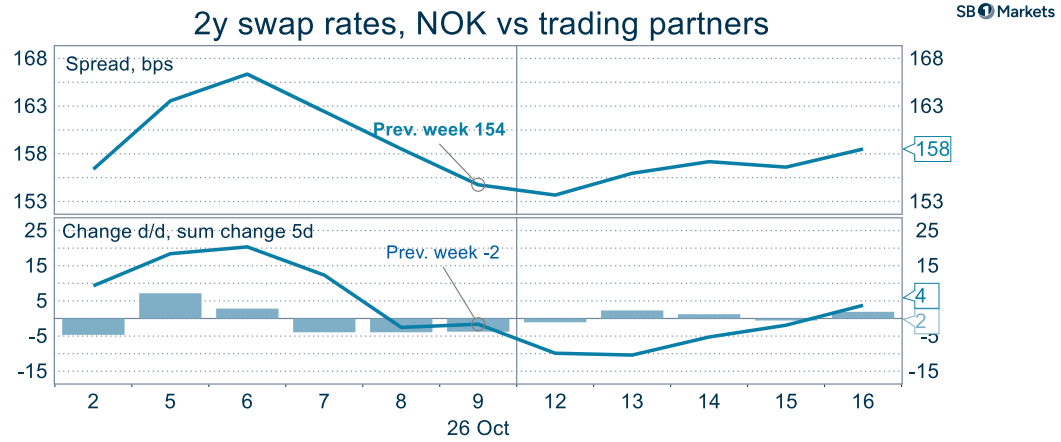
The 2-year NOK swap spread vs. trading partners up by 4 bps to 158 bps

The spread has widened by 20 bps in recent weeks but is down some 40 bps since the local peak in May–June, as foreign rates have climbed more than NOK rates.



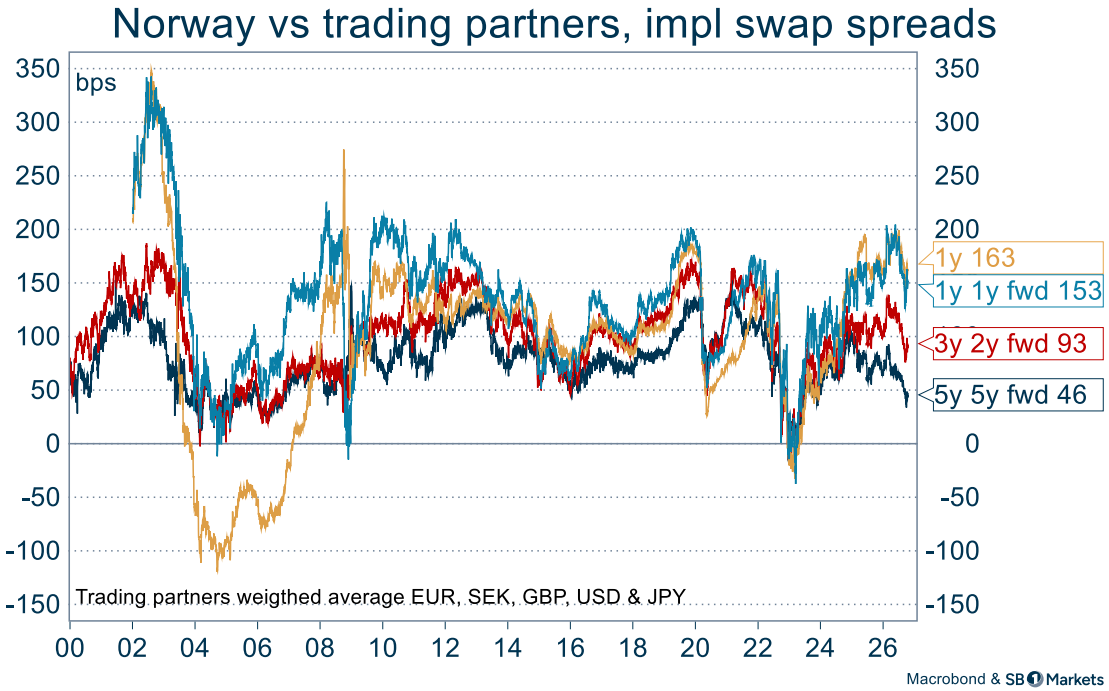


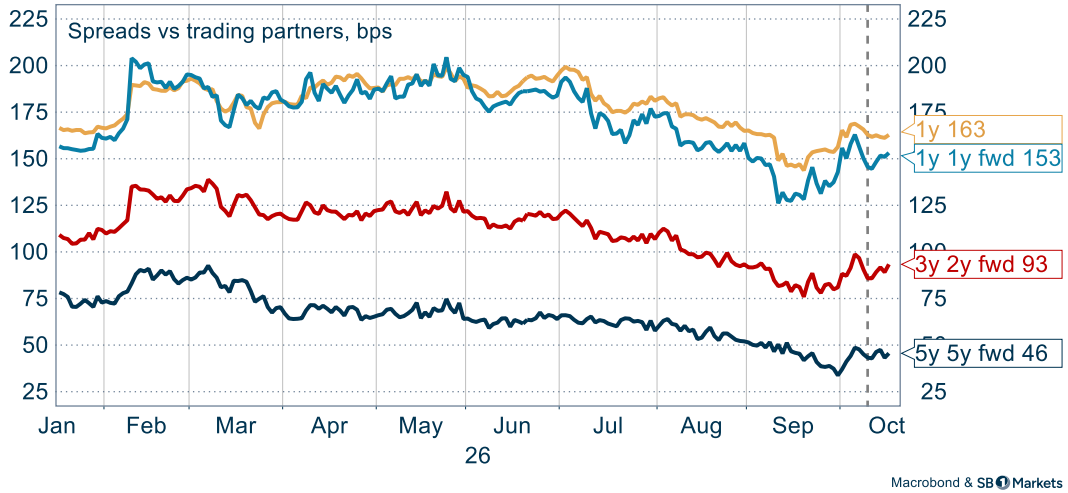


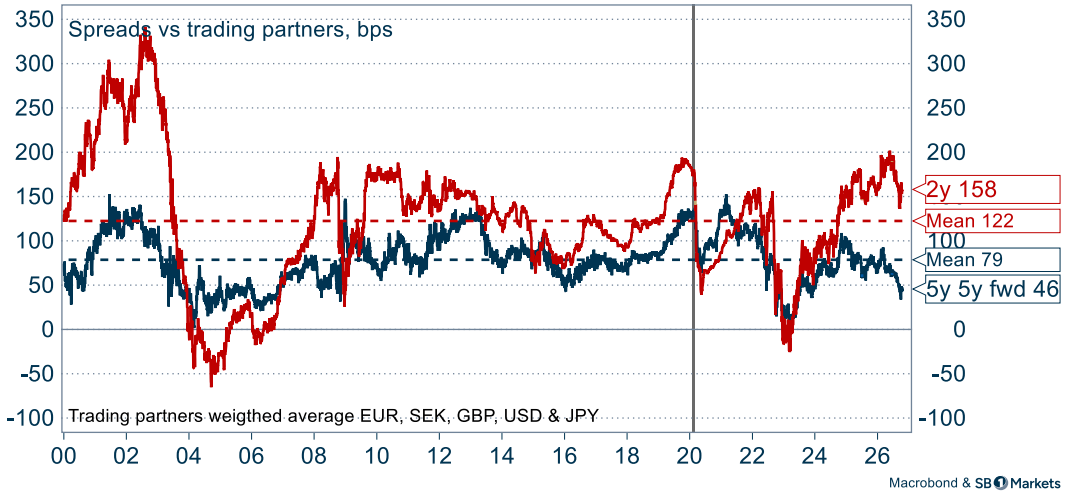


Swap spreads vs. trading partners widened in the short end, narrowed in the long end

The long-end spread is far lower than normal: the 5y 5y fwd is at 46 bps vs. an average of 79 bps since 2000.
In the short end, the spread remains above an average level.

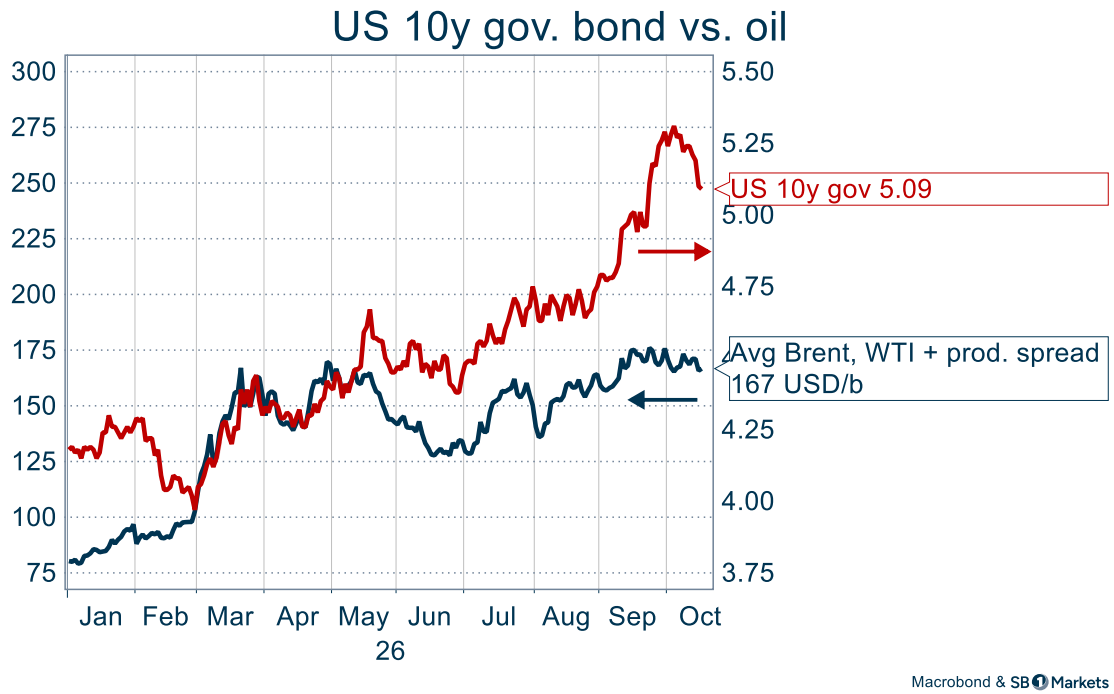


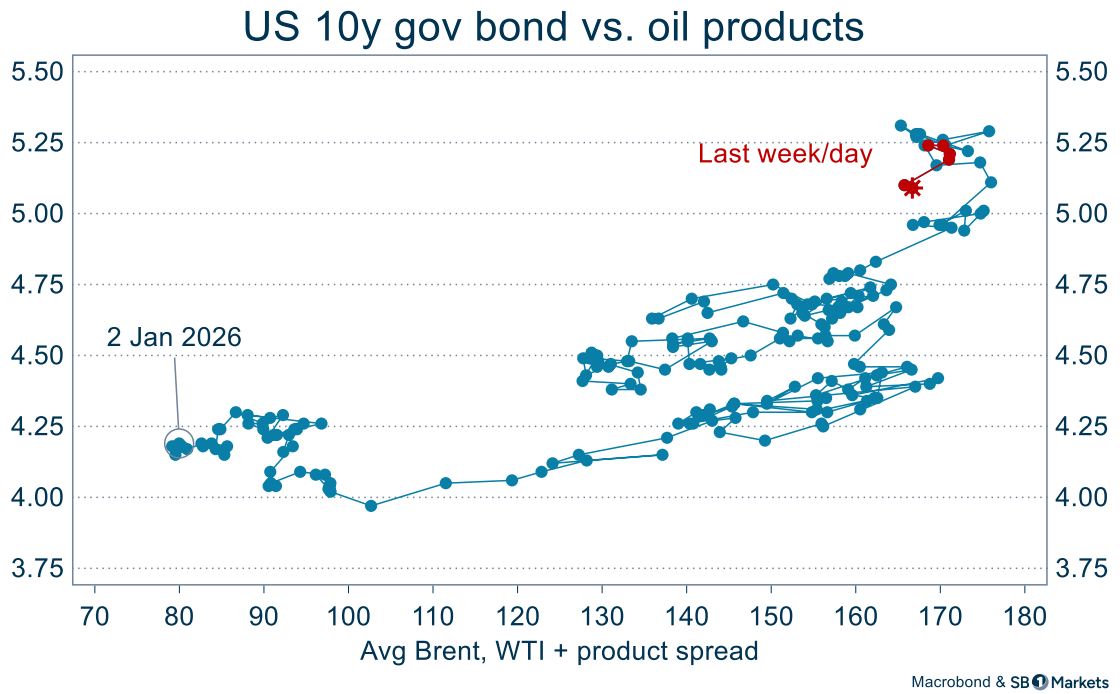




Yields vs. oil products: both fell last week

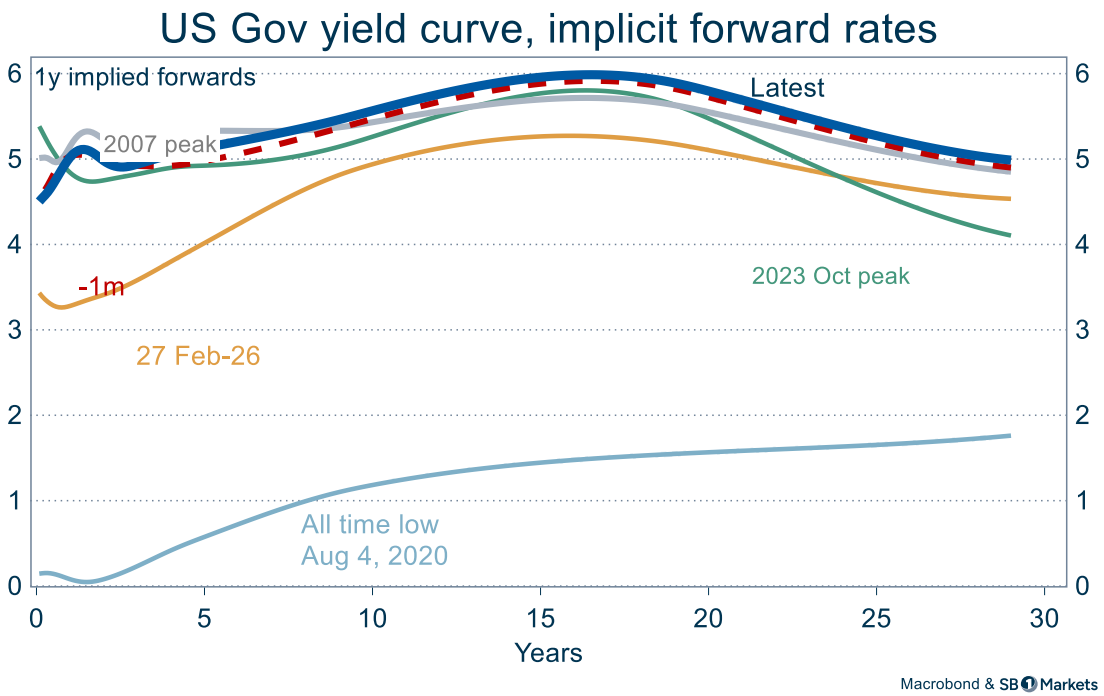
Oil/product prices were almost as high in April as now, while the US 10y government bond yield is 75 bps higher. Still, it has something to do with oil prices (and oil product prices).





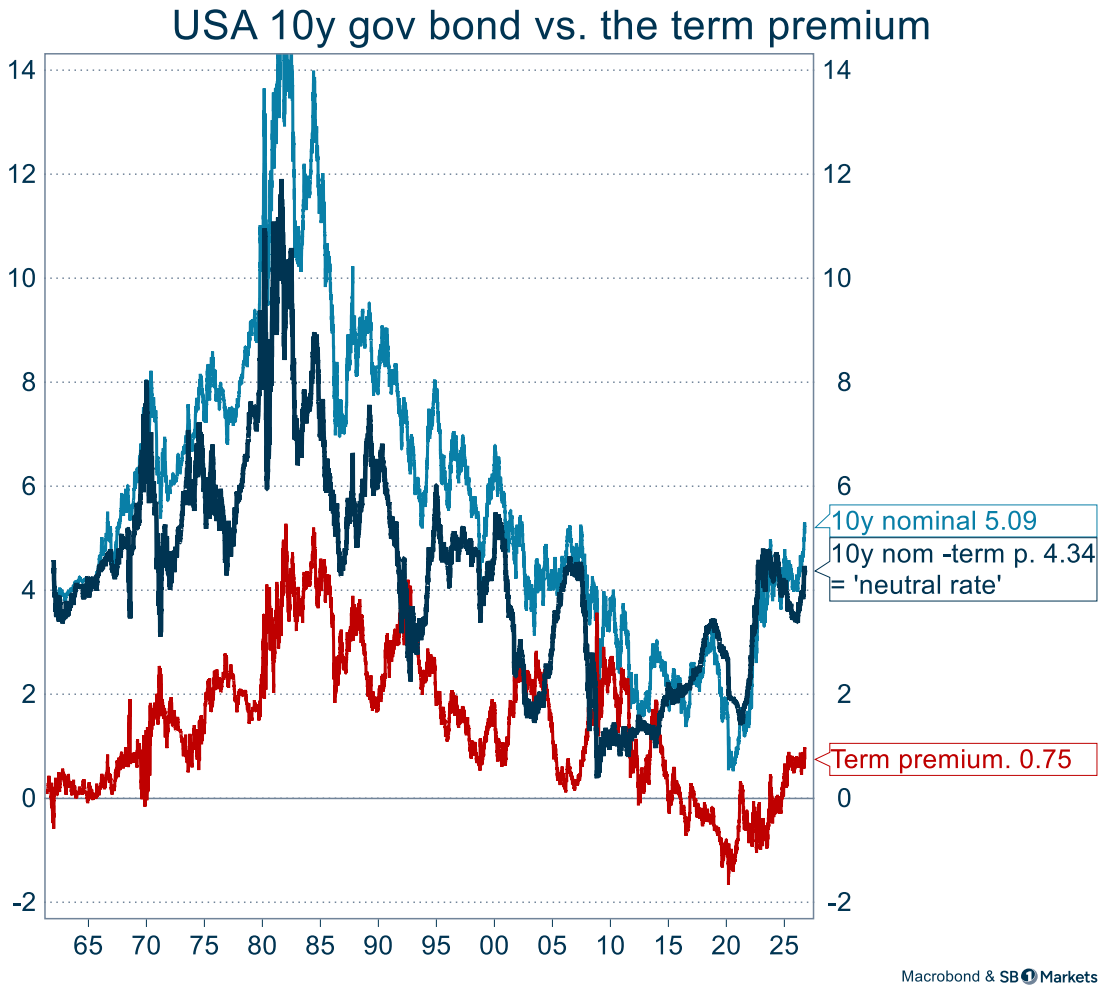
A small step down last week – without any soft growth or inflation data





The US bond yield term premium fell last week, and 'explained' the drop in the nom. yield

Looking back, the lift in bond yields in recent months is not due to a lift in the term premium but *to expectations of a higher 'normal' Fed funds rate.*



- **The term premium:** The excess yield that investors require to hold a long-term bond instead of a series of shorter-term bonds

  The actual 10y nominal bond yield
  – the 10y term premium
  = expected short-term rates over the next 10 years
  (the blue lines on the charts on this page)

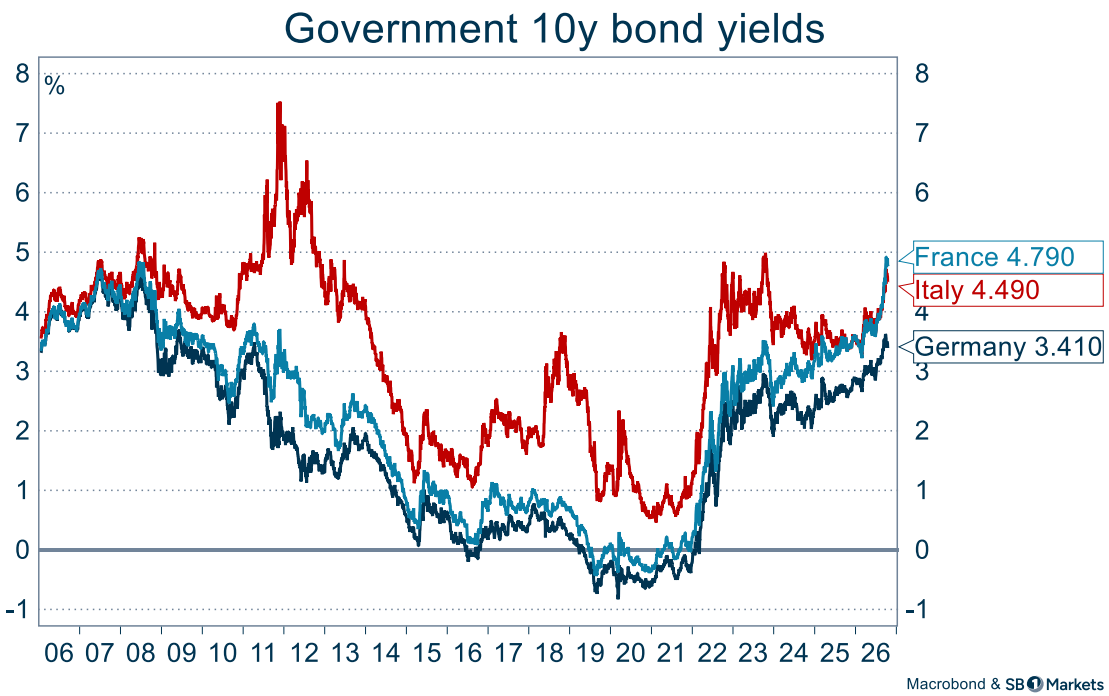
- There is no precise way to estimate the term premium. Here we present the estimate from the **Fed's ACM model.**

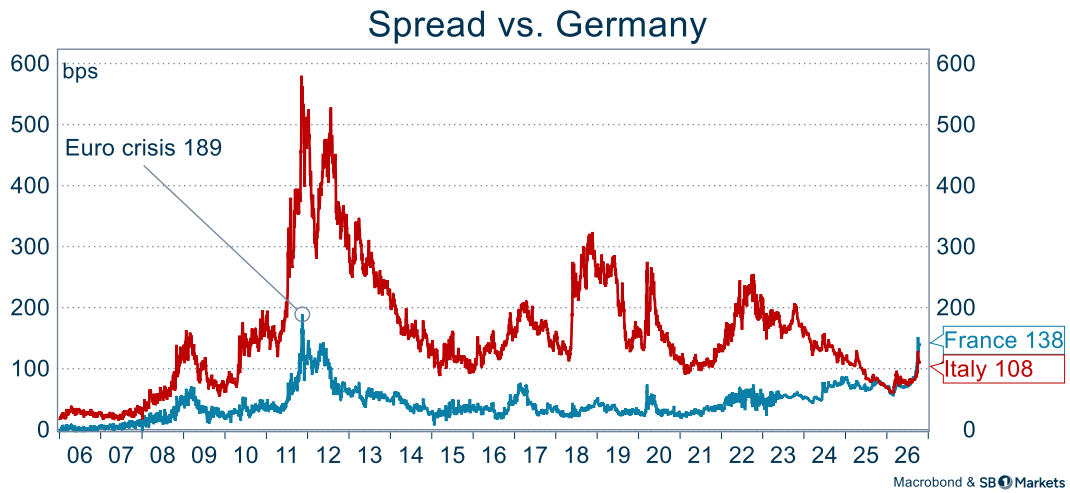
- We are somewhat sceptical as to whether this or other term premium models really deliver what they claim to.
  - The term premium is basically **just a function of the short and long end of the curve**. Thus, expected future short-term rates are just a function of the current short- and long-term yields.
  - Still, the term premium is probably a relevant indicator when interpreting the implications of changes in long-term bond yields. The current level does not signal any stress in the bond market. In addition, inflation expectations are flat, the asset swap spread has not widened by much and CDS premia are stable.

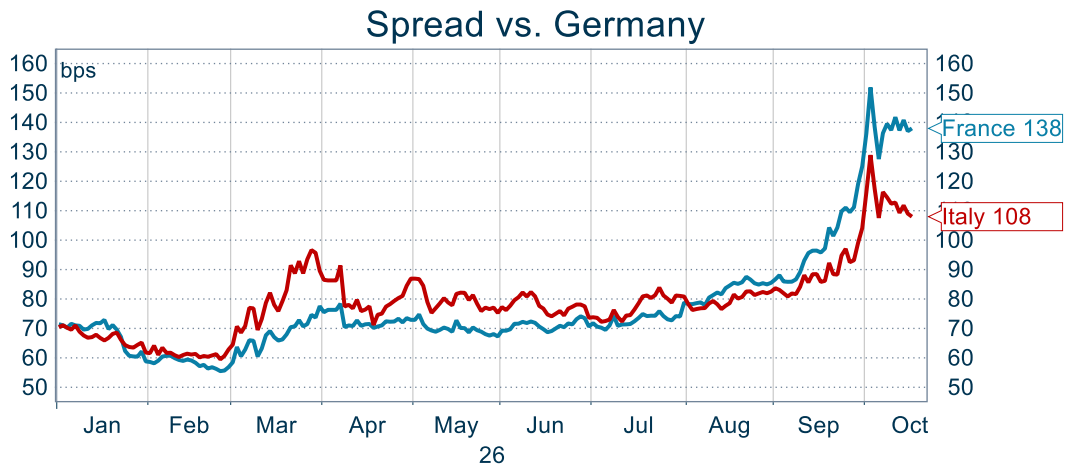


Markets have calmed down somewhat vs. France (and Italy)

However, the budget problem is not solved (and there are some social tensions to be seen…)

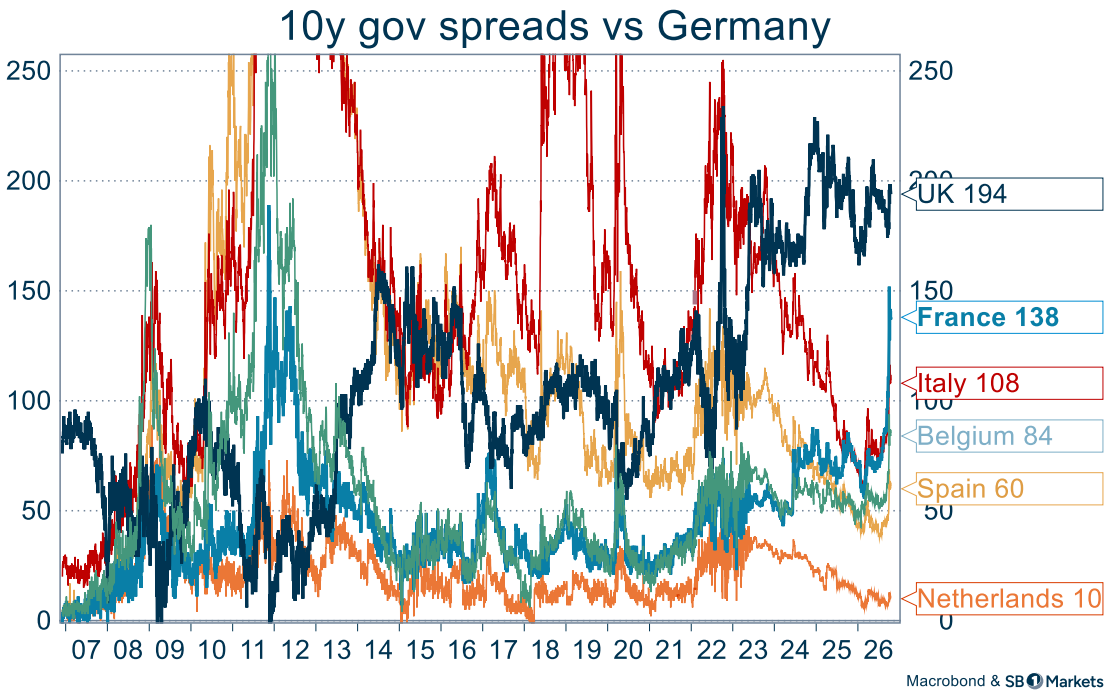


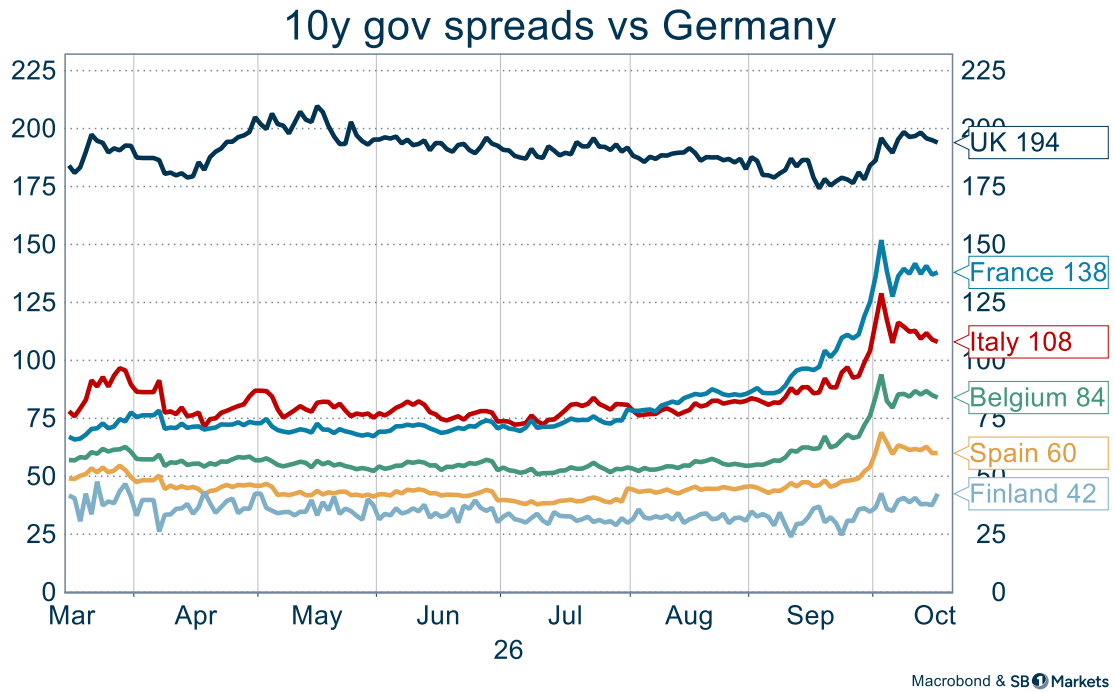




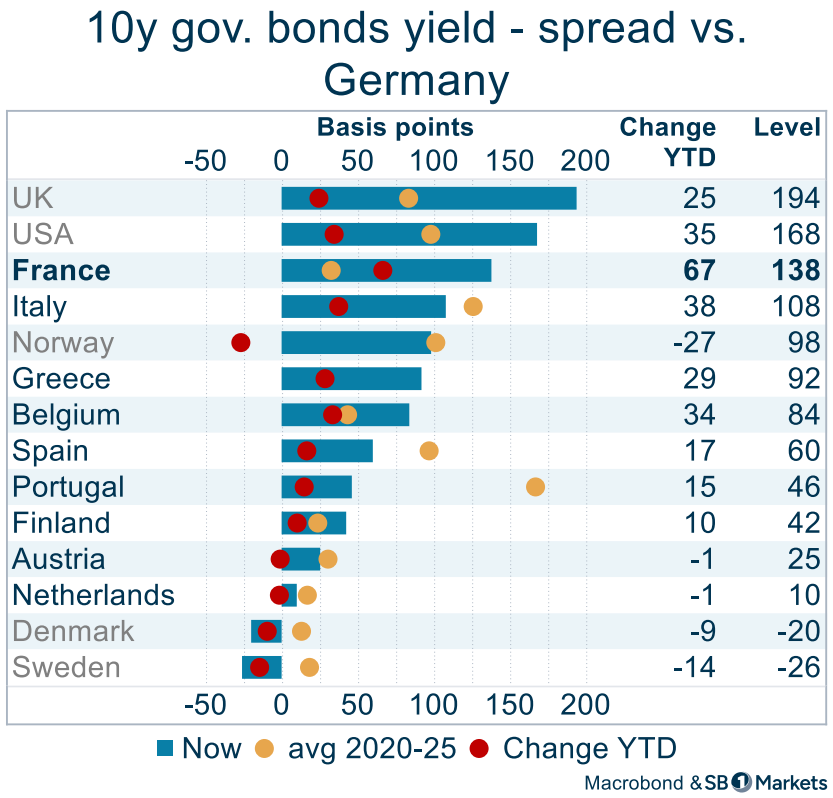
- **The spread between French and German government 10y bonds** shot up to 152 bps in early October. This spread was the highest ever, barring two weeks at the peak of the Euro crisis in November 2011. The spread fell to 138 bps last week.
- A 'normal' spread has been less than 50 bps. It widened to some 75 bps in March and has roughly doubled recently.
- The recent spread widening is more than worrying, given the fragile French public finances and a challenging political situation, to put it mildly.
- The **Italian spread** at 108 bps is not that high by Italian standards, but still above the 70-bps level in early 2026.

The other EMU 10y sovereigns: All spreads have risen in recent weeks, but narrowed last week





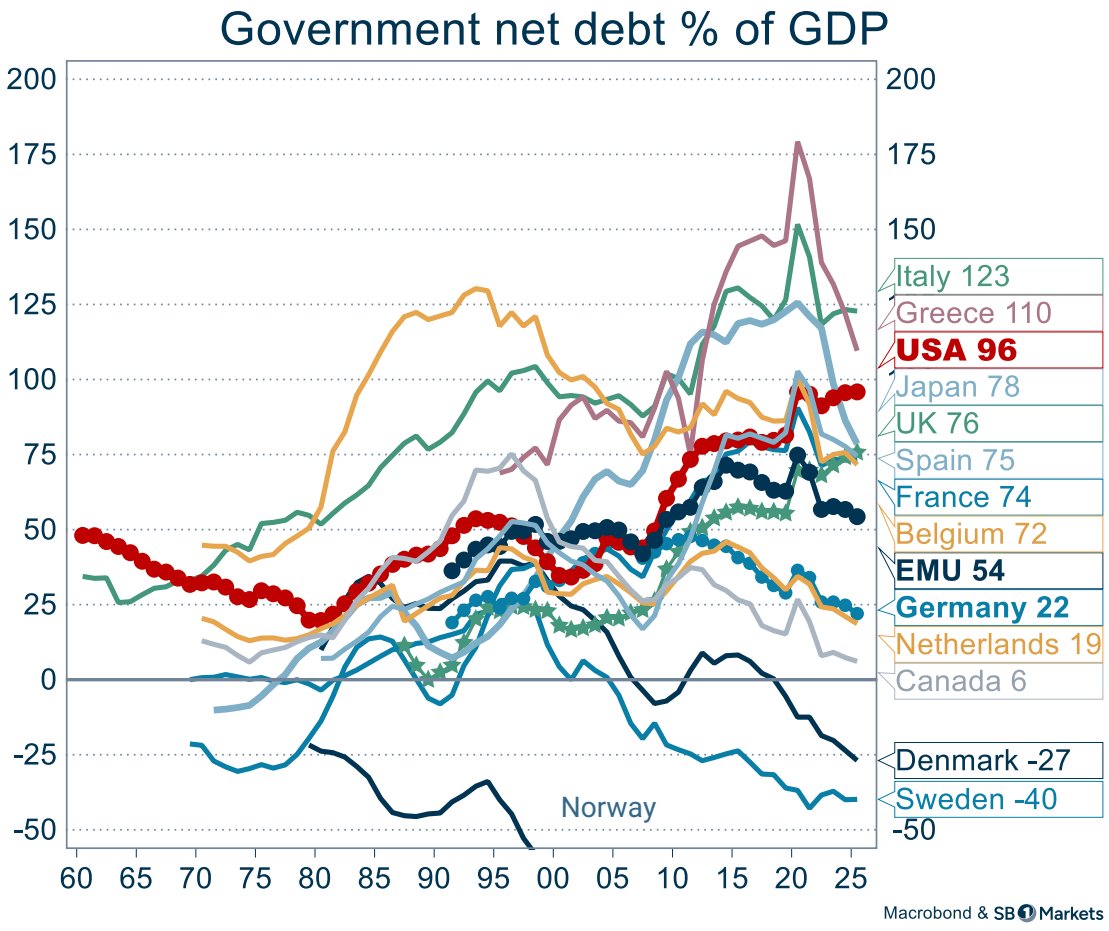
France: the outcast within the Euro Area

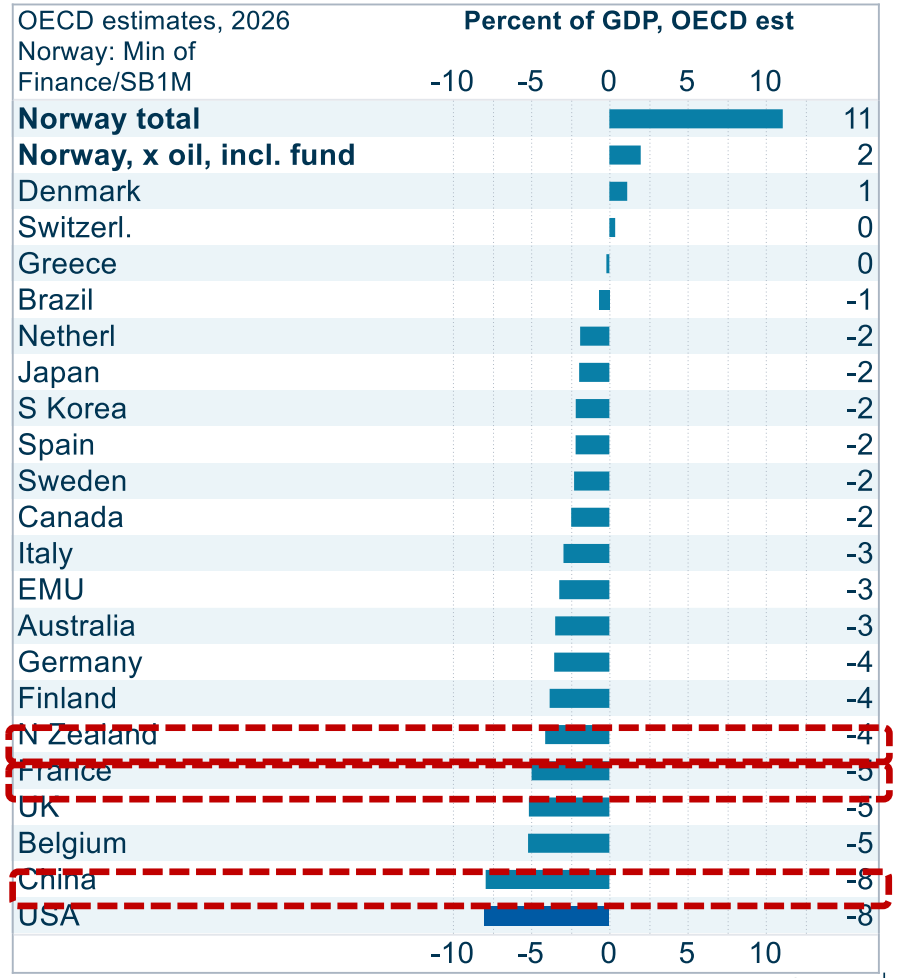


- (US, UK, Denmark, Norway and Sweden are included just as references.)

Some countries surely have some deficit and debt challenges

USA, UK and France. But not that bad elsewhere!

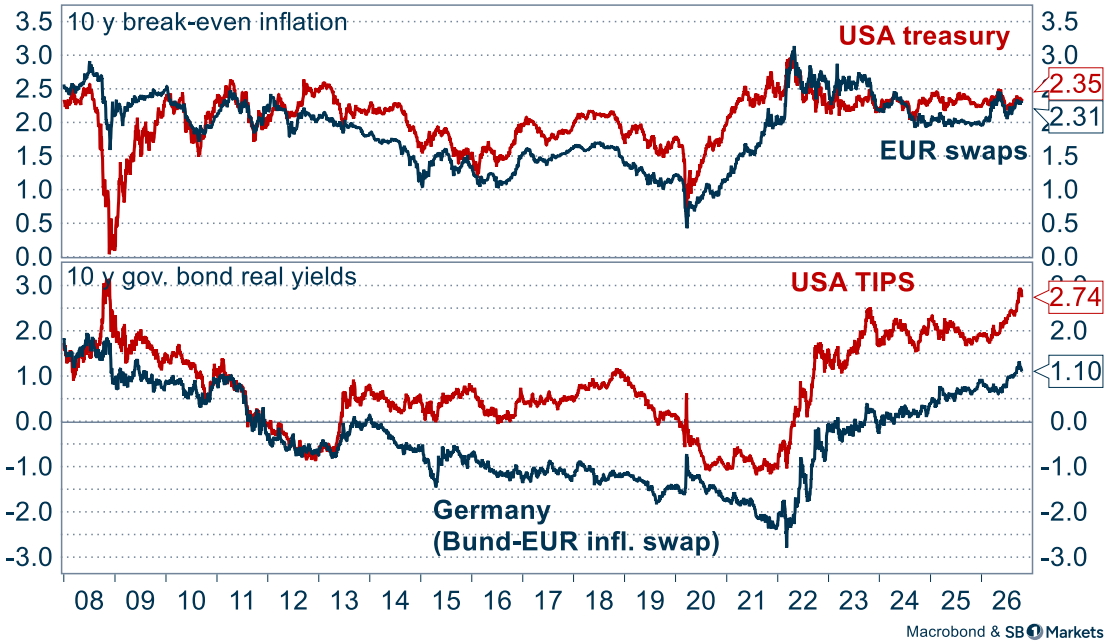


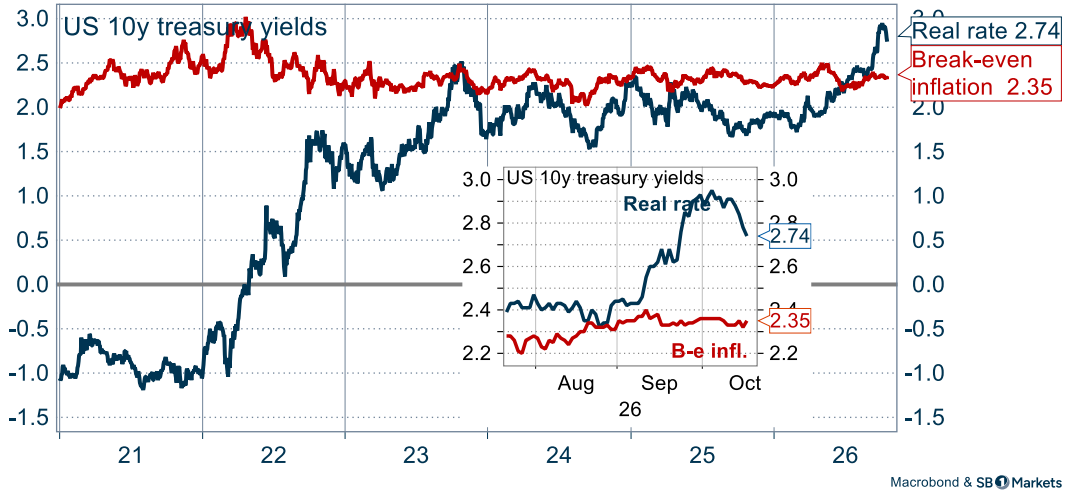


A 17-bp decline in the 10y TIPS real rate last week, while inflation exp. rose 2 bps

The AI 'crash' lowers long-term growth expectations? And even short-term growth expectations may be cut, if AI investments should soften on top of a negative wealth effect. A more moderate decline in real rates in Germany

Real yields, break-even inflation





- The **US 10y break-even CPI inflation** at 2.35% is in line with the PCE target at 2.0% (PCE inflation is on average lower than inflation measured by the CPI, if not now).
- **10y EUR inflation expectations** (inflation swap) at 2.31% are slightly on the high side, and they are up from marginally below 2.00% in early 2026, before the conflict in the Gulf started.

US, Germany real rates, inflation expectations

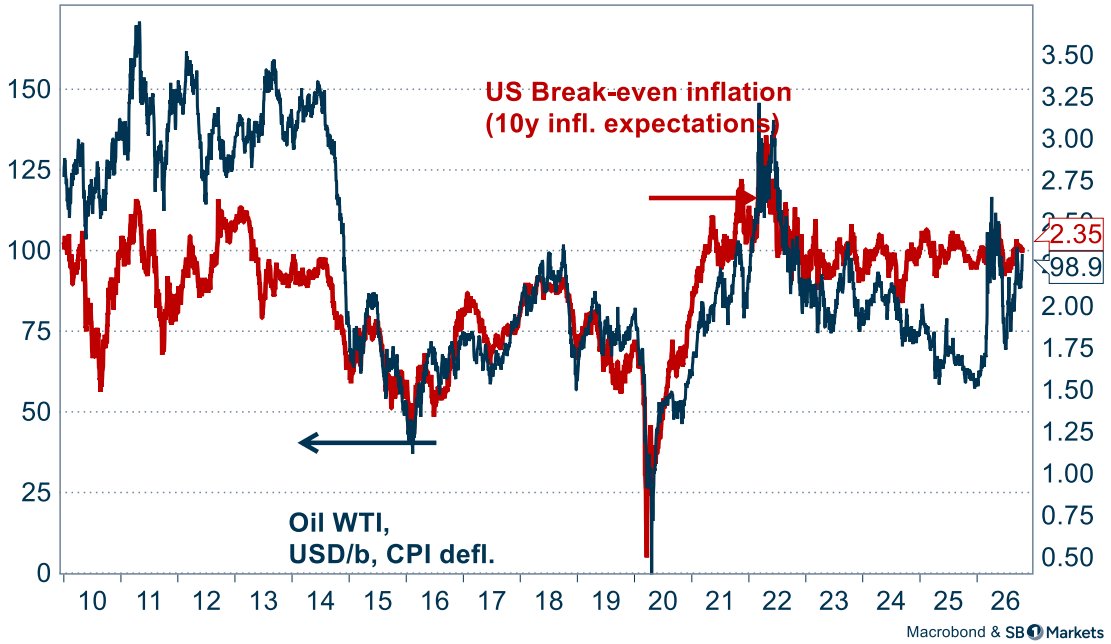
	Yield	Change 1w	Change 1m	YTD	Min since April-20
USA nominal treasury	5.09	-0.15	0.08	0.91	0.52
.. break-even inflation	2.35	0.02	0.02	0.10	1.06
.. TIPS real rate	2.74	-0.17	0.06	0.81	-1.19
Germany 10y gov, bund	3.41	-0.08	-0.09	0.56	-0.65
.. 10y EUR inflation swap	2.31	0.00	0.00	0.35	0.68
.. real rate	1.10	-0.08	-0.09	0.22	-2.79

Macrobond & SB Markets

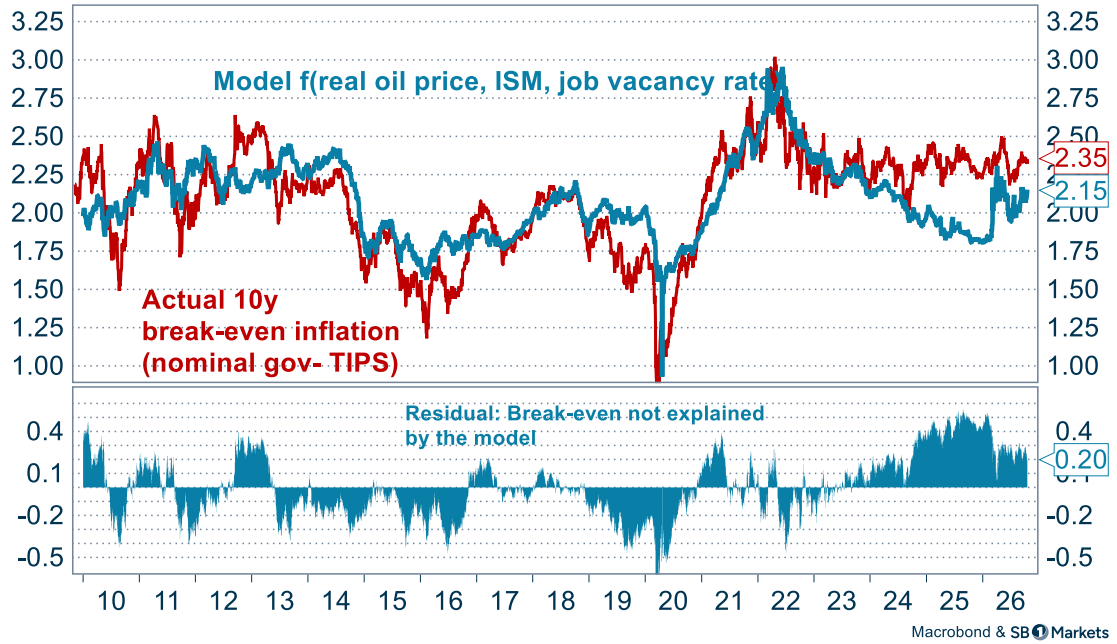
US inflation expectations are still correlated with the oil price

… but the impact has been less than normal during the recent oil turbulence.
Inflation expectations are still high vs. our model forecast but the residual has narrowed in 2026.

USA Inflation expectations vs. the oil price



USA Inflation expect. vs. oil & the cycle

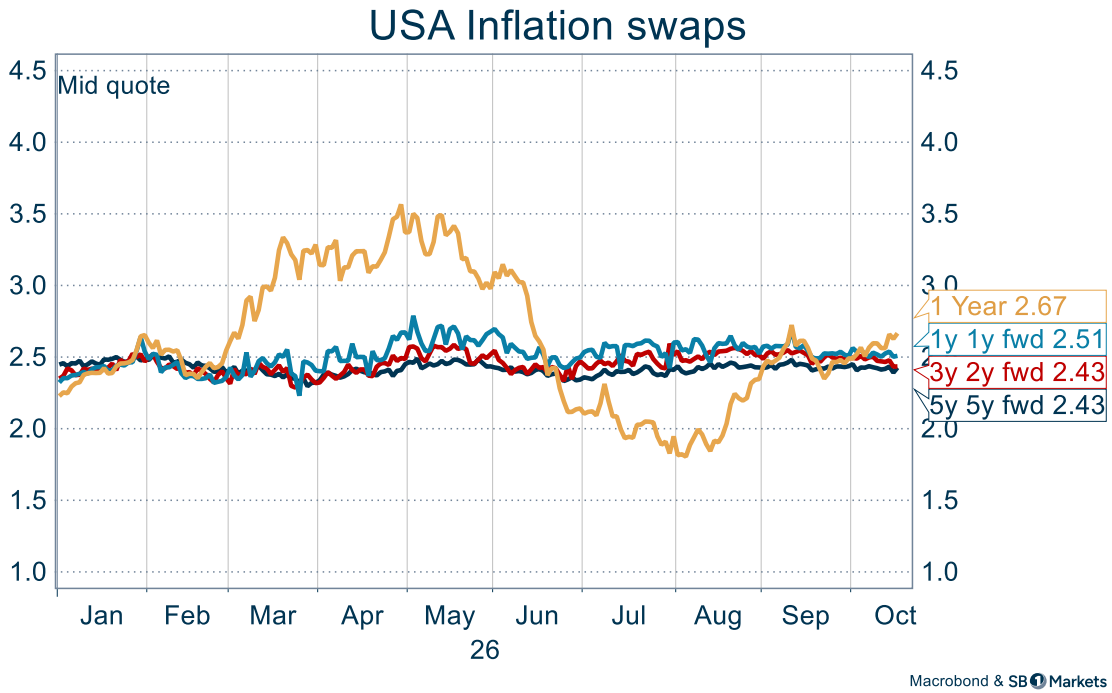


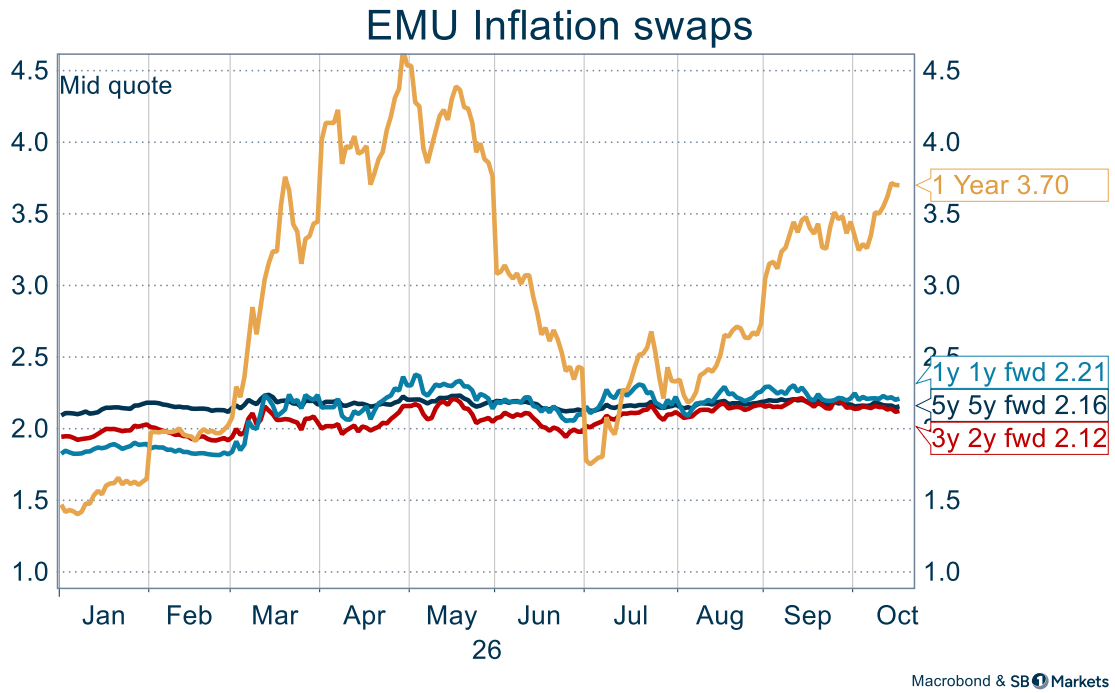


- The main determinant of **long-term inflation expectations** has been the current **spot (!) oil price**. If the current ISM and the current labour market are added, the model works even better.
- Our model's coefficients:
  - USD -10/b: -10 bps (the dominant factor, check the upper left chart).
  - -1 pp in the labour market vacancy rate (say to 4.3% from 5.3%): -12 bps.
  - -5 ISM points: -12 bps.
- Should other factors have been included in the model?

1y EUR inflation expectations remain very high but *not much of a problem thereafter*

In the US, inflation expectations are stable all over the curve.

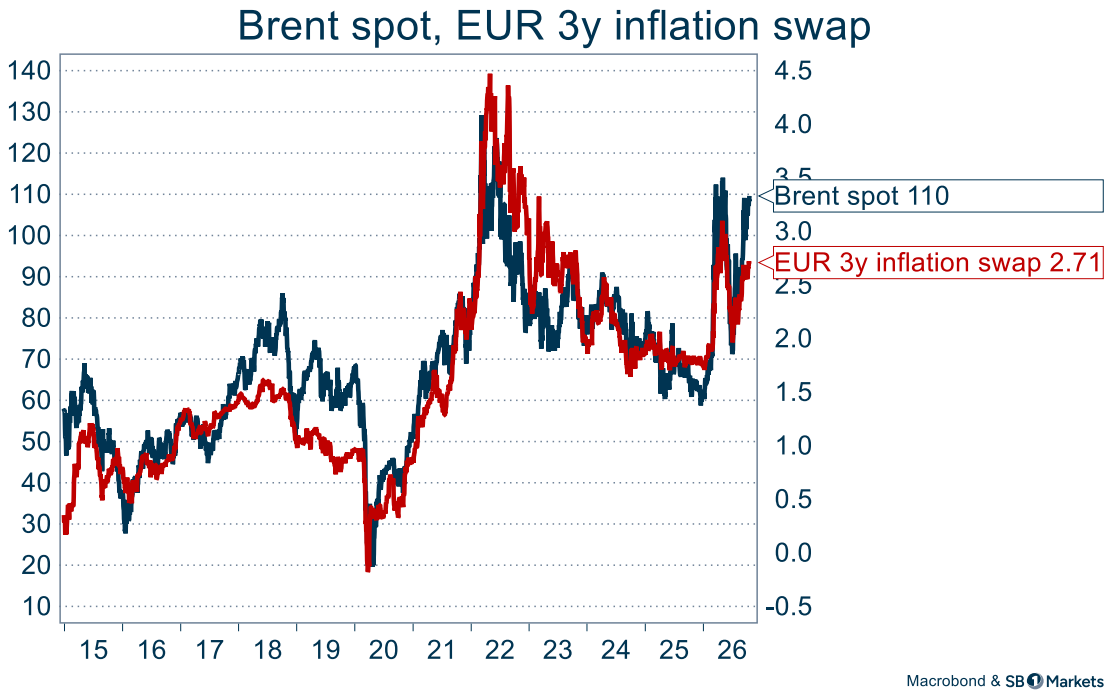


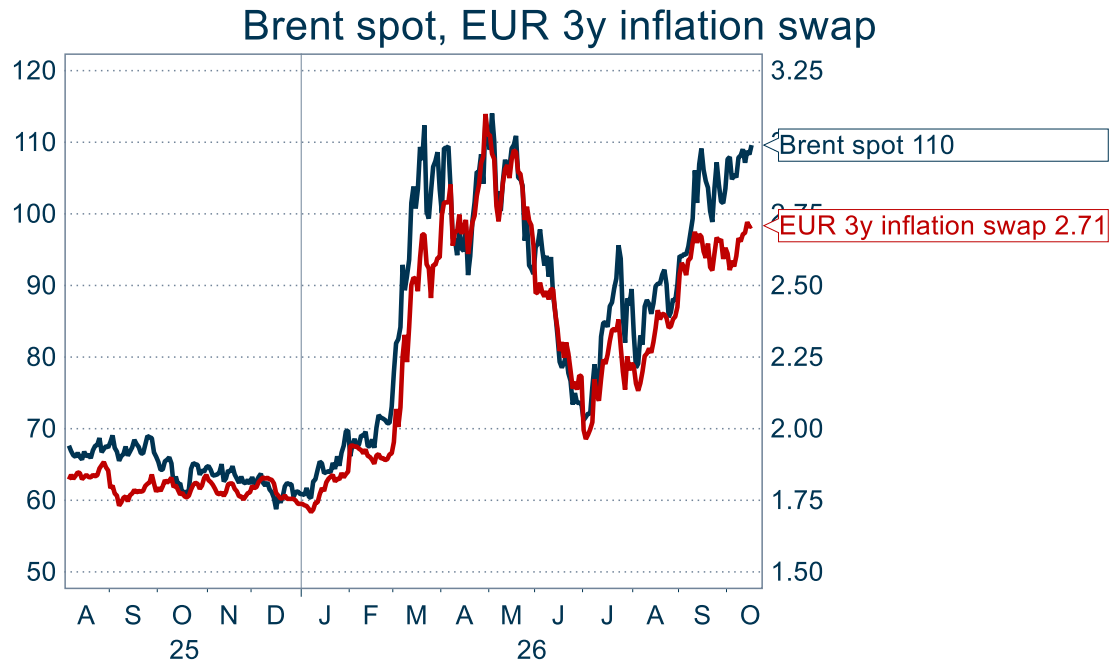


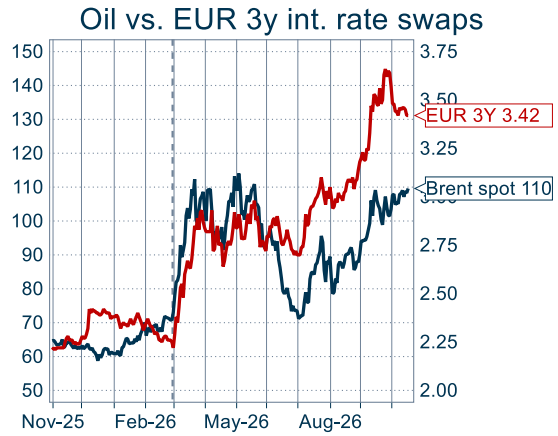
The 1y EUR inflation swap is heavily impacted by the base effect in the y/y HICP inflation rate. Thus, around the change in the front month, the 1y expected inflation rate may shift substantially (check Jan/Feb and then May/June and June/July in the chart above to the right). Further out on the inflation swap curve, the impact is limited and it is non-existent in the forward curve (check the 1y1y vs. the 1y inflation swap).

EUR short-term inflation expectations are still following the oil price. Last week up…

However, since the summer, nominal rates have climbed more, of course because real rates have shot up (until the past 2 weeks).

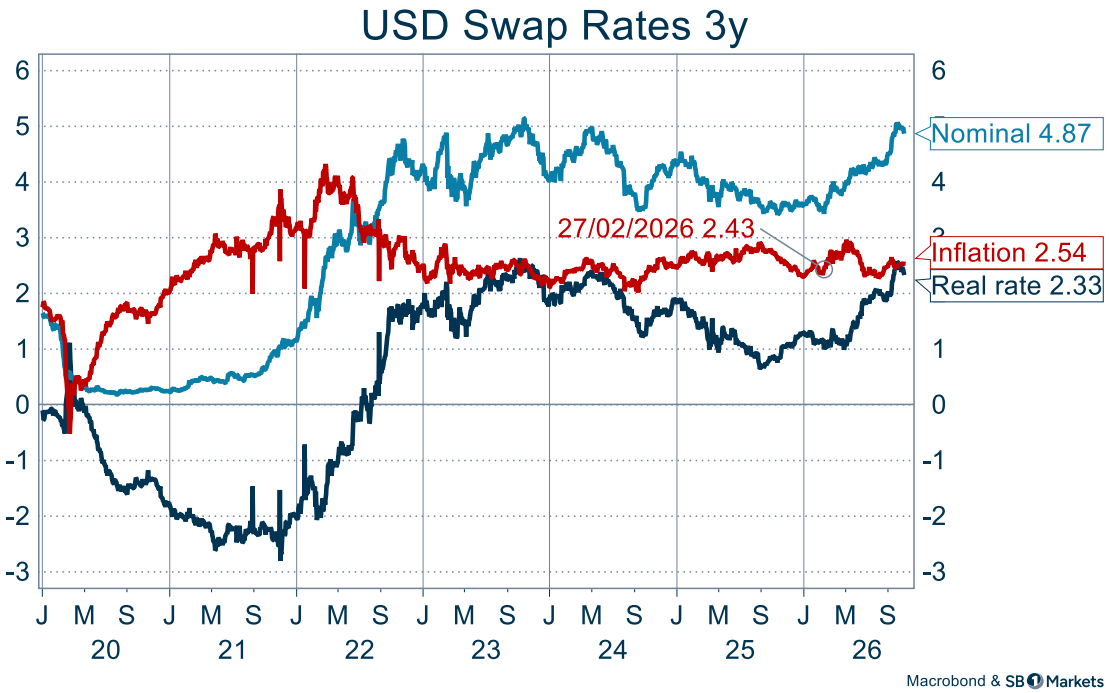


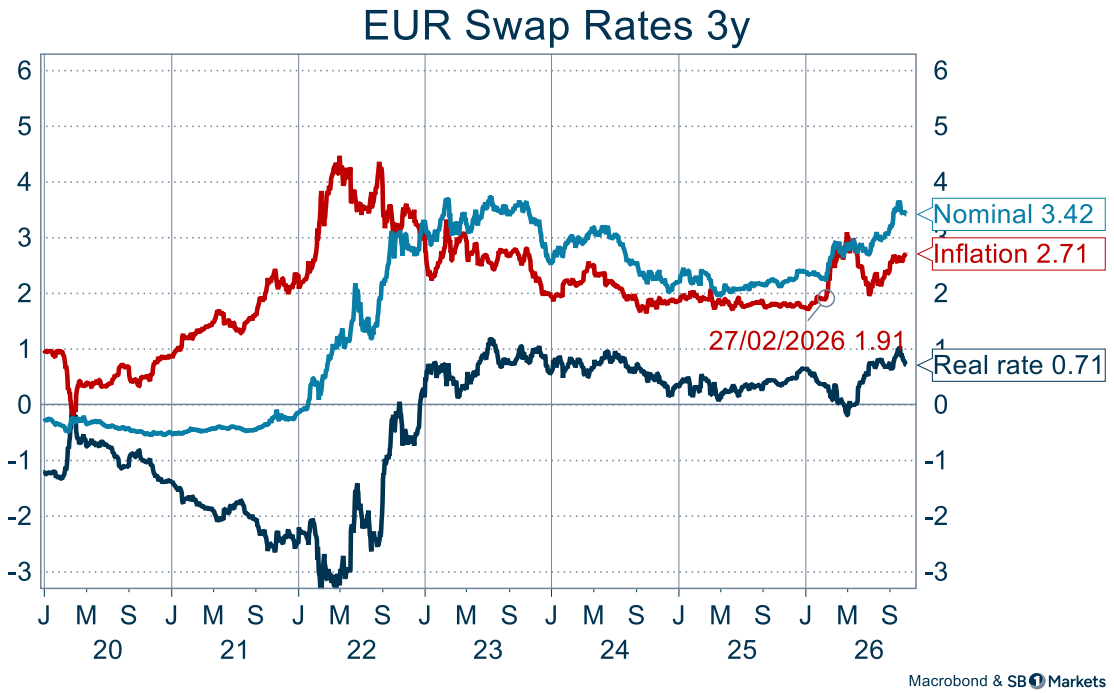


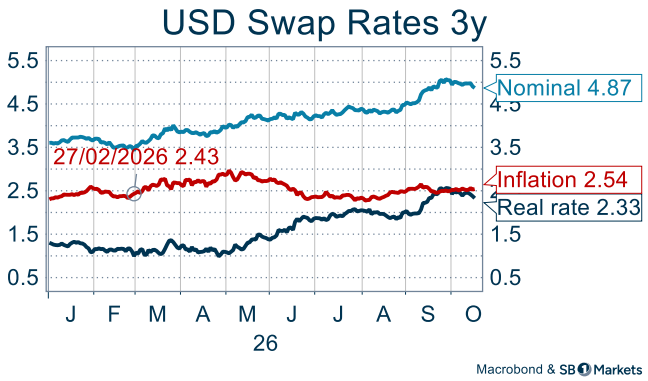


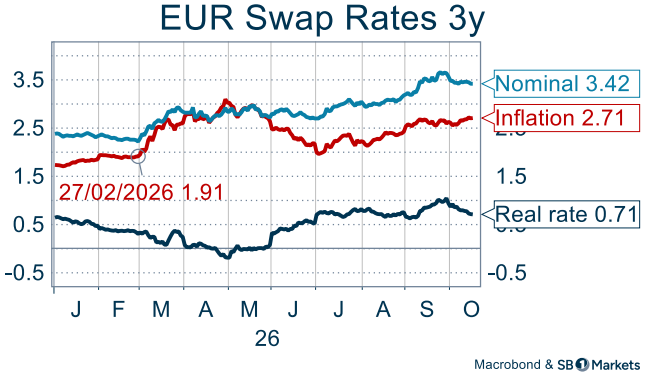
EUR short-term inflation expectations trending up, real rates down last week

In US, short-term inflation expectations were flat (and are trending flat, below those in EUR!), but real rates declined.



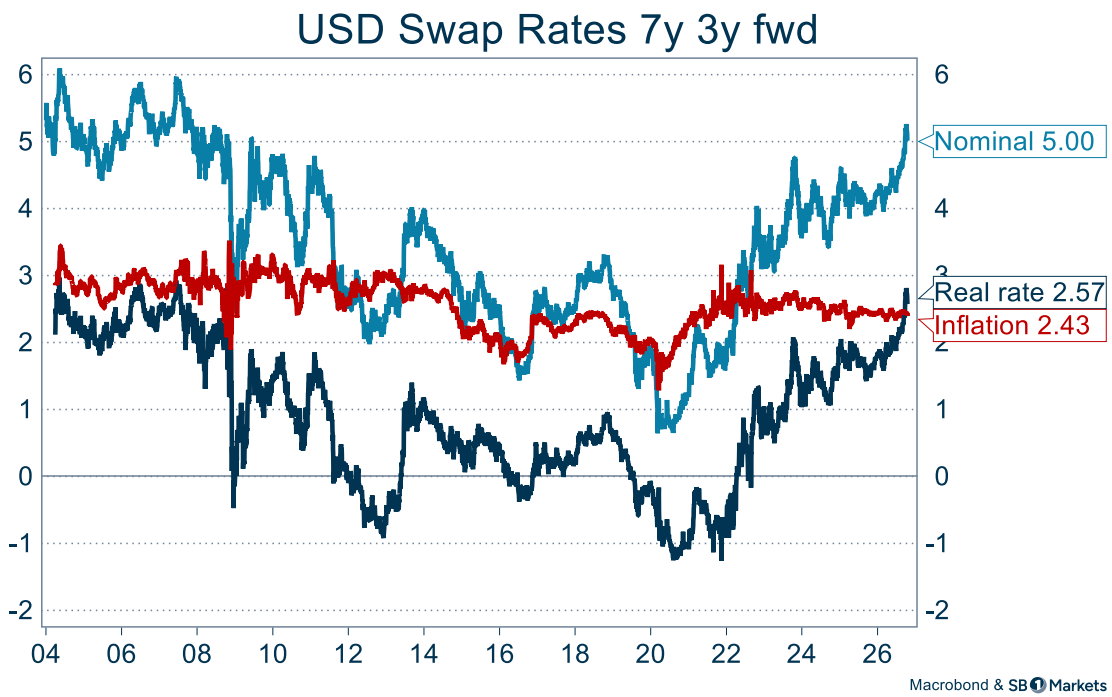


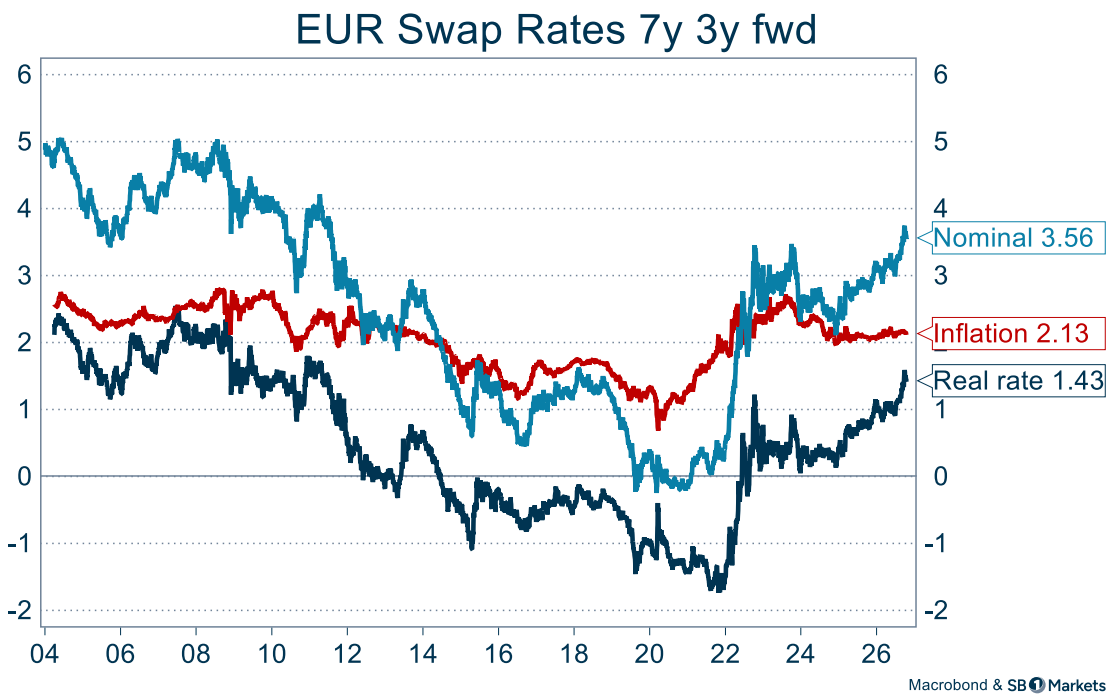


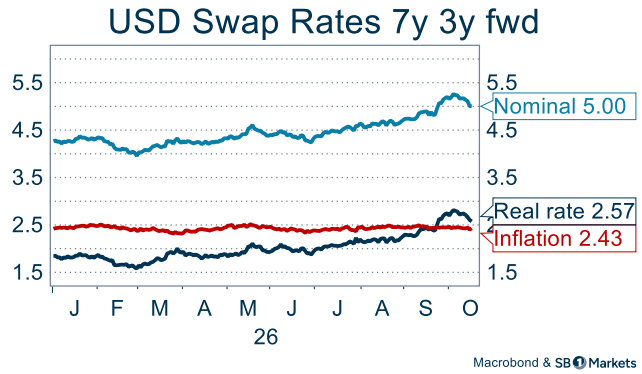


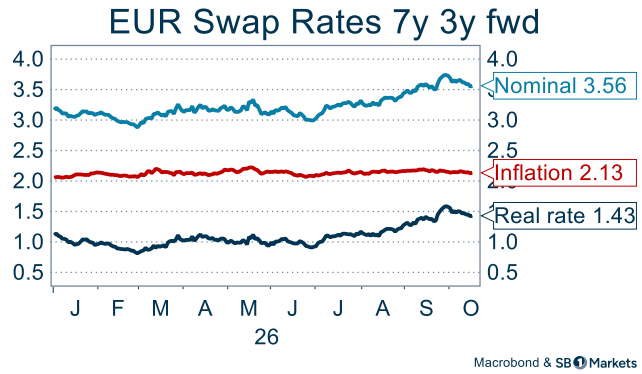
Longer-term real rates declined last week too, in both USD and EUR

… following the surge in real rates since March (USD) and June (EUR)



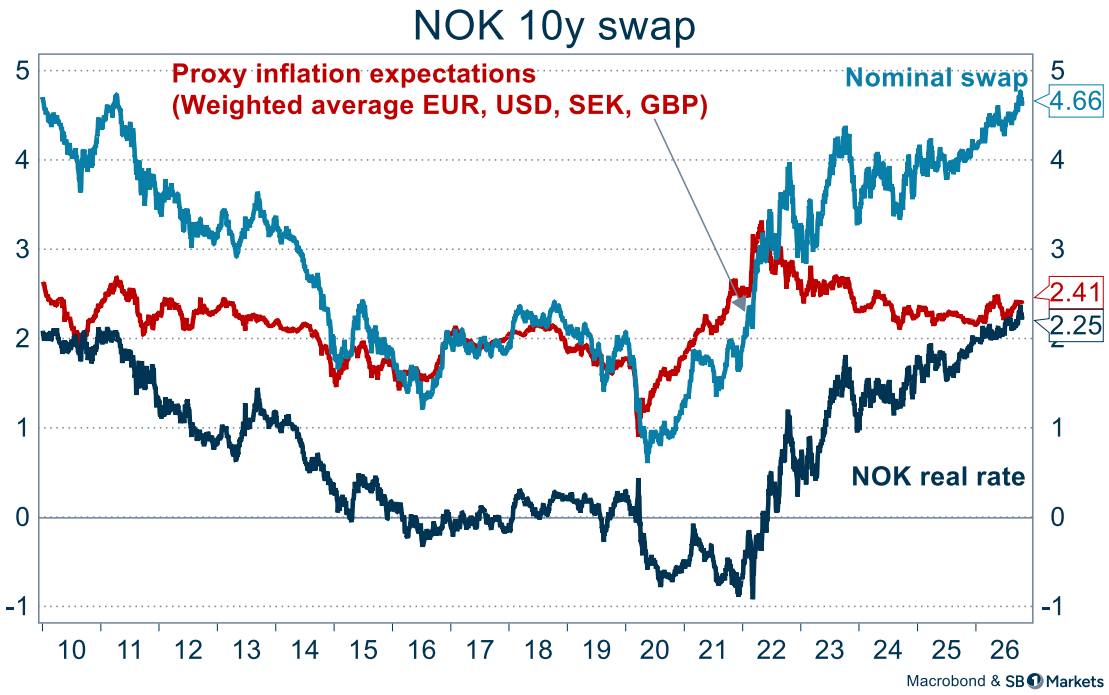


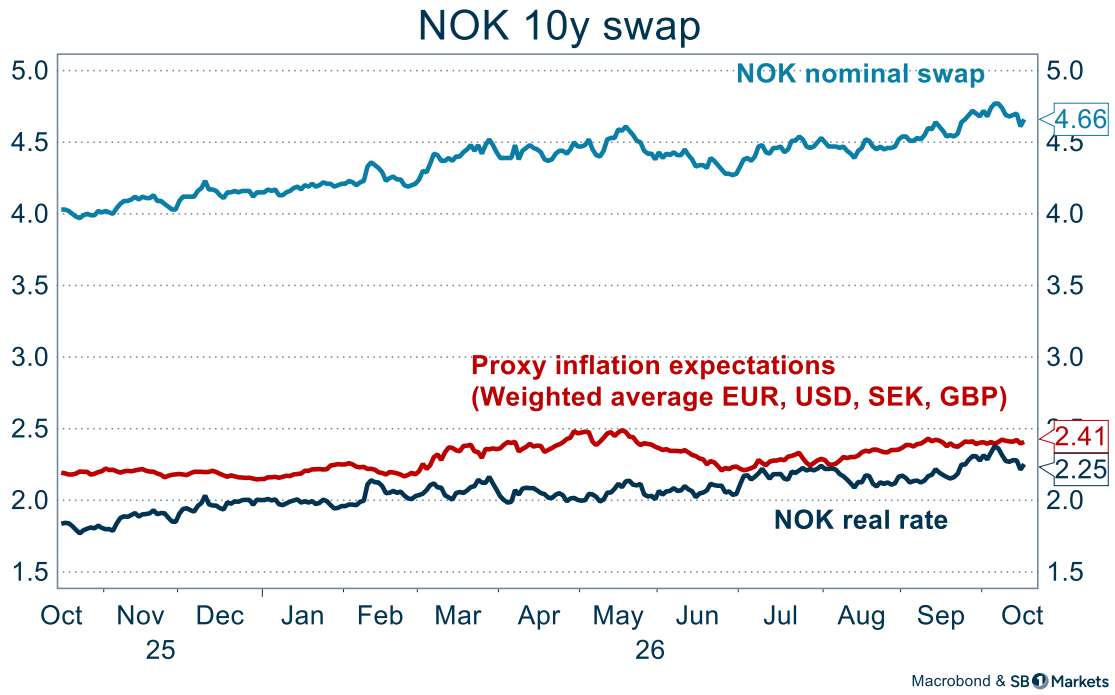




The 10-year NOK real rate (probably) declined last week, but remains well above 2%

… as we assume that long-term inflation expectations develop in line with expectations abroad. These expectations rose in Q1, fell in Q2, rose in Q3 but have flattened recently – and have been pretty stable, seen from a distance. The implied real rate has not been stable!

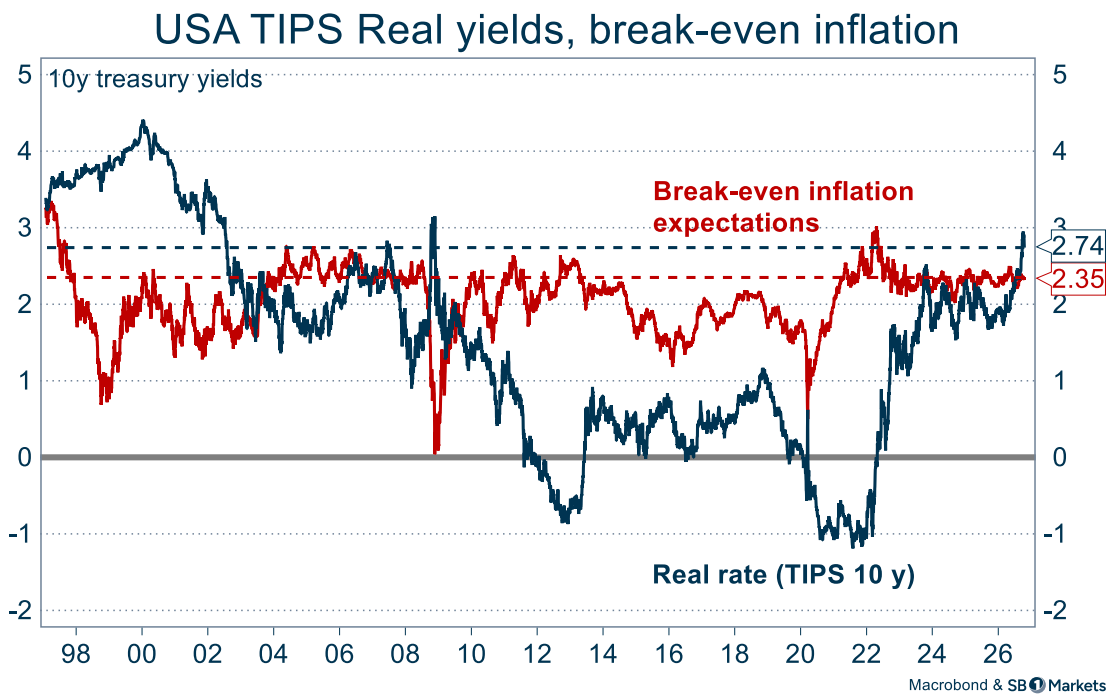


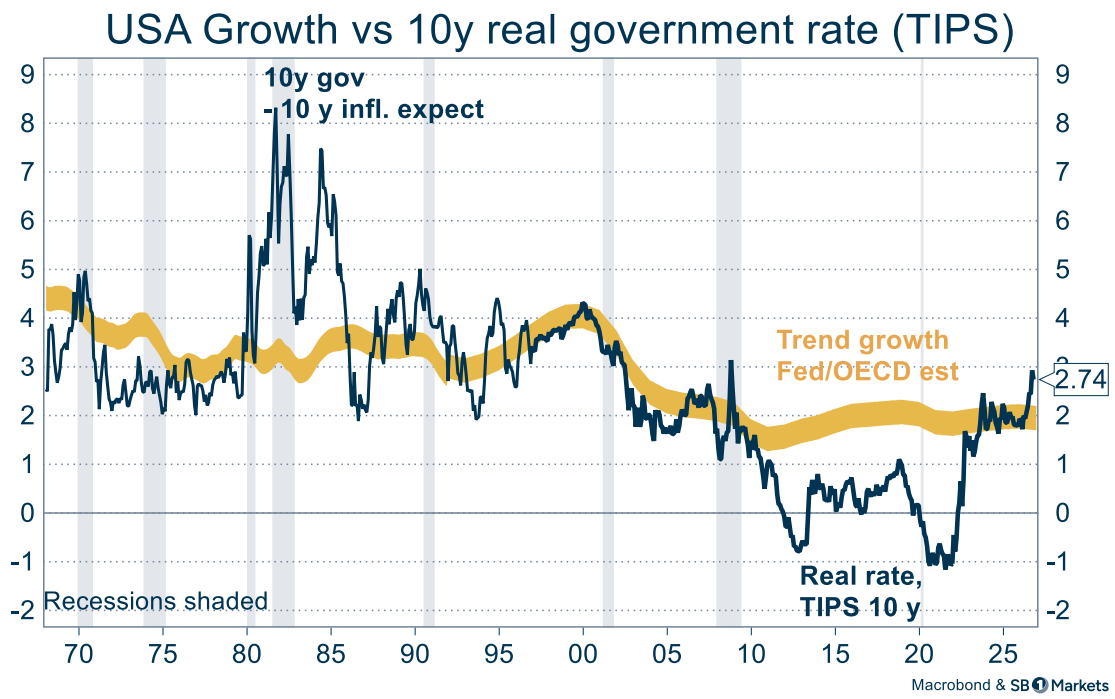


Memo: Our NOK inflation expectations proxy is a weighted average of EUR, SEK, GBP and USD inflation swaps, cross-checked vs. historical inflation differentials and survey-based expectations. The impact of NOK depreciation is not included in the calculation.

US real rates vs. growth expectations: above the upper part of the ‘growth corridor’

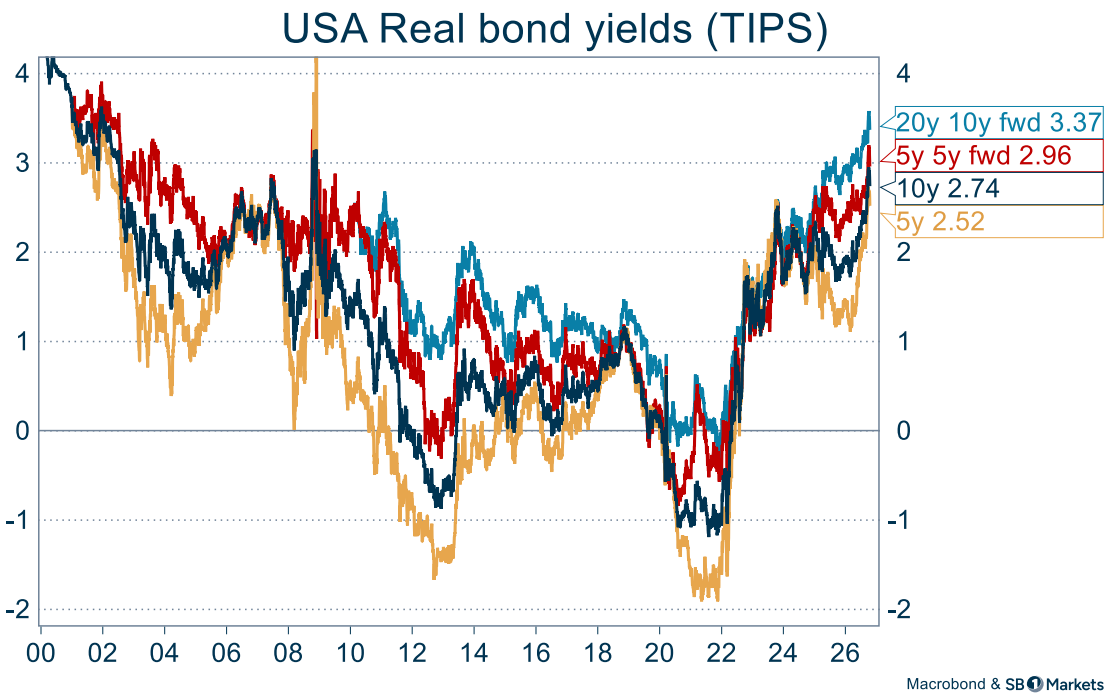
We would NOT bet on a substantial lift from here, unless a ‘Truss moment’ comes along – or there are strong indications that long-term growth will accelerate significantly (e.g. from AI). In an economic downturn: lower long-term real rates are likely. Inflation expectations are stable.

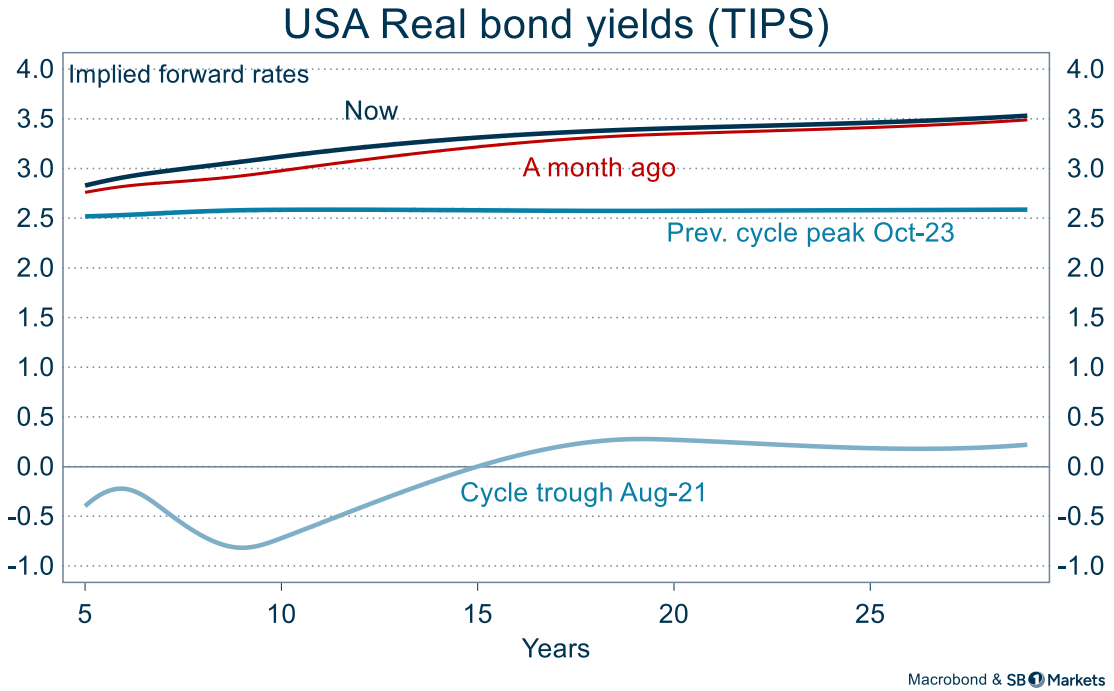


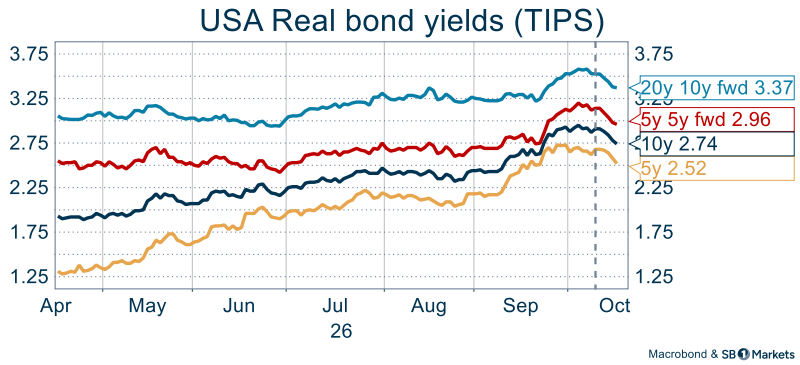


TIPS real yield curve: a minor reversal last week, following a steep rise

TIPS rates are at their highest since the brief spike during the market turmoil in October 2008. Before that, similar levels were last seen in 2002.

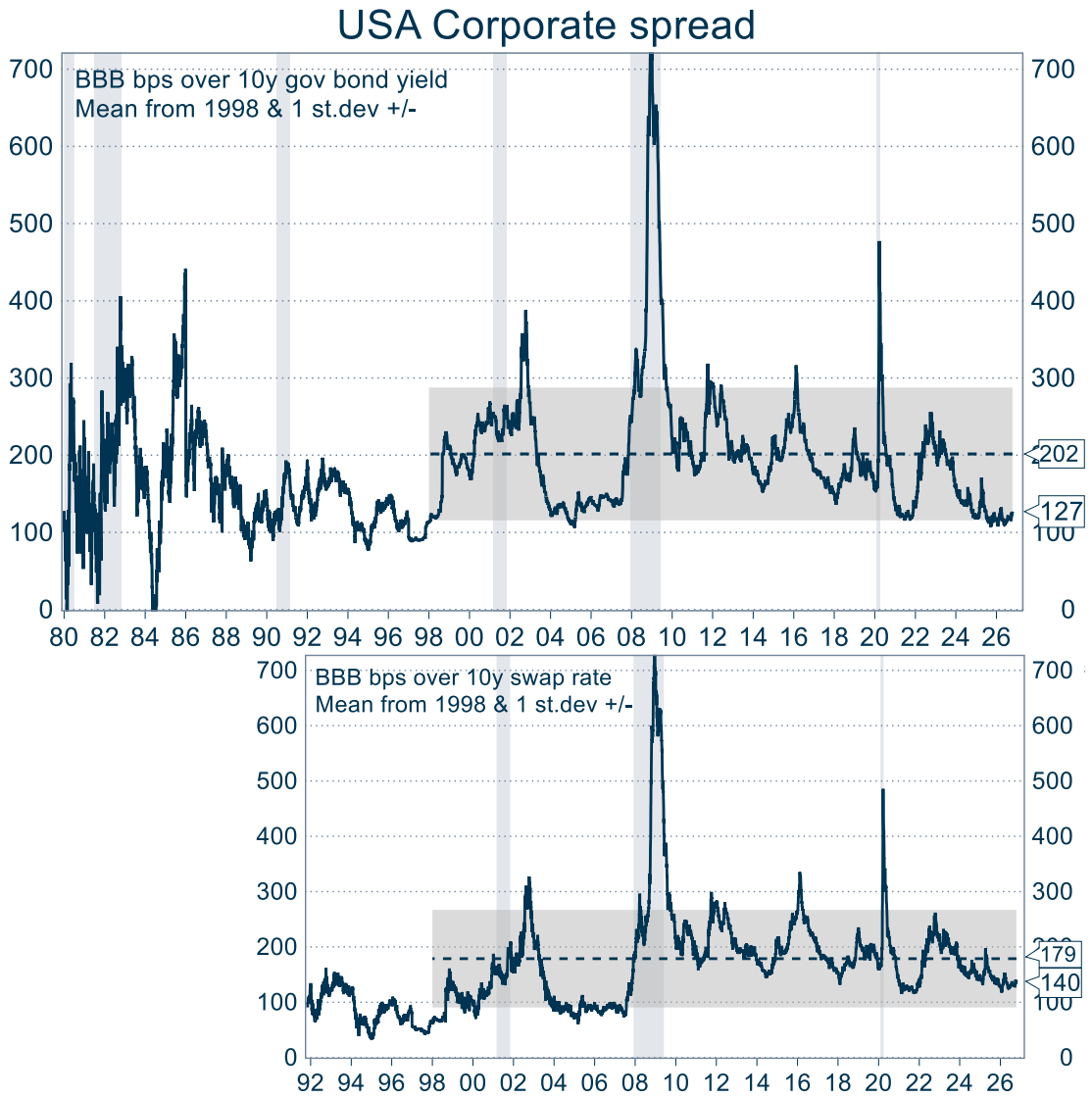






The US BBB corporate spread (vs. 10y gov.) up 3 bps to 127 bps – and *the trend is up*

The trend over the past 15 months is flat, but the spread has widened by more than 15 bps since May. The level is anyway very low.



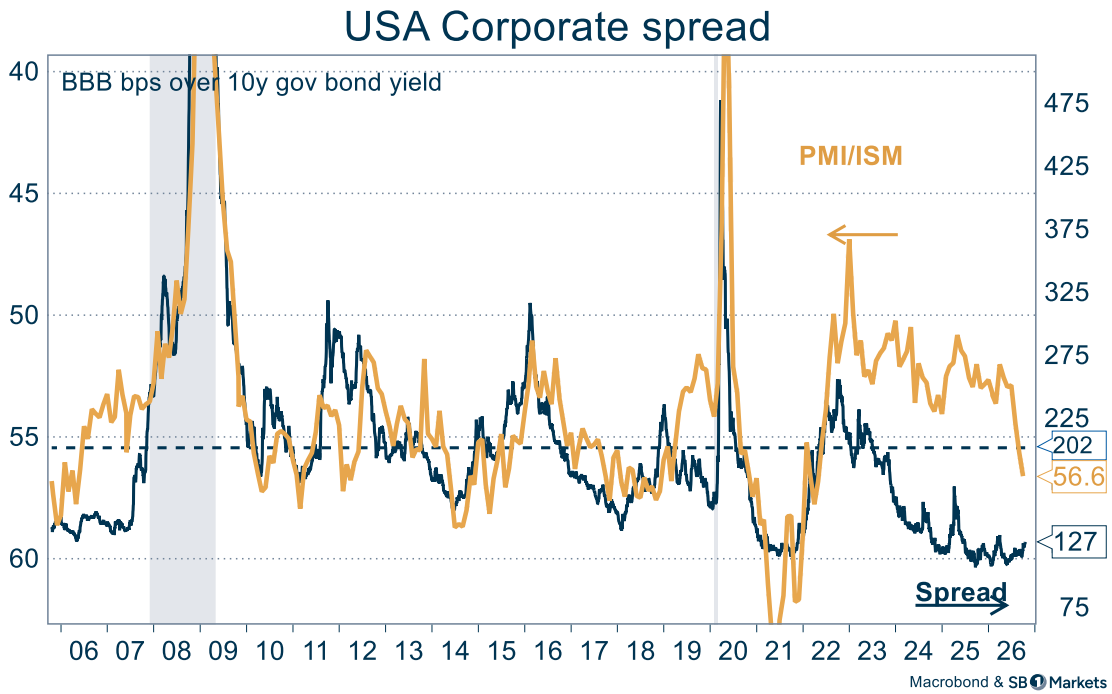


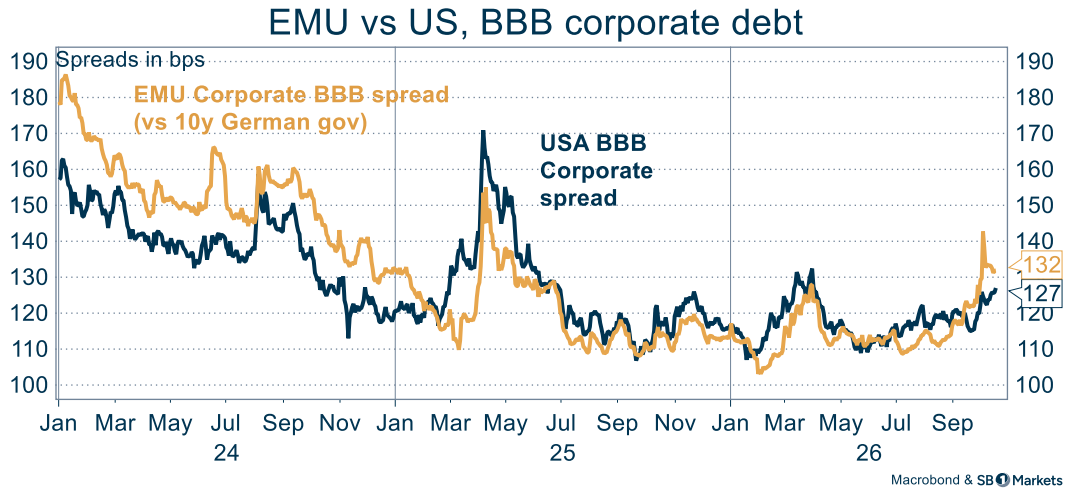
Macrobond & SB Markets

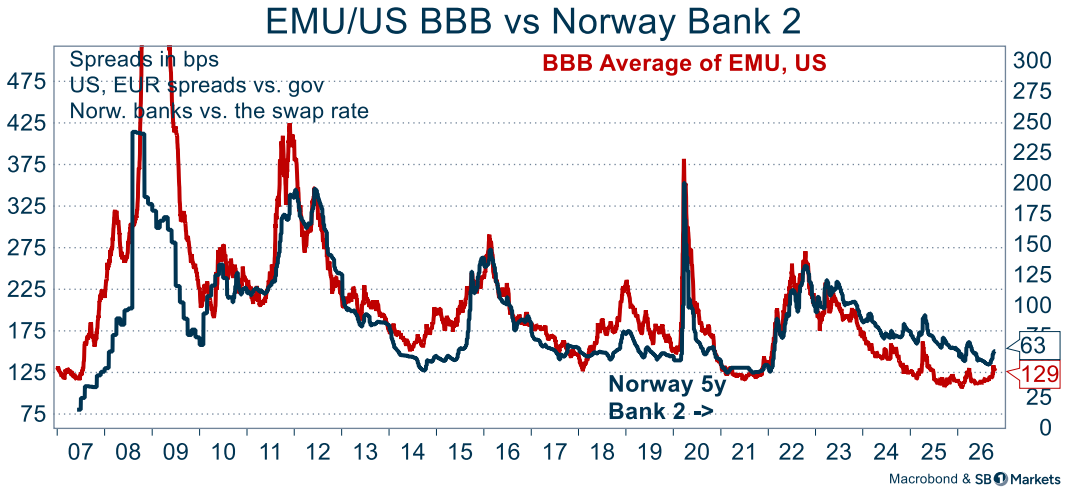


As the economy strengthened over the summer, spreads started to widen

The EMU corporate spread vs. the German government bond yield widened as the bond rate declined sharply (but not much vs. other Euro Area government bonds or vs. the EUR swap rate)



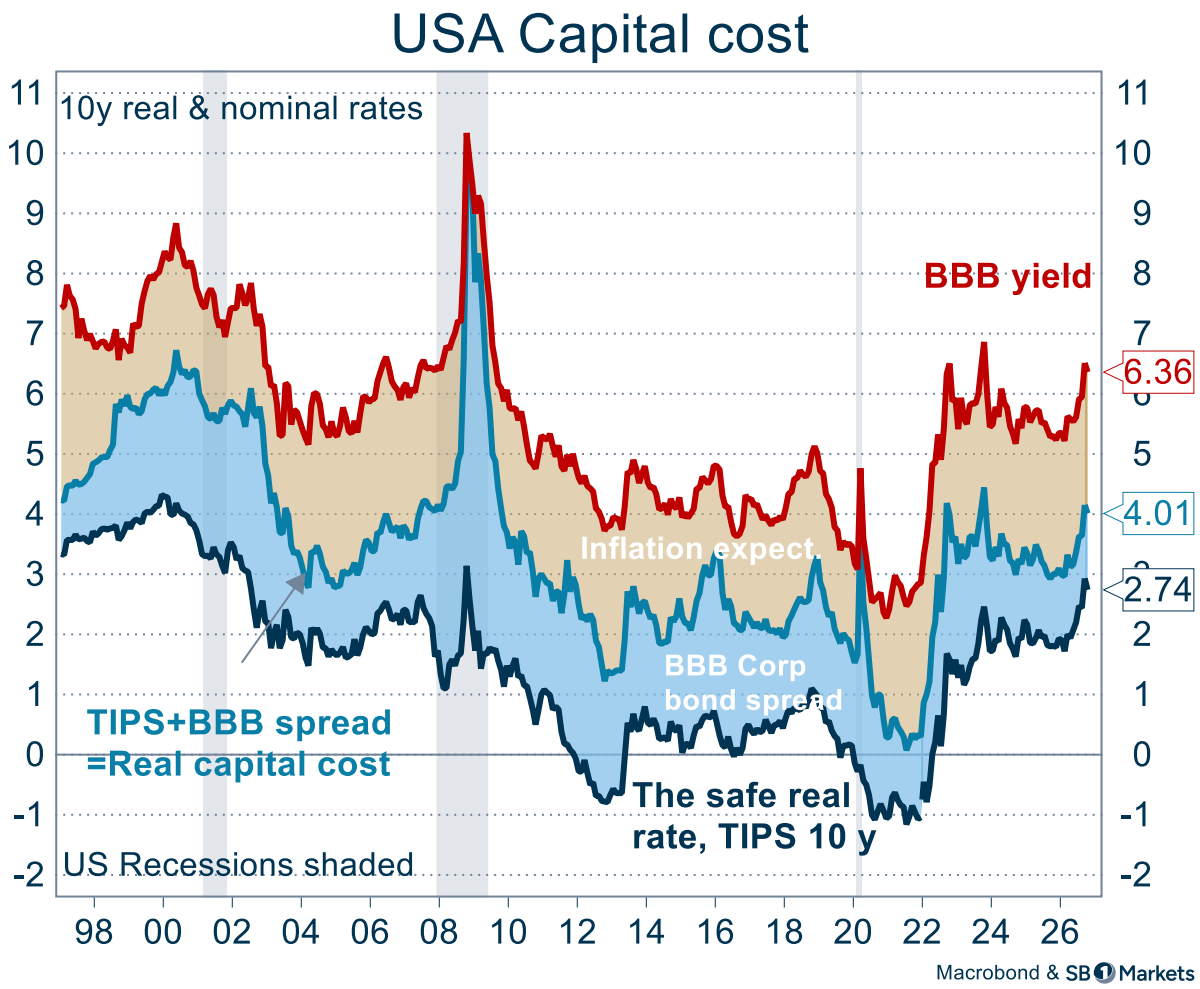




- The main Norwegian bank bond spread (bank 2, 5y senior) widened by 1 bp to 63 bps last week, up from 51.5 bps at the bottom in late August.

Corporate borrowing costs up 100+ bps in recent months, due to a higher TIPS real rate

The credit spread is close to unchanged, while inflation expectations trend flat.



- The total **real borrowing cost** for a US BBB investment-grade industrial corporation fell to 4.01% as the 10y TIPS real rate declined 17 bps last week!
- Adding in inflation expectations, the nominal borrowing cost fell to 6.36%, still up more than 90 bps from February – just due to a lift in the TIPS rate.

SB 1 Markets

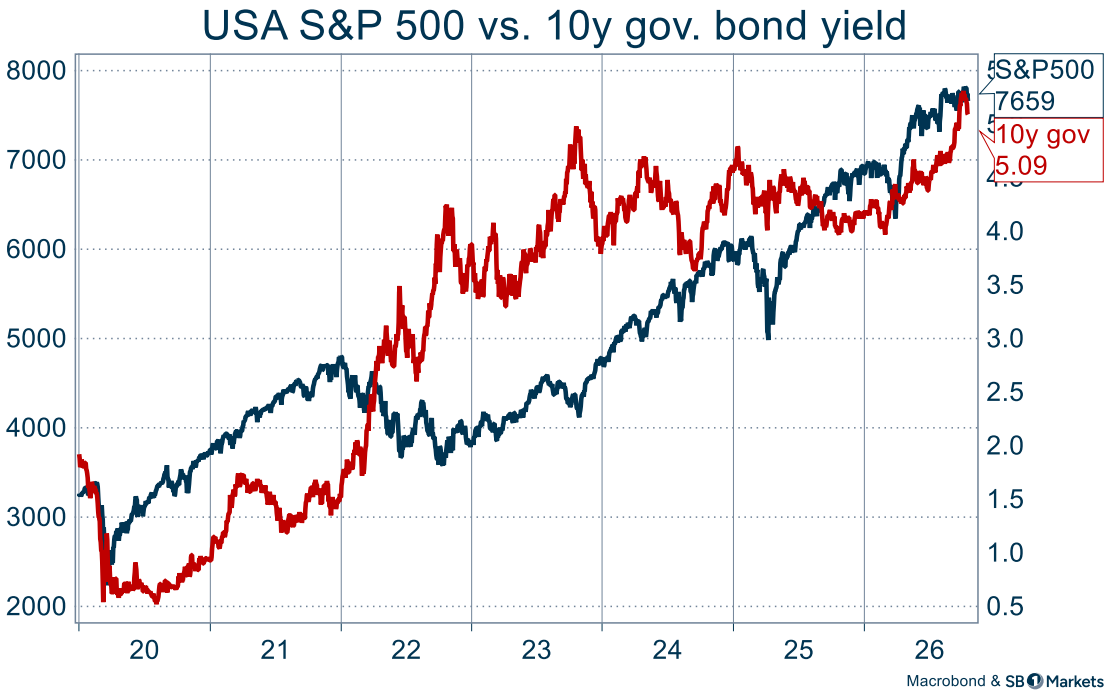


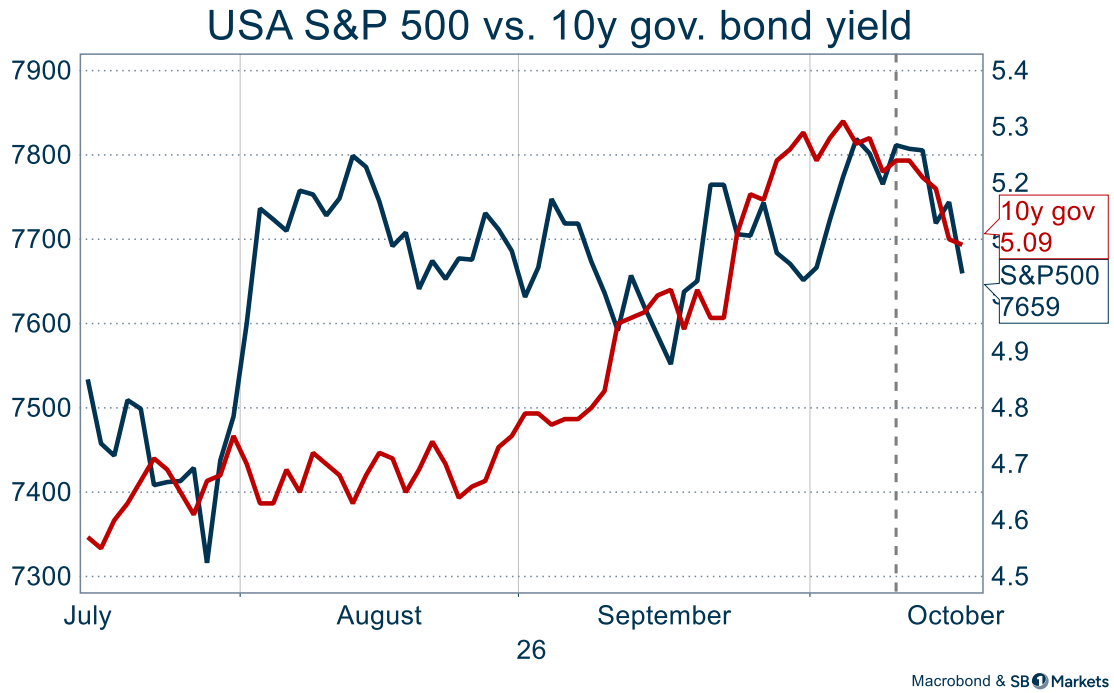
4.3 Equity markets

*Picture source: ChatGPT

Equities and bond yields turned south last week

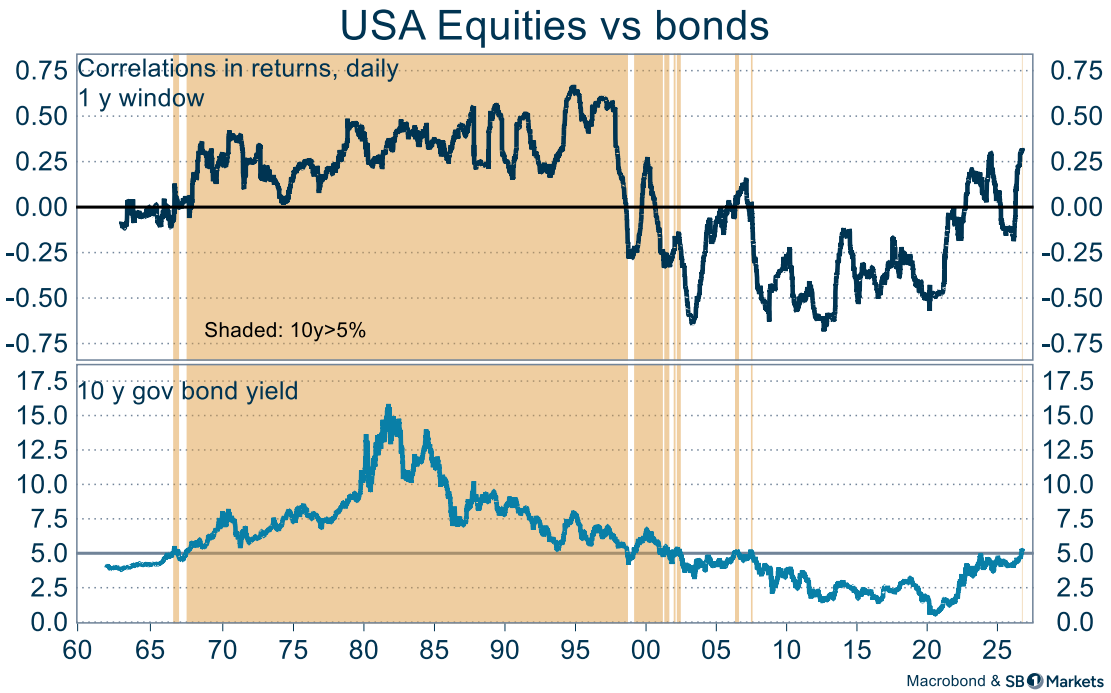
The S&P lost 1.9% (and Nasdaq 5.5%), while the 10y bond yield fell 15 bps to 5.09%.

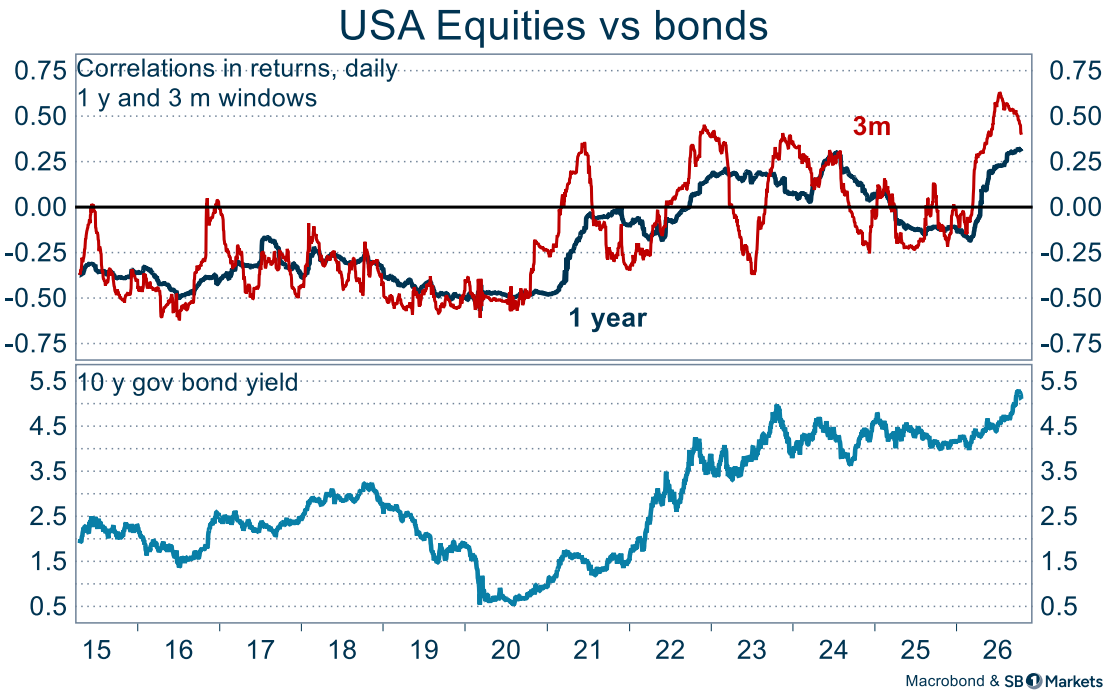




Equity–bond return correlation remains positive

This follows the return of inflation worries and rising bond yields for 'the wrong reason' – an oil supply shock – even if it is real rates, not inflation expectations, that have risen.

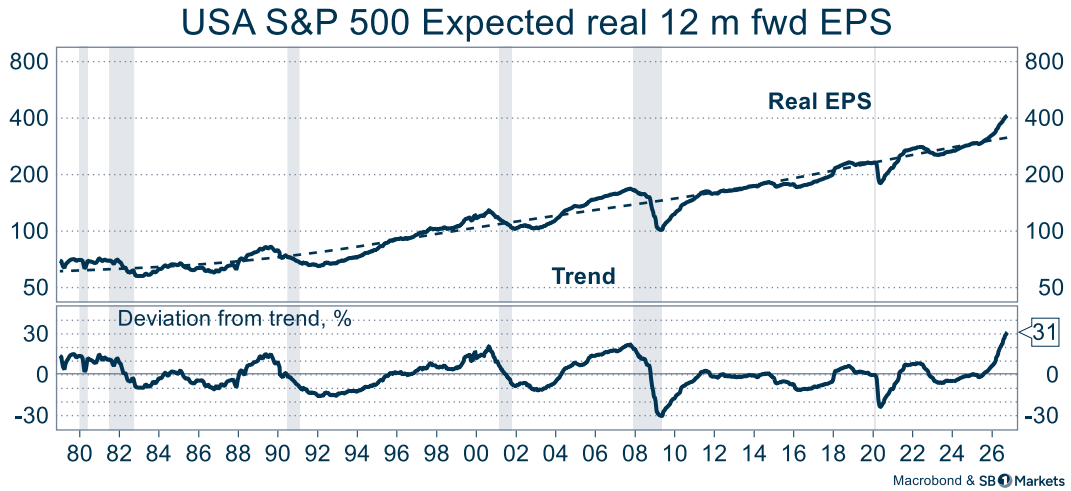


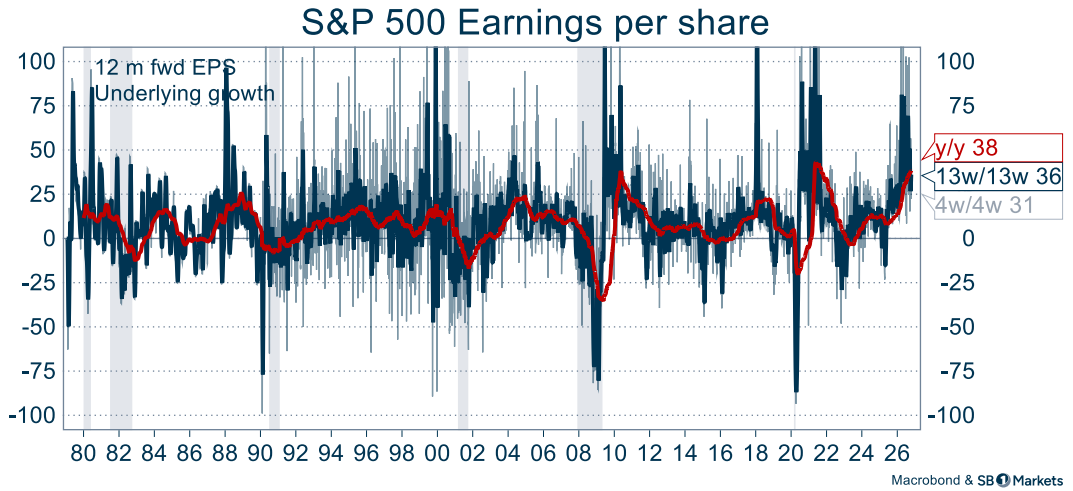


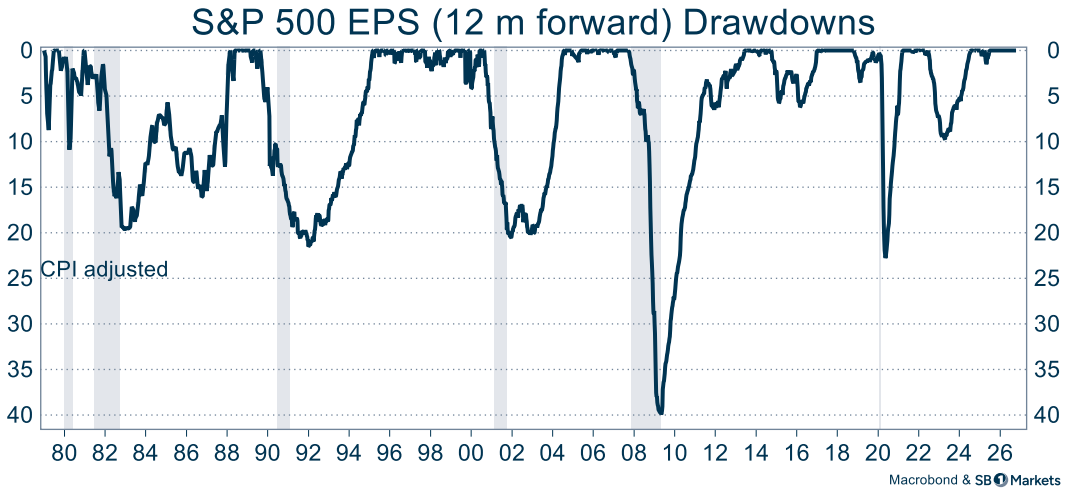
- **Inflation worries** normally lift government bond yields to a 'high' level and are normally not positive for equities: thus, a positive correlation (in returns).
- **Growth worries produce the opposite (negative) correlation in returns: lower yields and a weaker equity market.**
- **The threshold** vs. the 10y bond yield before the correlation turned positive used to be some 5.0%. Now it is very likely lower – say 4.5% or below.
  - The neutral rate is probably lower than 15–20 years ago due to the decline in trend growth (demographics & productivity).

US earnings expectations are up 38% y/y, and the short-term momentum is strong too

The 12m fwd. expected (CPI-adjusted) S&P 500 EPS is 31% above the long-term real trend path, as the profit share of GDP is booming, to record-high levels (which is why inflation has become too high). *Some downside risk?*



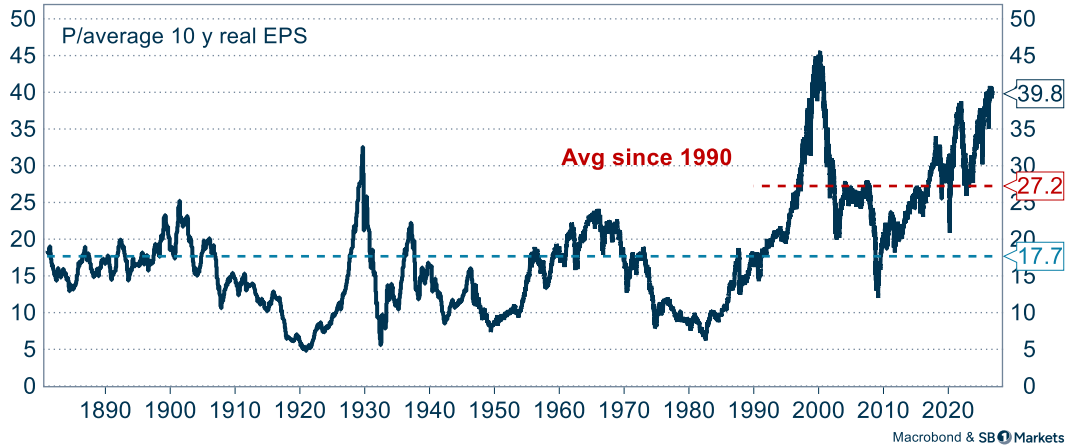




US P/Es are still high, but rapid earnings growth lowers the 12m fwd. P/E

Historically, returns have been dismal when pricing has been as aggressive as now. On the other hand, earnings are booming (and far more than we have assumed). The CAPE/Shiller has kept up, even if the 10y TIPS US real rate has increased sharply.

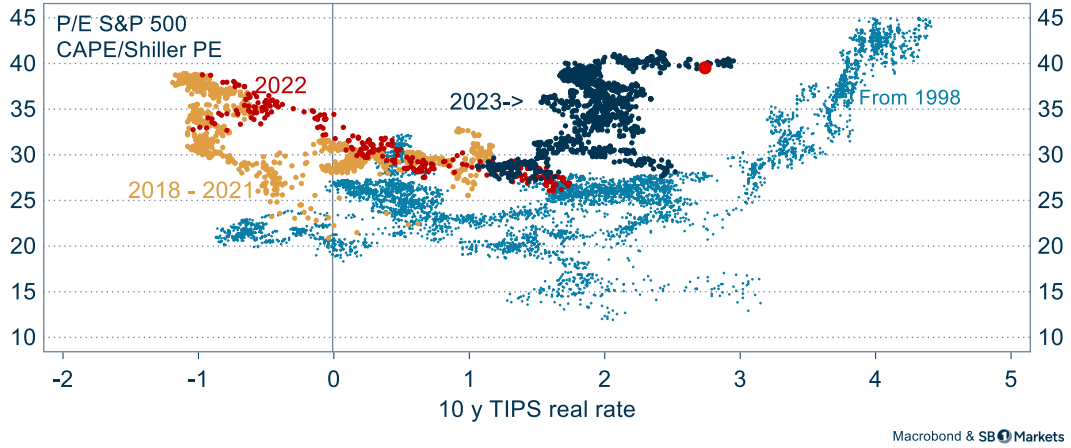
S&P500 10y (CAPE/Shiller) P/E



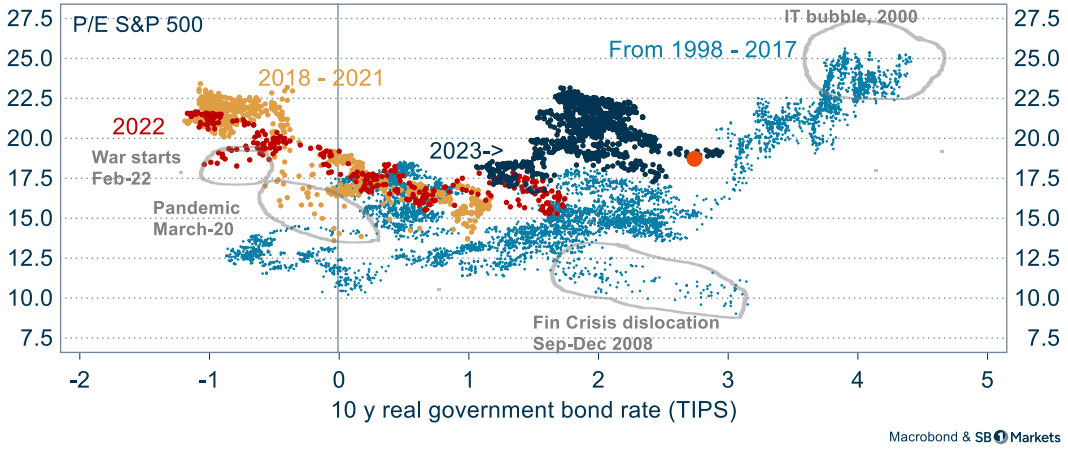
USA S&P 500 12 m fwd P/E



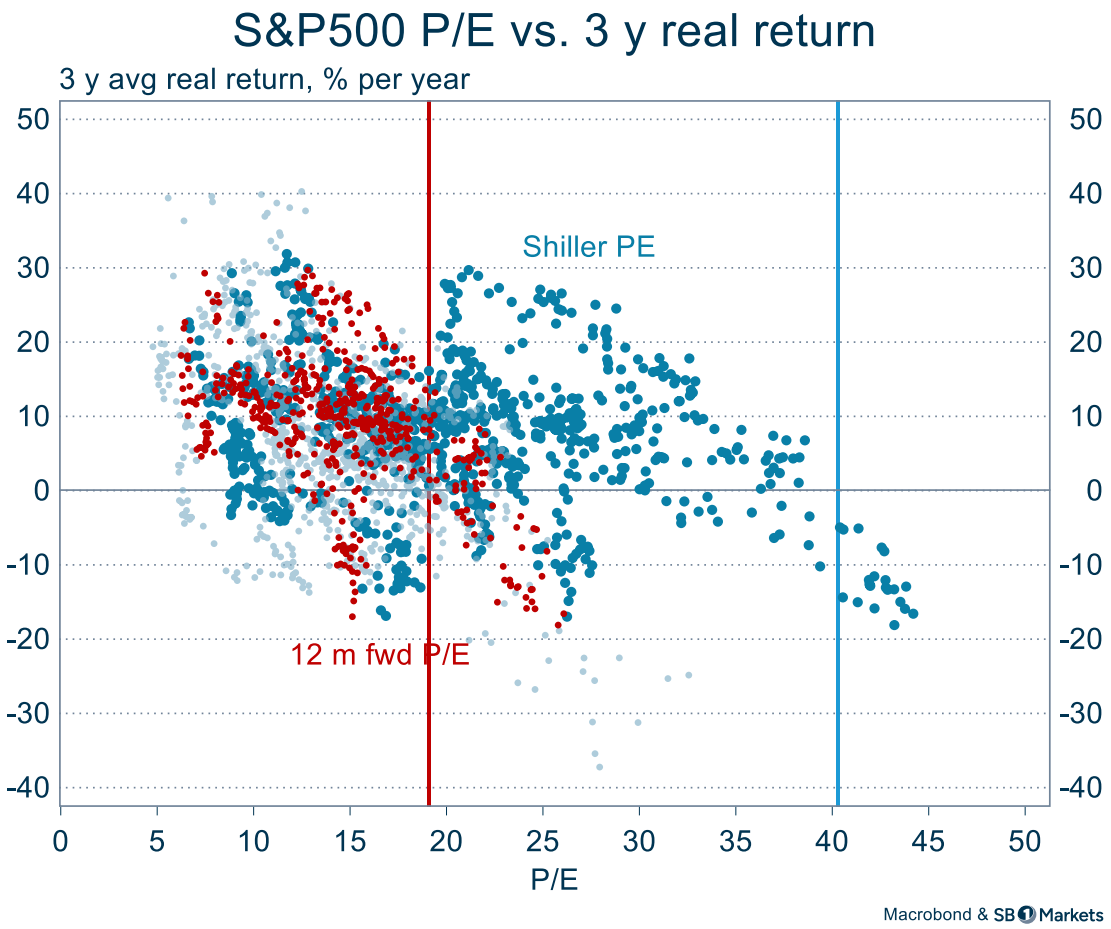
S&P 500 10y CAPE vs US 10 y real interest rate

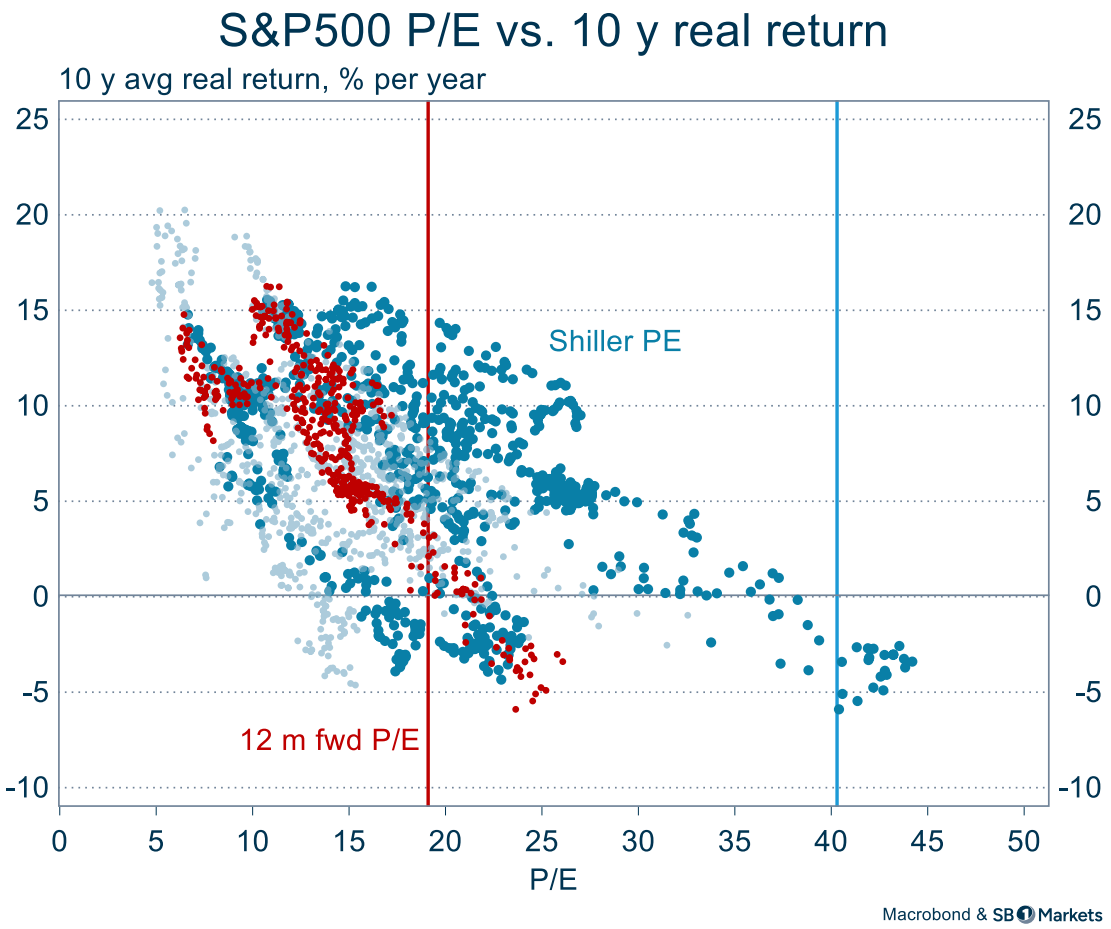


S&P 500 PE vs US 10 y real interest rate



Long-term returns are generally better when you buy cheap ☺

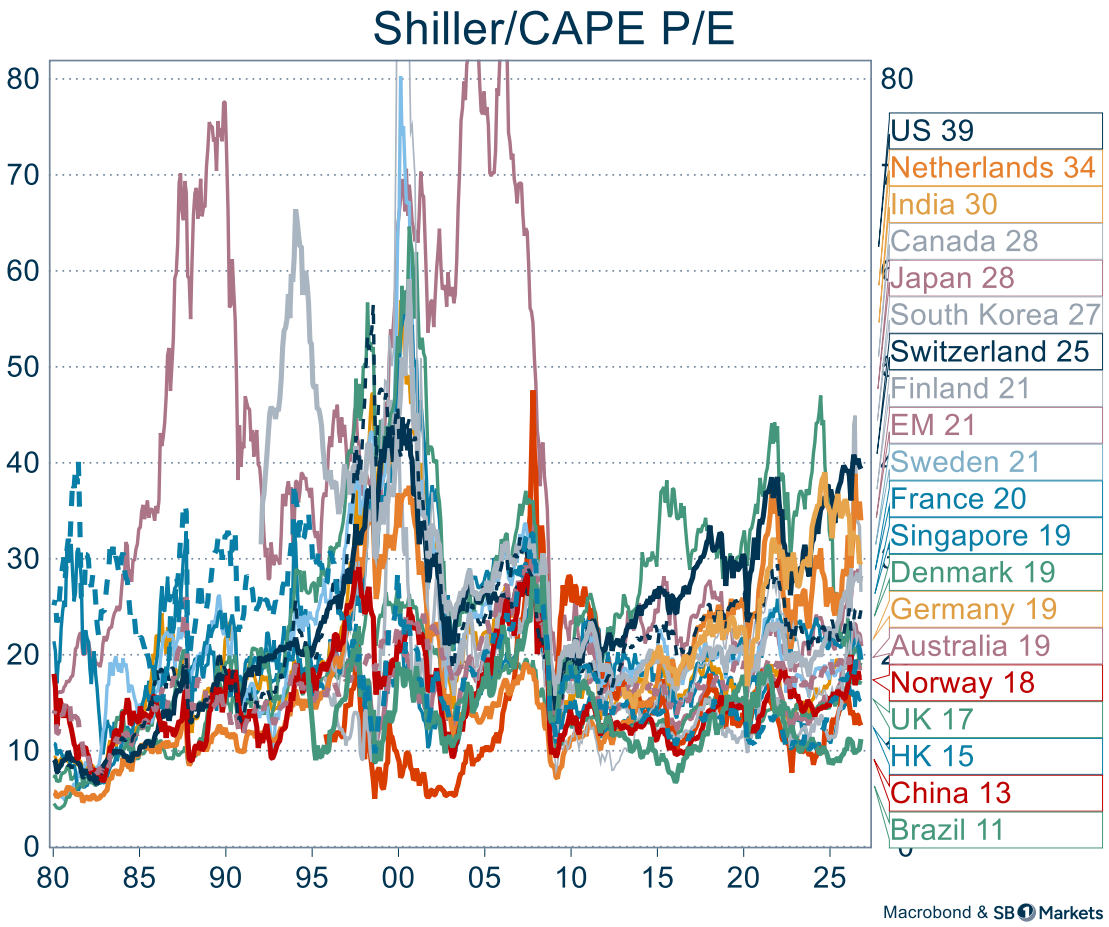


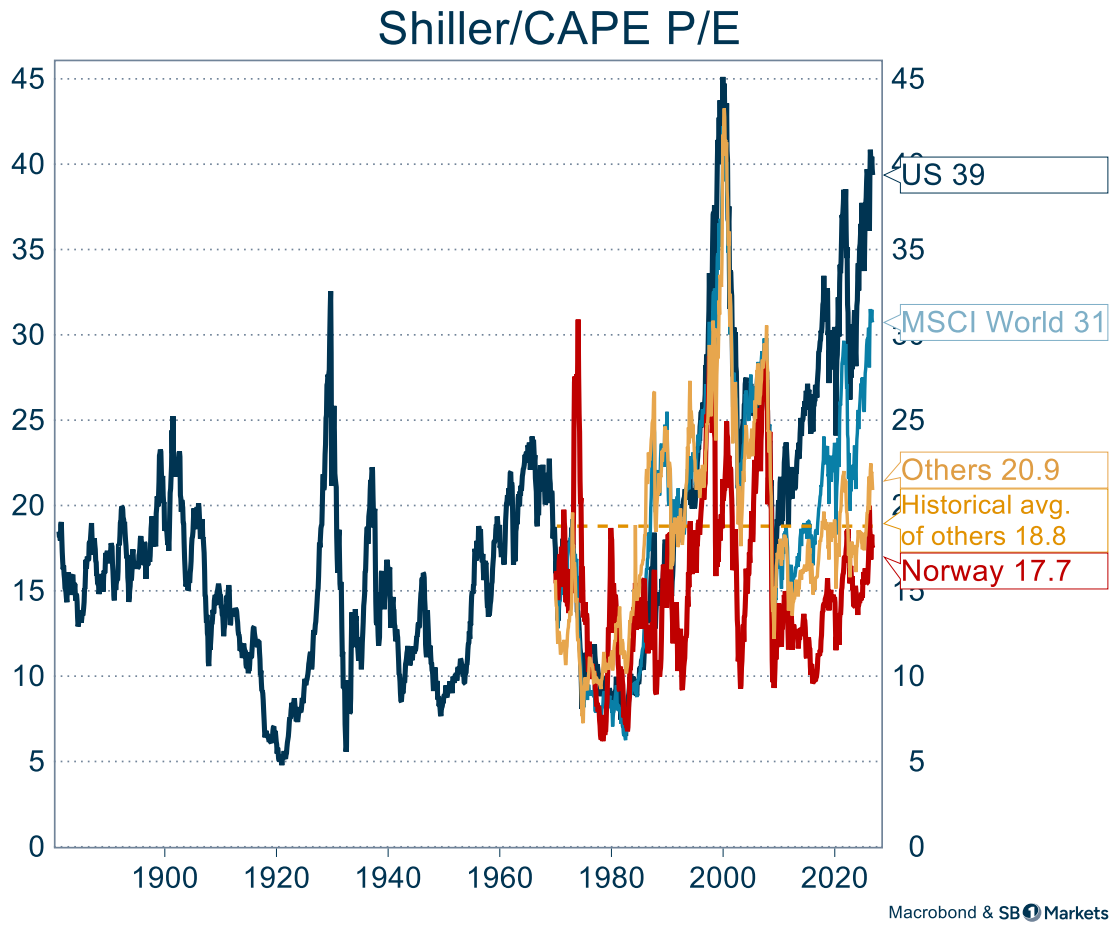


Dark blue dots: Shiller (CAPE) returns from 1953/1960. The light blue dots returns from 1874/1881.
The 12m fwd red dots are returns from 1983/1990.

US Shiller CAPE at its 2nd highest level ever, and few markets are cheap

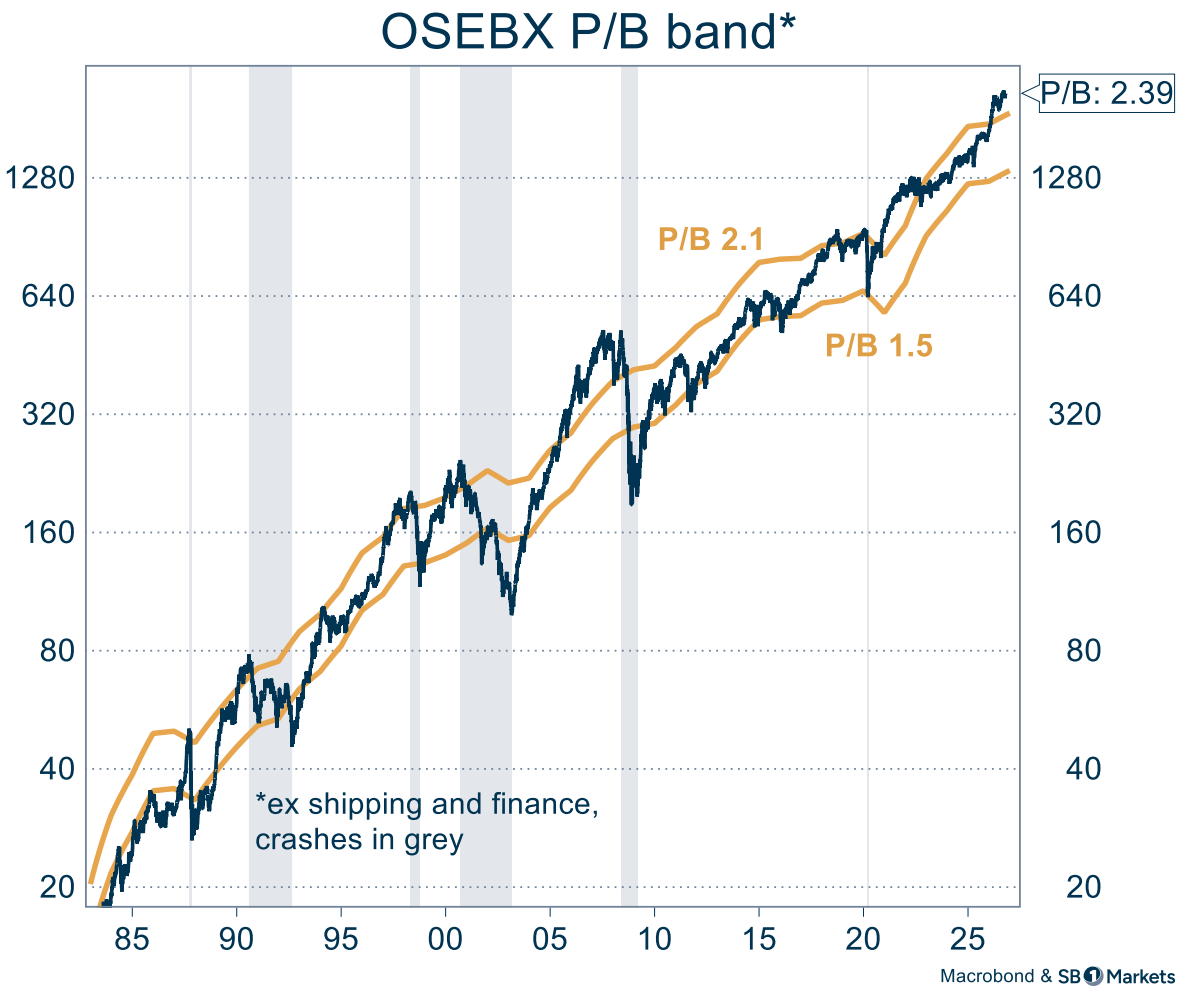
Other markets are on average 11% above an average multiple, 20.9 vs. 18.8. The OSE sits at 17.7, which is above average (from 1970) but not by that much.

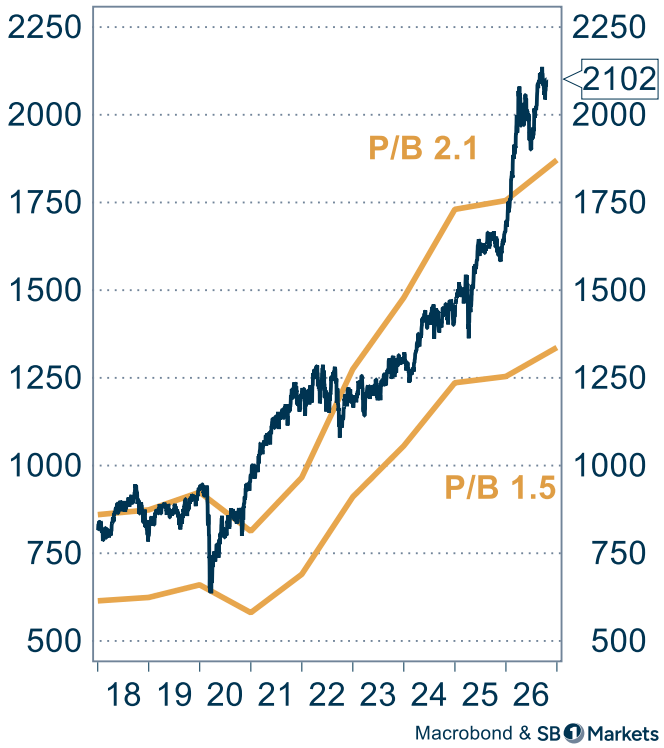




OSE up 1.5%, and not far below ATH, supported by oil and gas prices

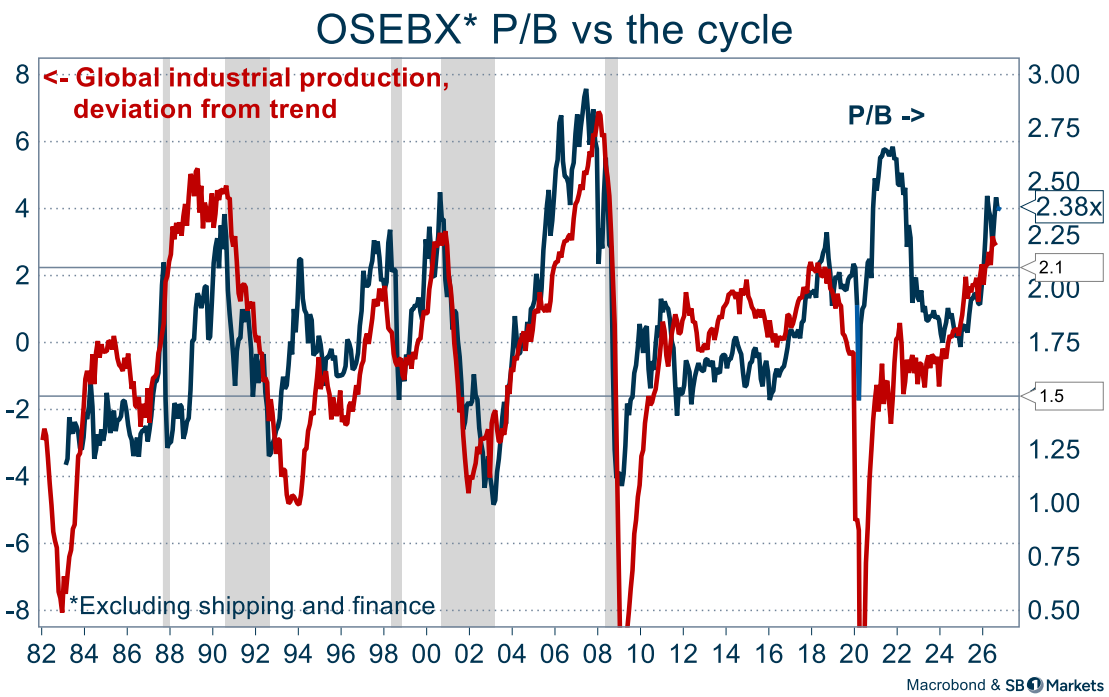
Price-to-book ratio rose to 2.39.

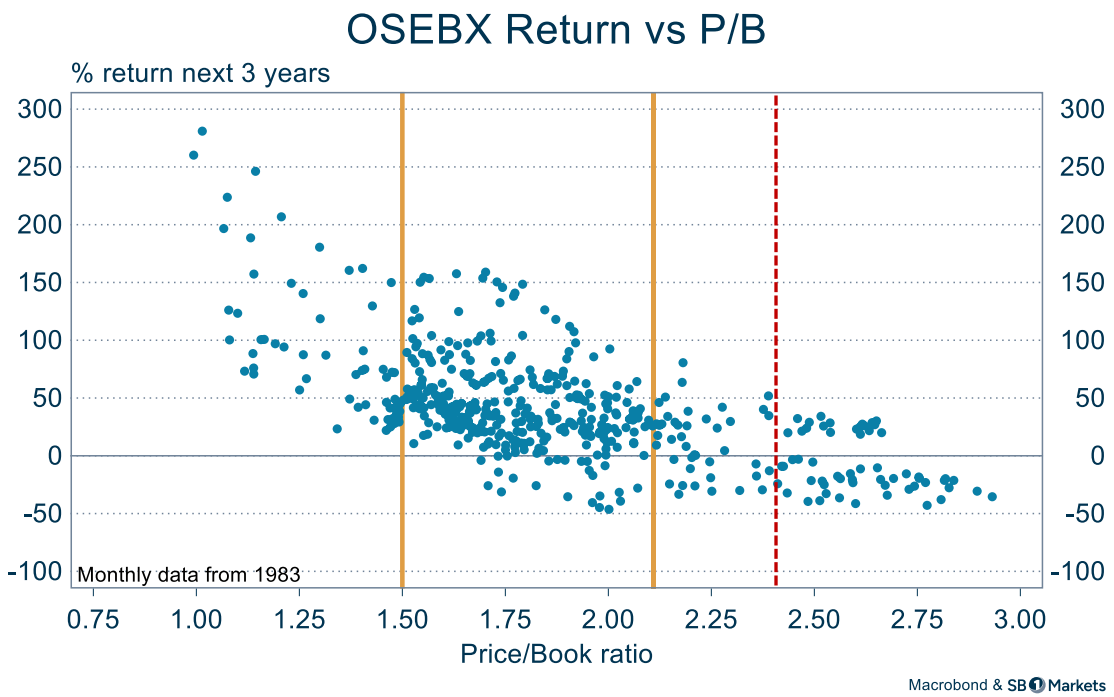




OSE 3-year expected return: not very attractive

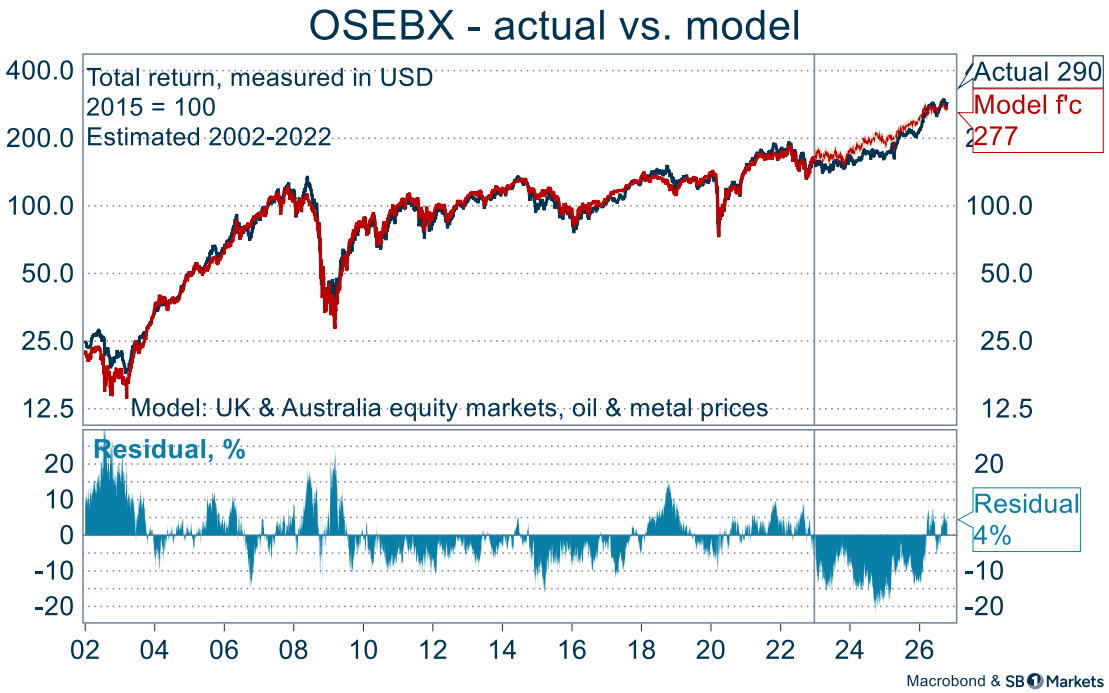
BTW, we know what drives the pricing cycles most of the time: the global economic cycle.

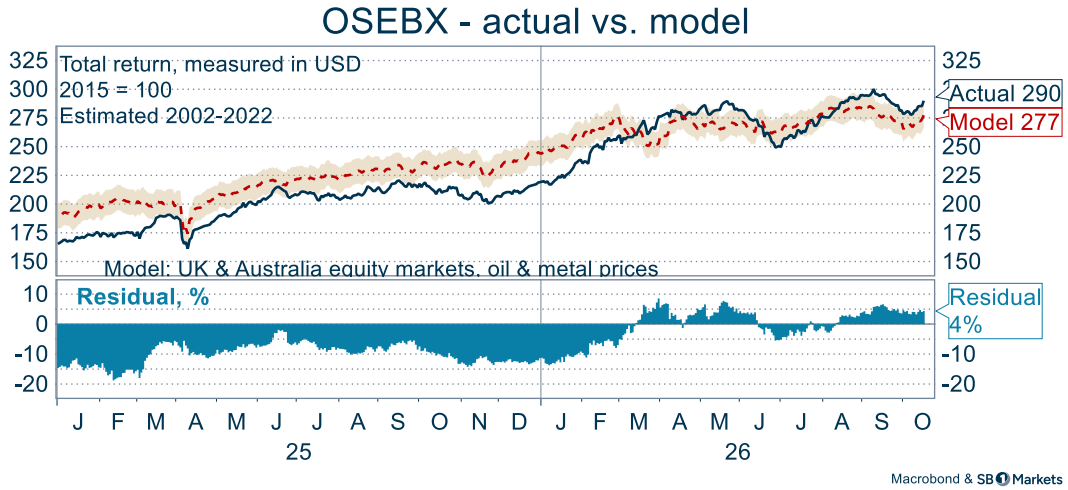


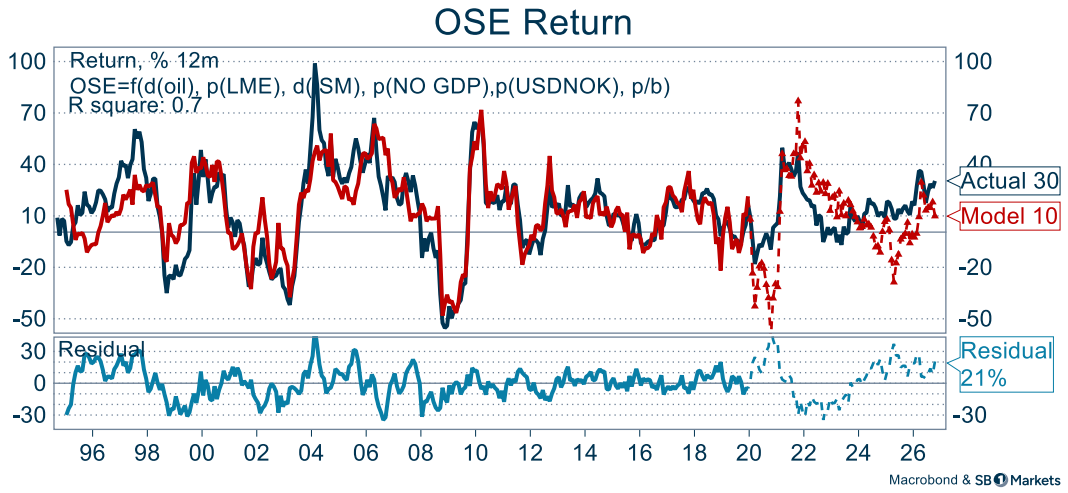


OSE vs. our peer-based level model: a tad above

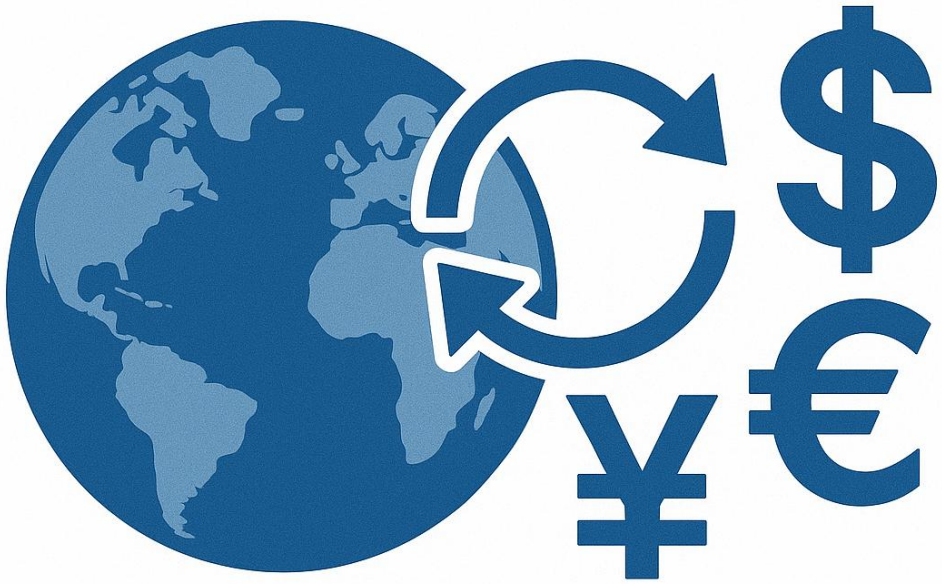
The OSE is 4% above a model estimate based on FTSE, ASX, oil and metal prices, just as in previous weeks.
Measured over the past 12 months, the OSE is up 30%, while our y/y model suggests just 10%.







SB 1 Markets



4.4 FX markets

*Picture source: ChatGPT

NOK the winner last week too (well, behind RUB). At the same time, AUD the loser: unusual

EUR appreciated 0.5% vs. USD. The trade-weighted USD was marginally down too.

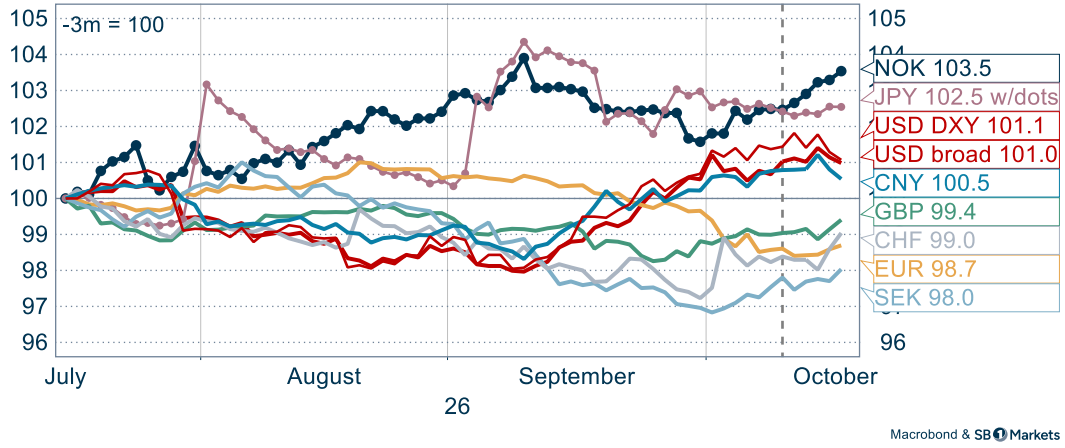
EURUSD



NOK vs EUR & USD



Currency indices



FX markets

f/x broad indices + 4 f/x crosses	% change -7 -6 -5 -4 -3 -2 -1 0 1 2 3 4	Last week	Last month	YTD	Last year
RUB		3.0	2.9	-5	-5
NOKUSD		1.4	-0.9	7	6
NOK index		1.0	0.6	10	8
NOKEUR		1.0	1.7	12	10
CAD		0.9	-0.6	-3	-1
CHF		0.7	1.1	-1	-1
EURUSD		0.5	-2.5	-4	-4
KRW		0.5	3.4	8	6
NOKSEK		0.4	0.4	15	12
GBP		0.4	0.3	1	1
SEK		0.2	0.5	-5	-3
JPY		0.1	-1.2	-1	-5
EUR		0.1	-1.7	-3	-3
USD broad		0.0	2.2	1	1
CNY		-0.2	1.2	6	8
USD DXY		-0.4	1.6	4	4
MXN		-0.6	-6.8	-3	-1
AUD		-0.6	-2.3	4	6

-7 -6 -5 -4 -3 -2 -1 0 1 2 3 4

Last week ● Last month

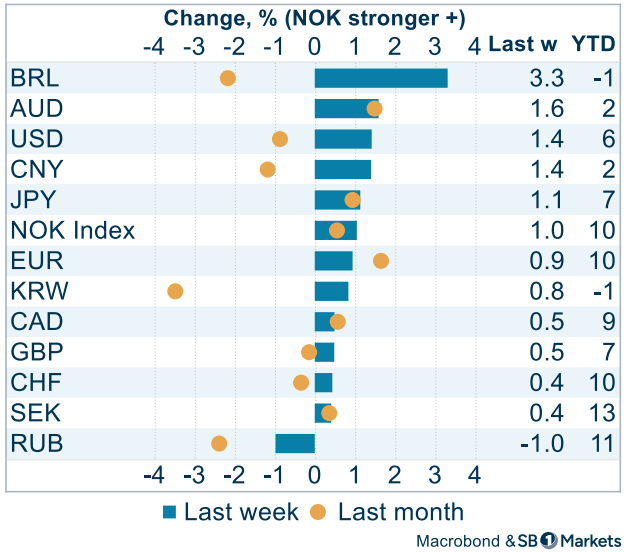
SB1 Markets/BIS/Central Banks/Macrobond SB1 Markets

In the table, we present both the Fed's broad USD index and the standard DXY index, where the USD is measured relative to a few DM currencies.

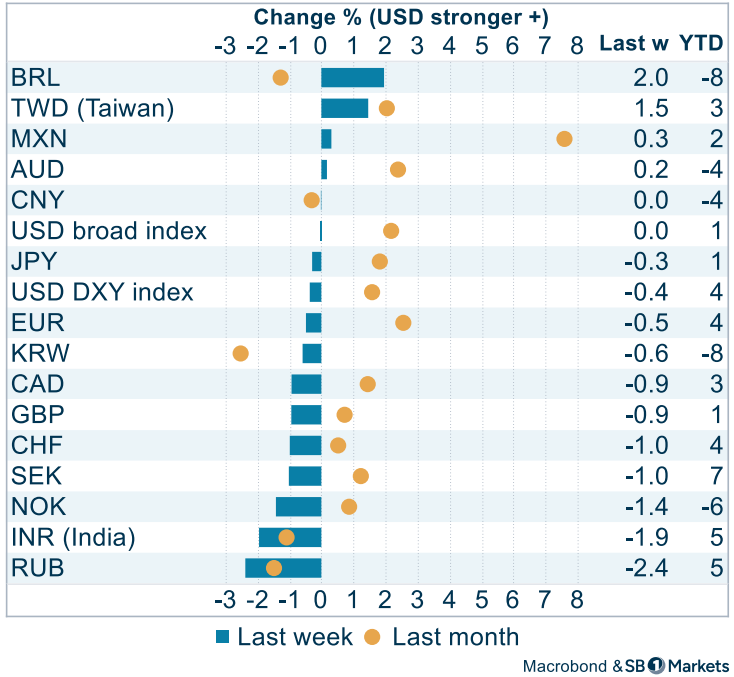
FX: NOK appreciated vs. all but RUB, while the USD was weaker in most directions

The trade-weighted NOK has appreciated 10% so far in 2026, 13% vs. SEK, 10% vs. the CHF and EUR.
The USD indices are up 1% (the broad index) to 4% (DXY, rich countries) YTD.

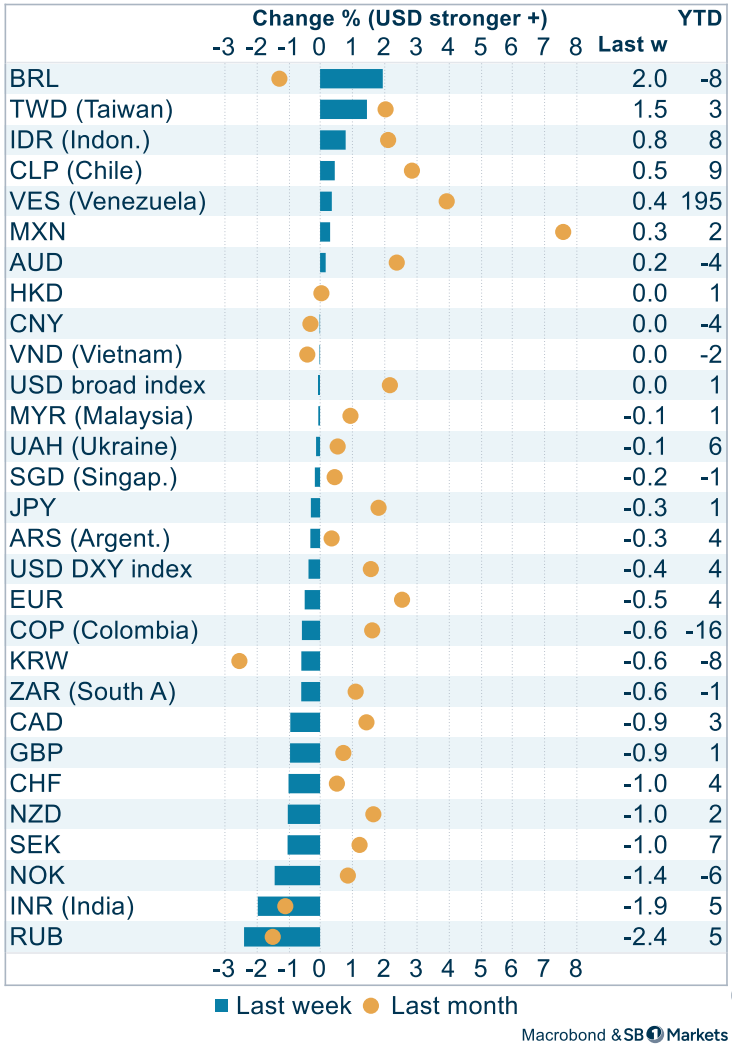
NOK vs. the others



USD vs. the 'Majors'

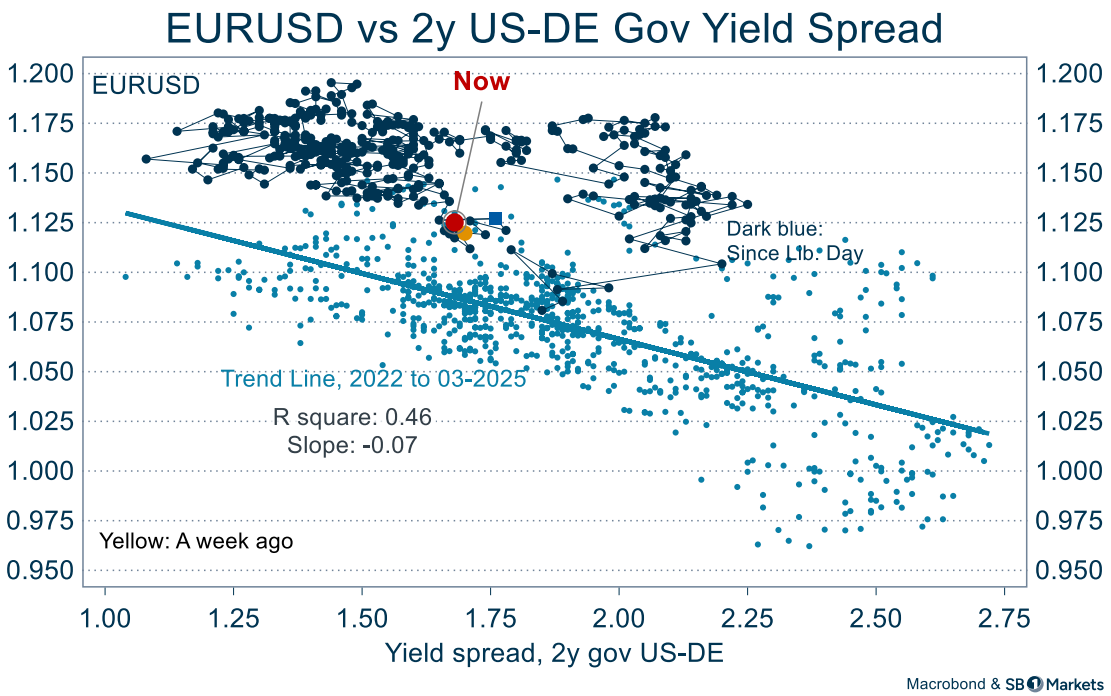


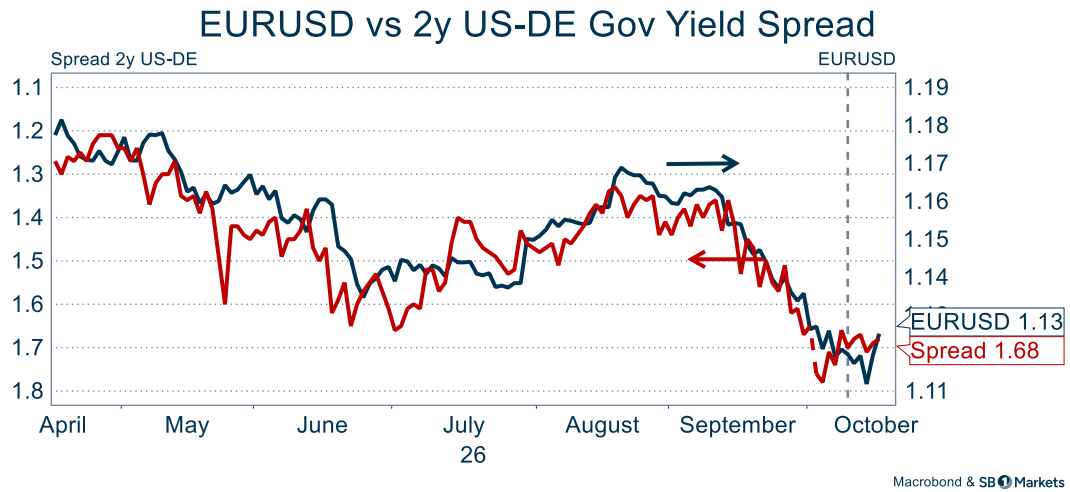
USD vs. 'all'

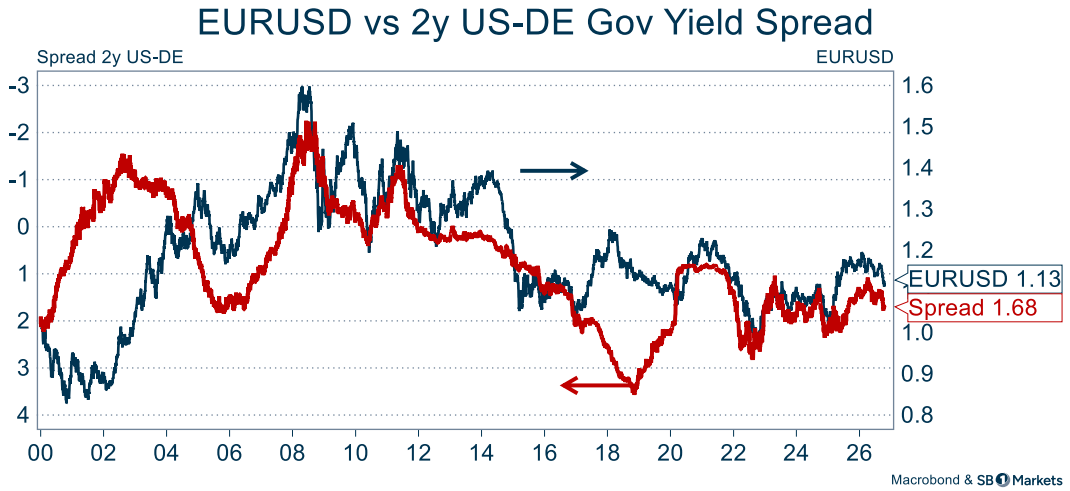


EUR appreciated 0.5% vs. the USD with some support from the rate differential

… as the yield spread in the short end narrowed marginally. (The USD 2y gov. bond yield fell more than the German 2y yield).



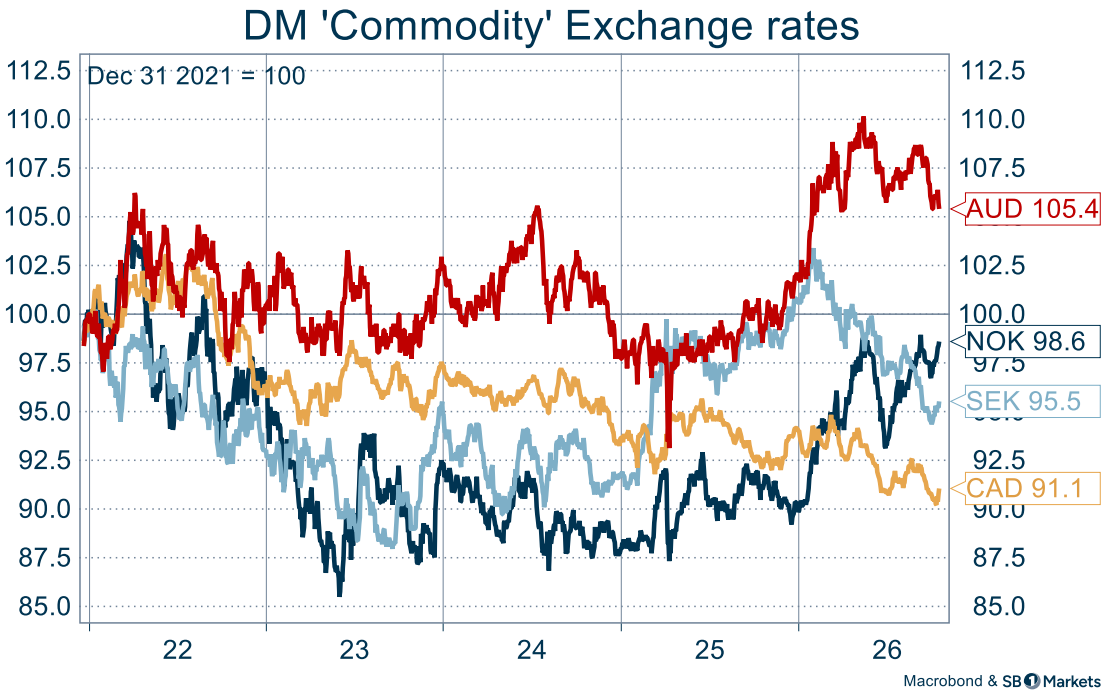


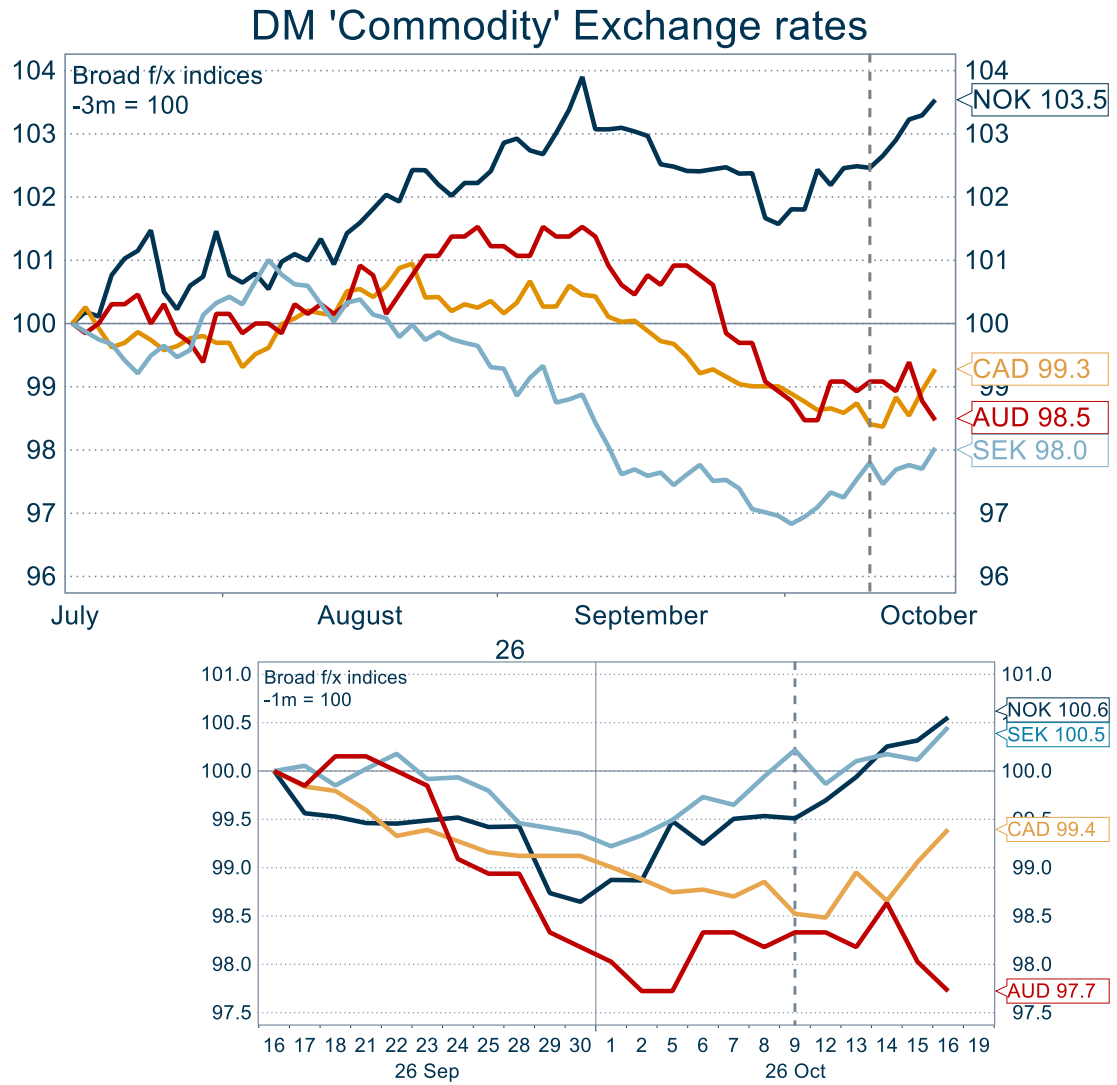


- The 'model', estimated over the previous 3 years of data:
  - 1 pp narrowing of the 2y gov. spread: a 7% EURUSD appreciation.
    - Some 'carry' impact.
    - There may be a reason for changes in the spread, such as changes in the relative growth outlook.
- Over time, the correlation is not tight at all. Check the lower chart to the right! We have seen far larger 'gaps' than the current one.

‘Commodity’ FX: AUD the loser last week. NOK the winner over 1w, 1m & 3m

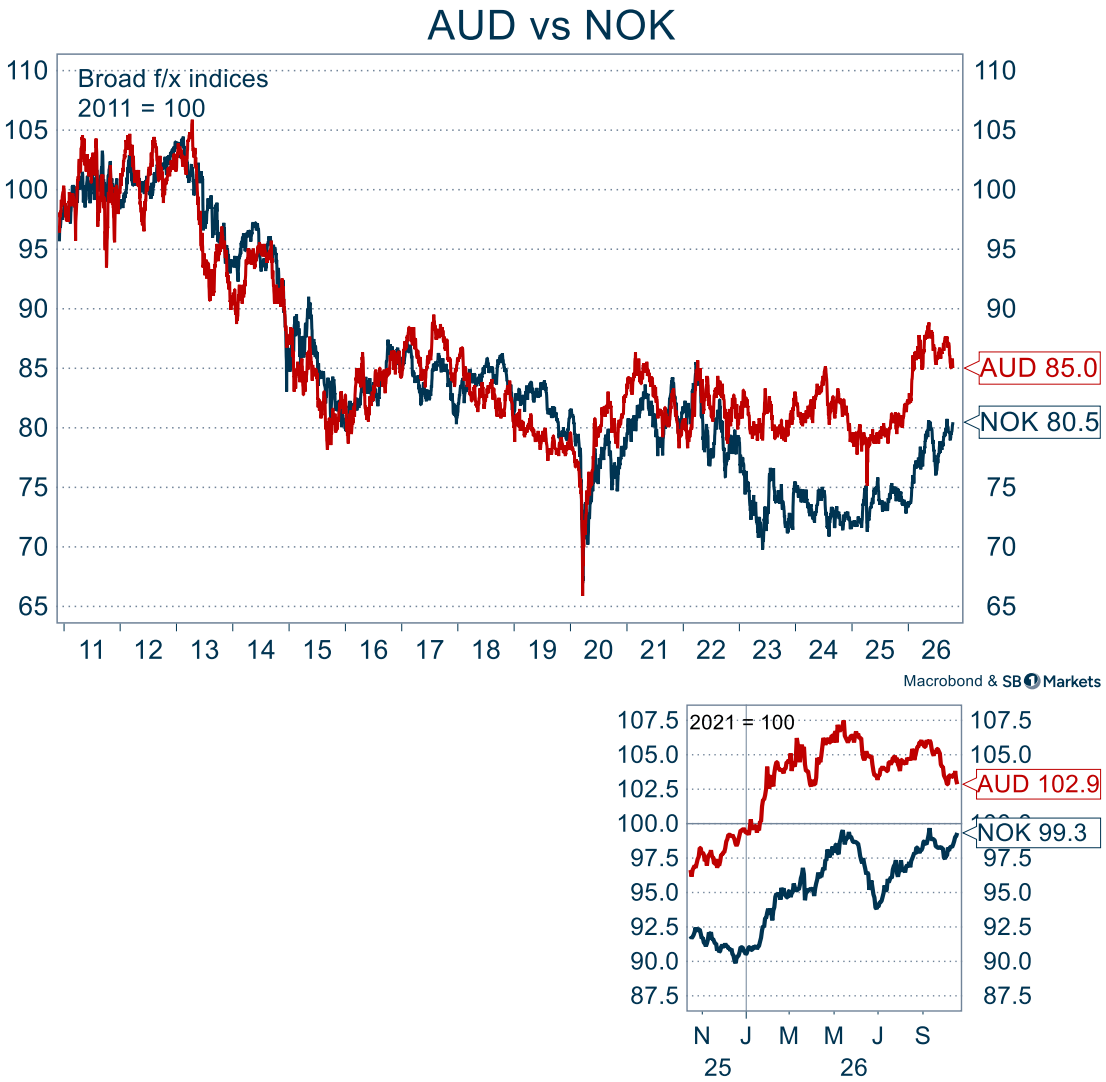
SEK has been the loser so far in 2026, but not last month.

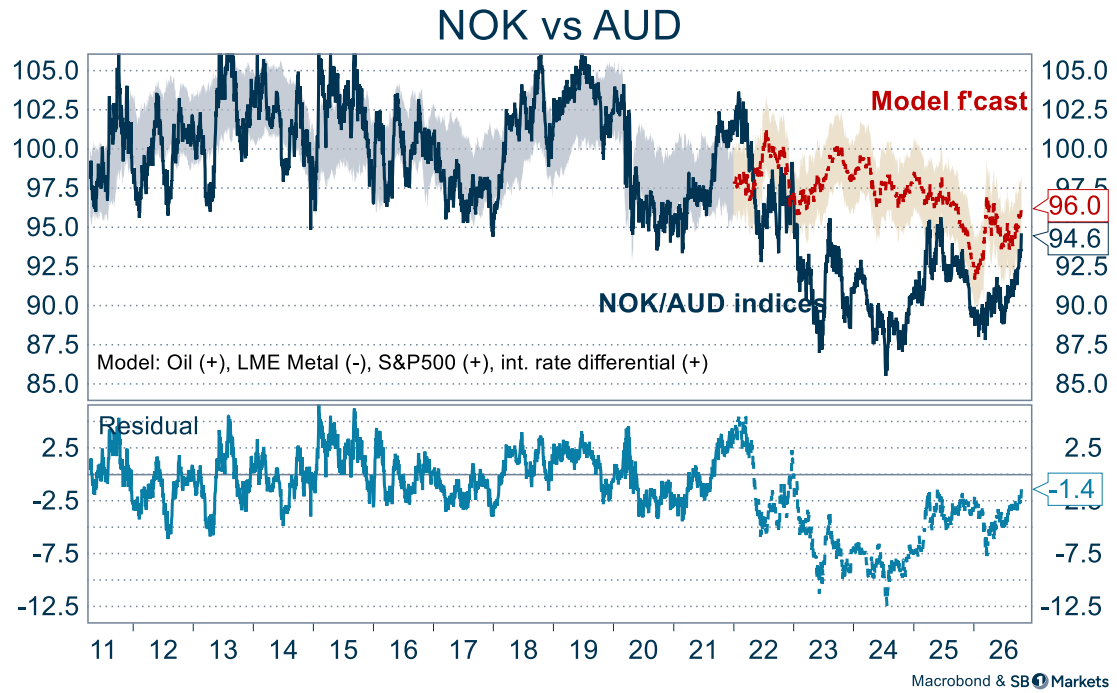




NOK weaker relative to AUD than our model suggests, but the gap is almost closed!

… and is not that large anymore, at just 1.4%!

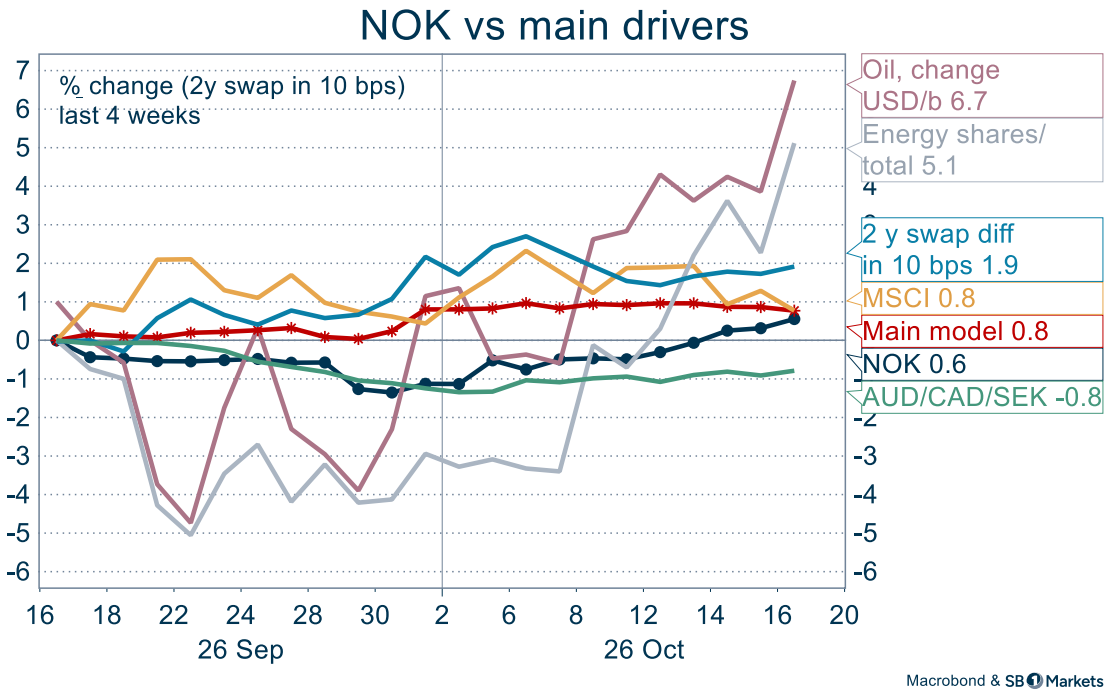


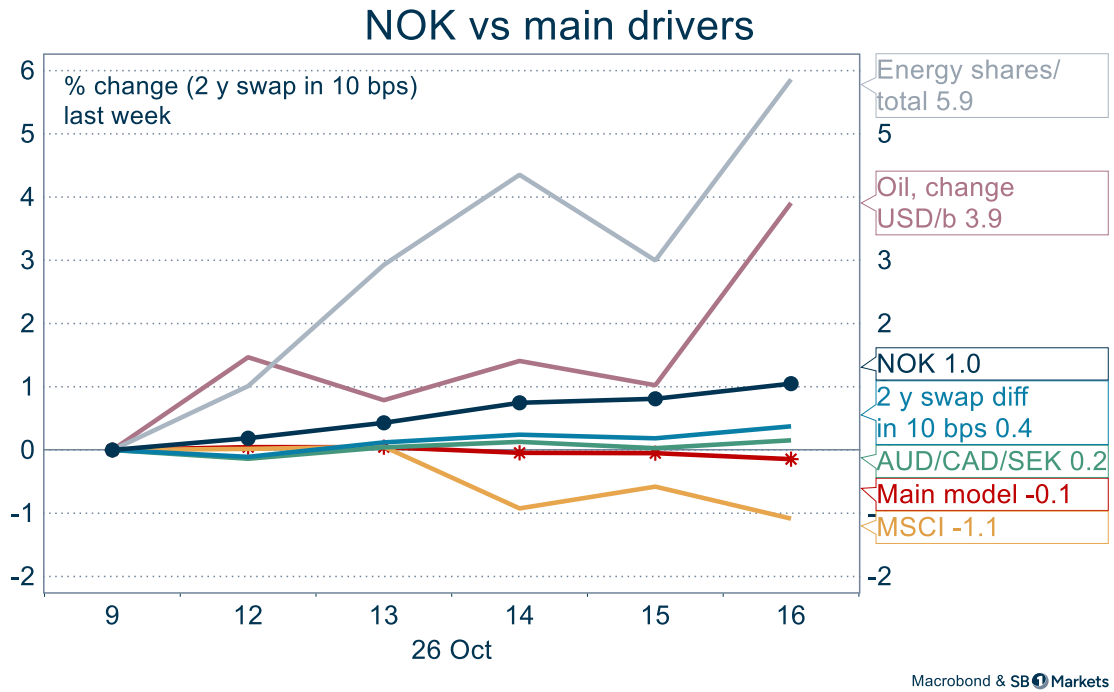


- NOK and AUD, measured by the respective FX indices, have been very closely correlated over the past 15 years, at least until early 2023.
- Our NOK/AUD index model explains most of the small differences between the two FX indices. Normally, the NOK index strengthens relative to the AUD index when the oil price rises relative to the LME metal index and the S&P 500 index climbs.

NOK 1.0% stronger last week, our model suggested close to unchanged

Last month: NOK has appreciated 0.6%, the model suggested 0.8%, mostly due to a lift in the oil price.

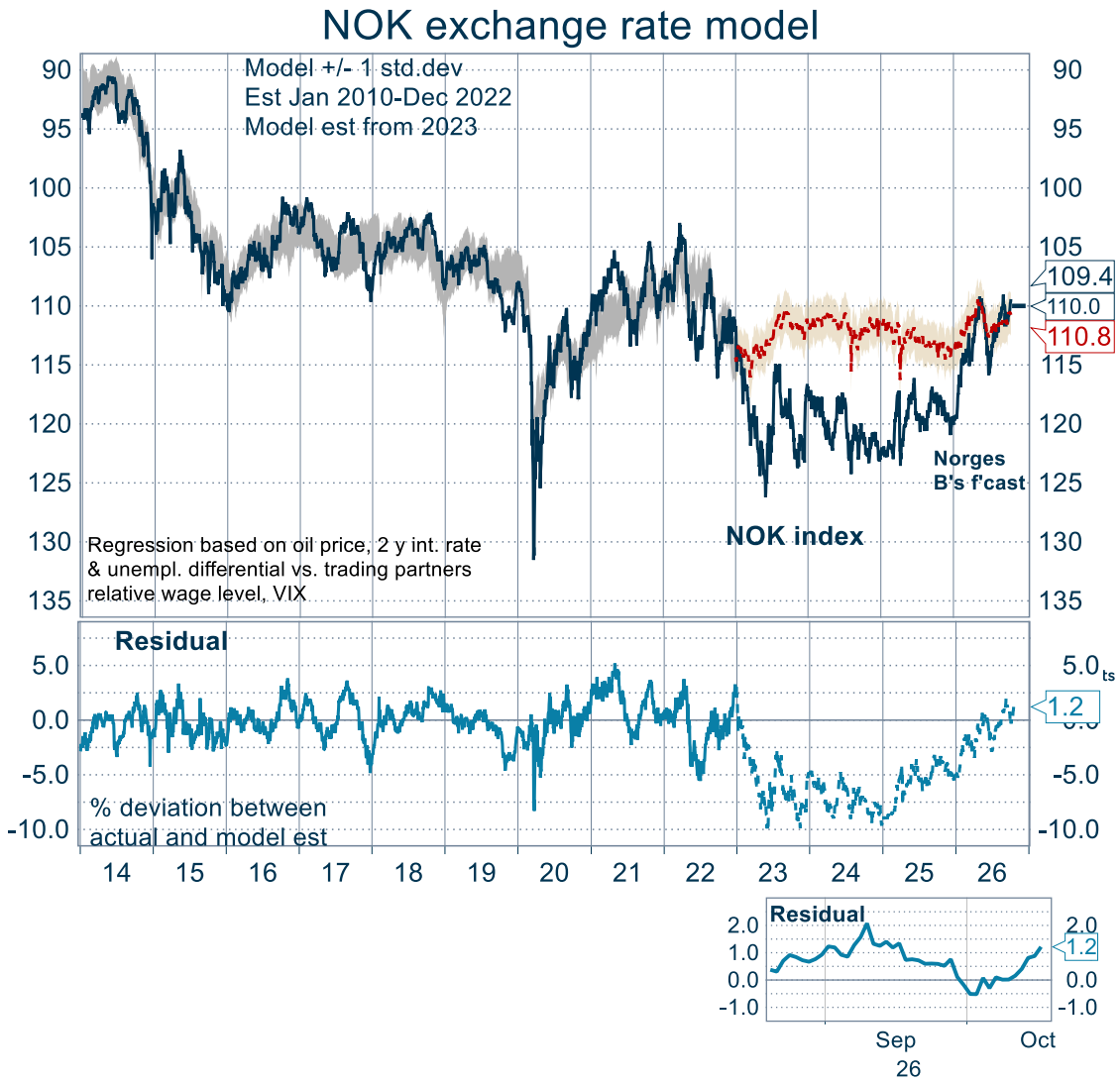


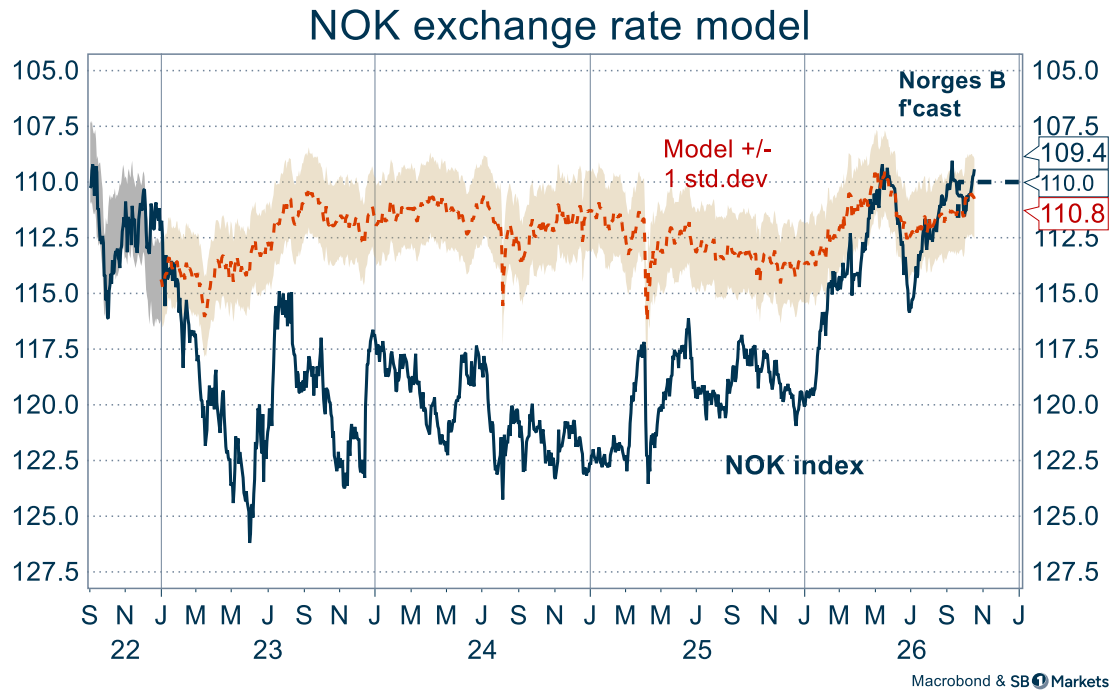


The NOK index: I44, adjusted for end-of-day FX rates relative to NOK. AUD, SEK and CAD are represented by their respective trade-weighted currency indices. The oil price: average spot−3m (rolling positions).

NOK above our model forecast – and NoBa's f'cast

NOK is 0.5% above Norges Bank's estimate (which is negligible)

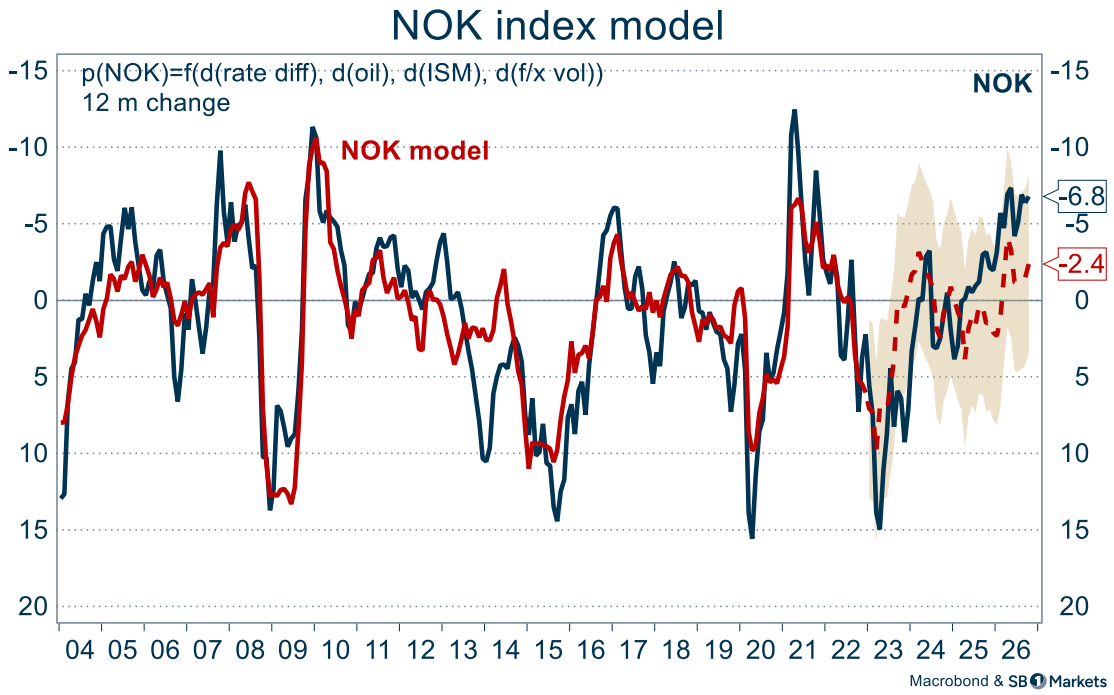


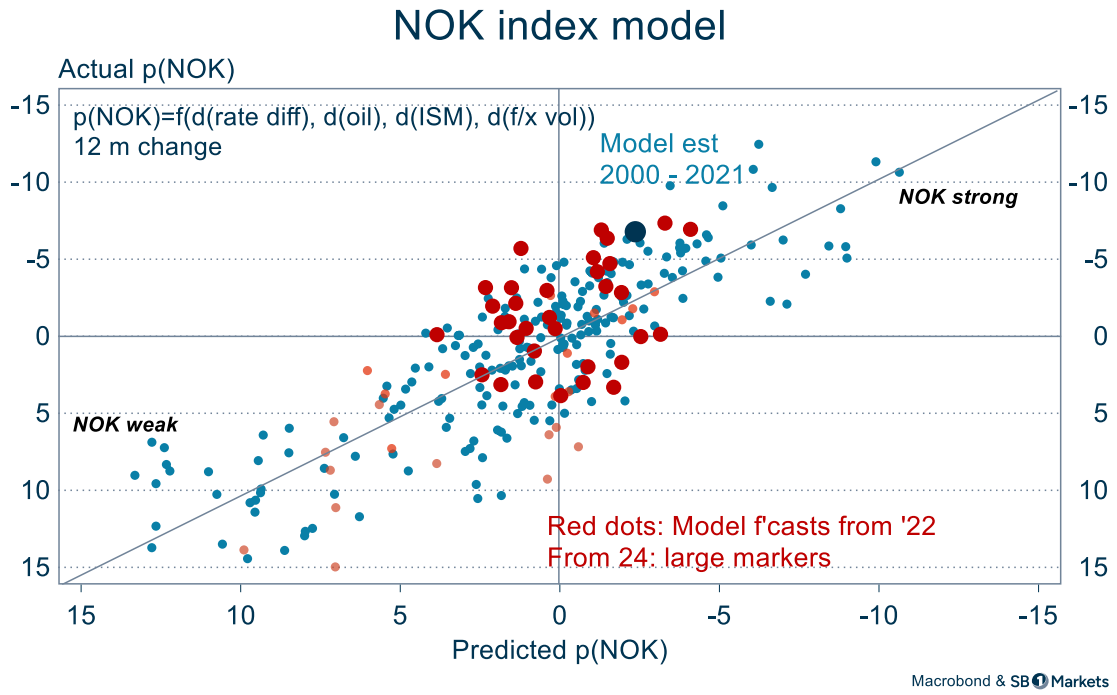


The NOK index: I44, adjusted for end-of-day FX rates relative to NOK.
The oil price in the model: average spot–3m (rolling positions), US CPI-adjusted.

Short-term NOK cycles: The NOK has appreciated 'by itself' in the past year

Our model suggests a 2.4% NOK appreciation over the past 12 months, while NOK has climbed 6.8%. A higher oil price and a higher rate differential explain most of the estimated strengthening – but most of the appreciation *is due to factors other than the normal 'drivers'*.

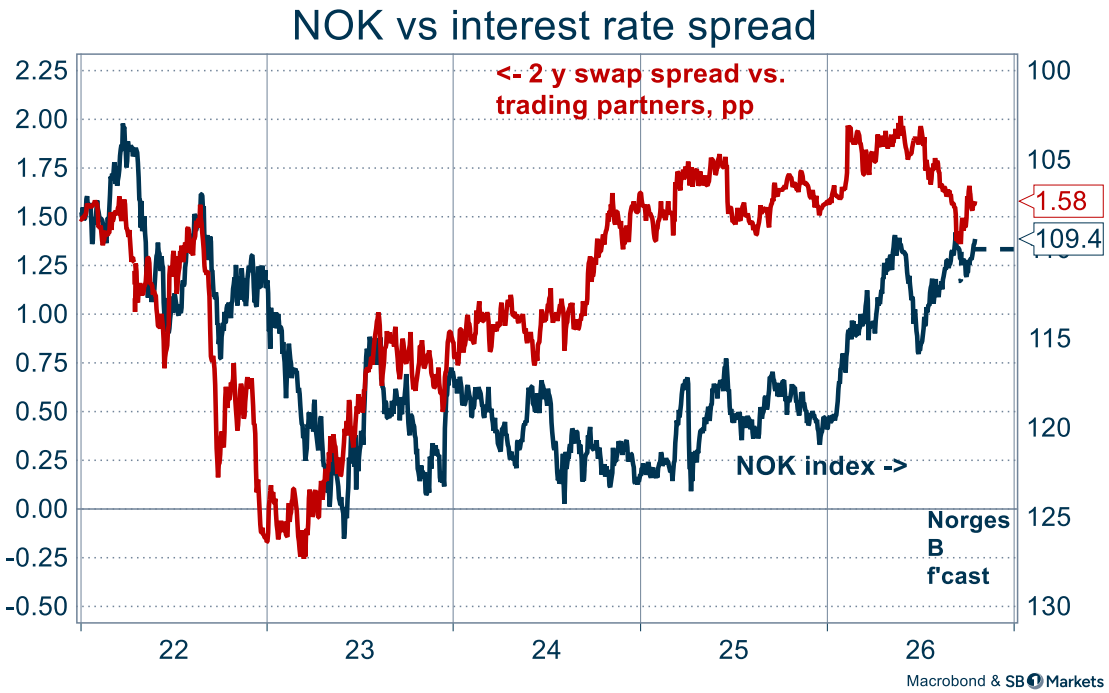


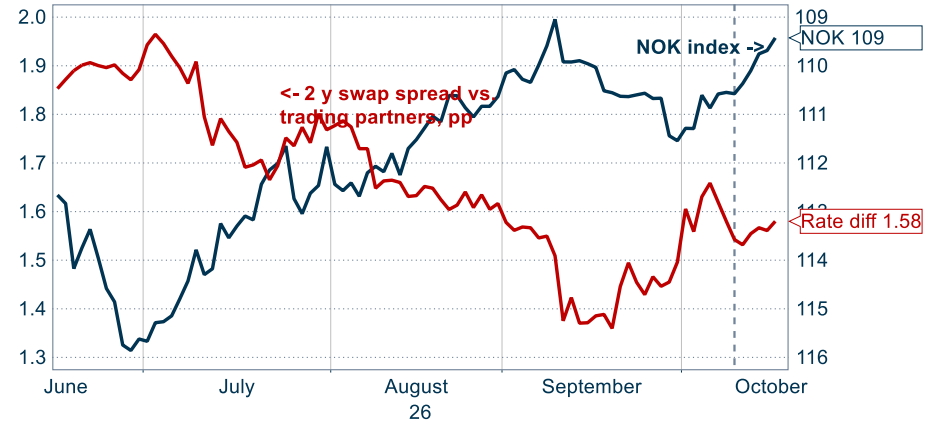


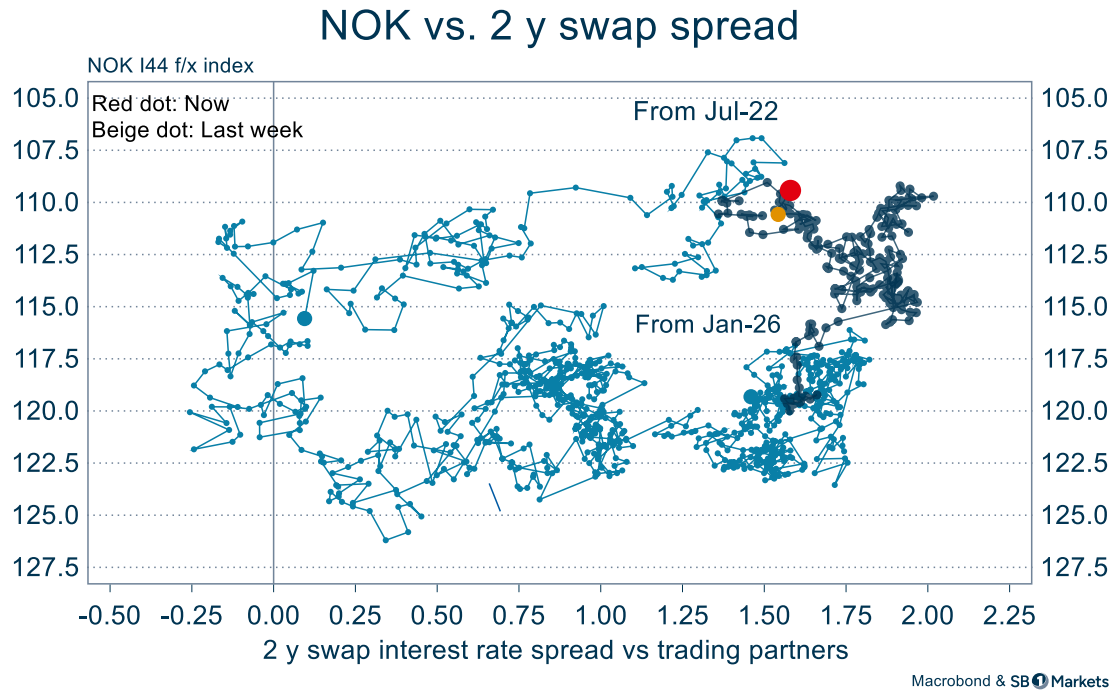
- … which may be seen as a 'real' repricing of NOK, reversing the 'unexplained' NOK depreciation in H1 2023.
- The model: Most of the NOK's ups and downs (if not necessarily the level at all times) are well explained by a few 'macro' variables: the 2y rate differential relative to trading partners, the oil price, the US ISM manufacturing survey (the global growth momentum) and FX volatility. The oil price has been the most important factor.

The rate differential widened slightly. Still, the NOK appreciated

From mid-June, the correlation between the rate differential and the NOK has been mostly 'wrong' – but the correlation is anyway not tight, even if the sign is 'correct' over time.

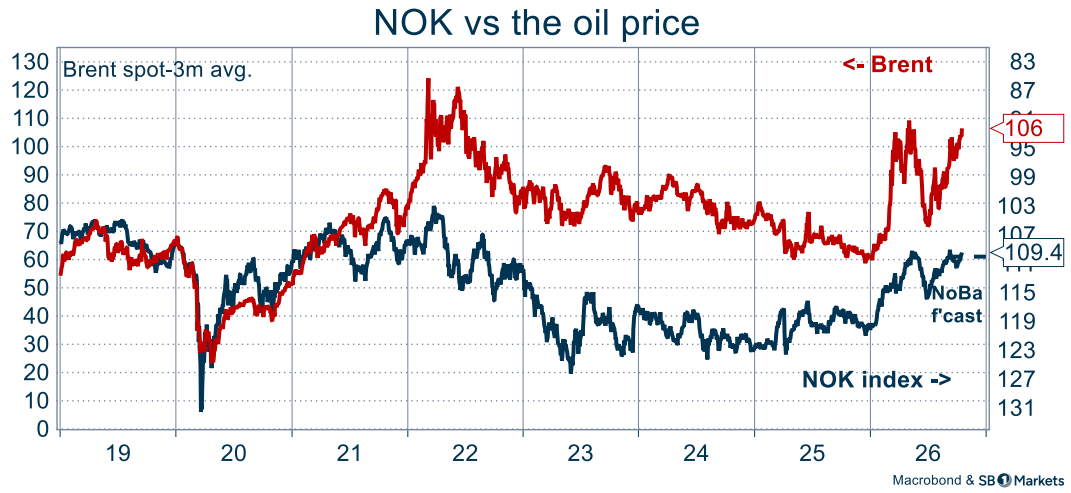


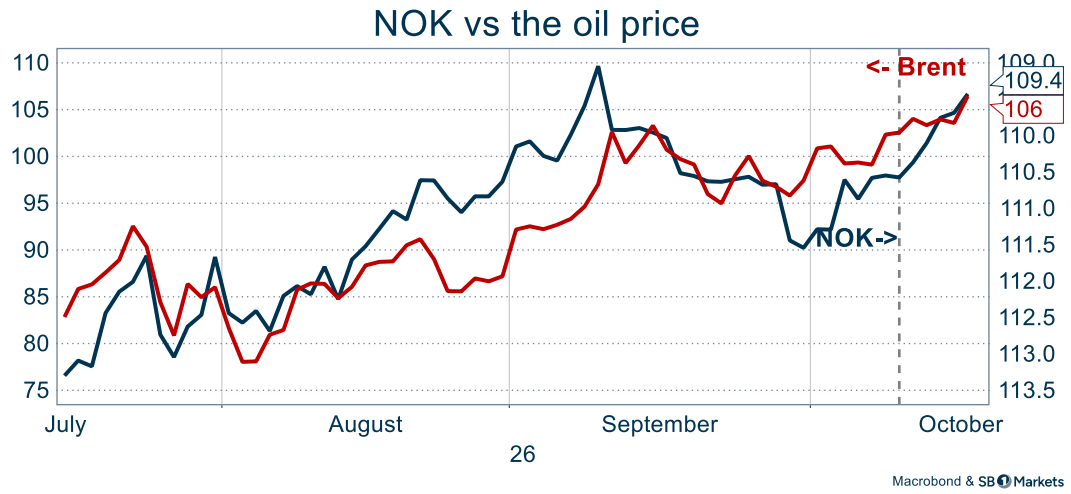


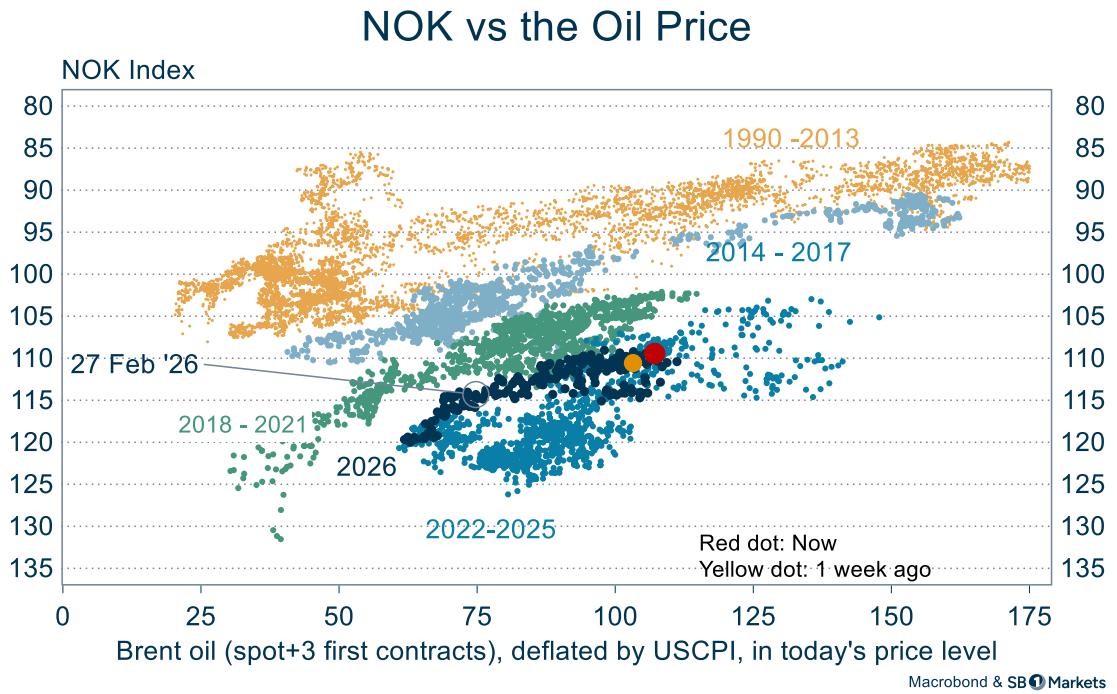


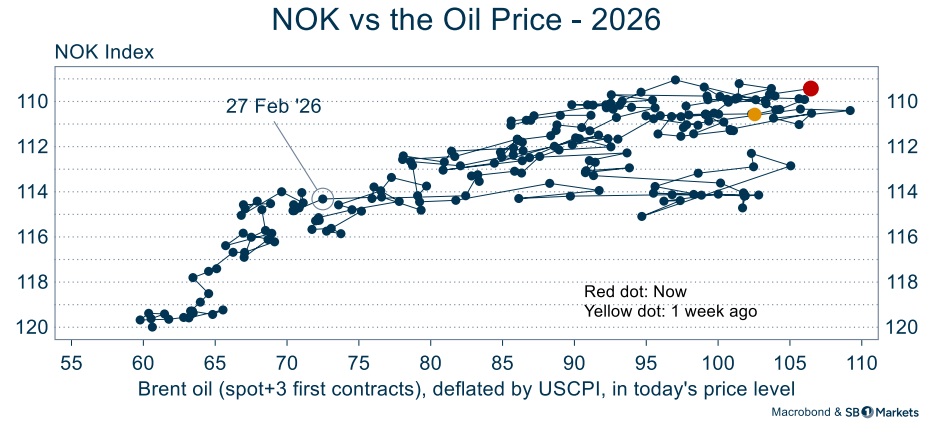
NOK has followed the oil price quite closely in recent months – and both gained last week

The NOK is on the strong side vs. the oil price, compared with the relationship in recent years (from 2022, the darker blue and black dots in the upper-right chart).



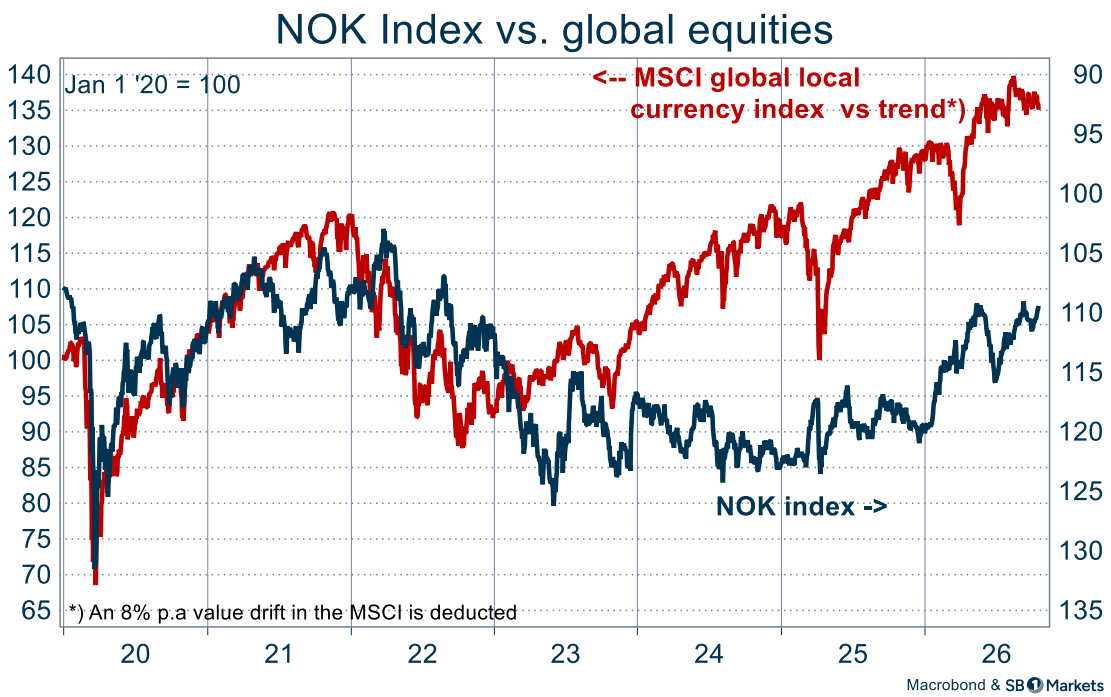


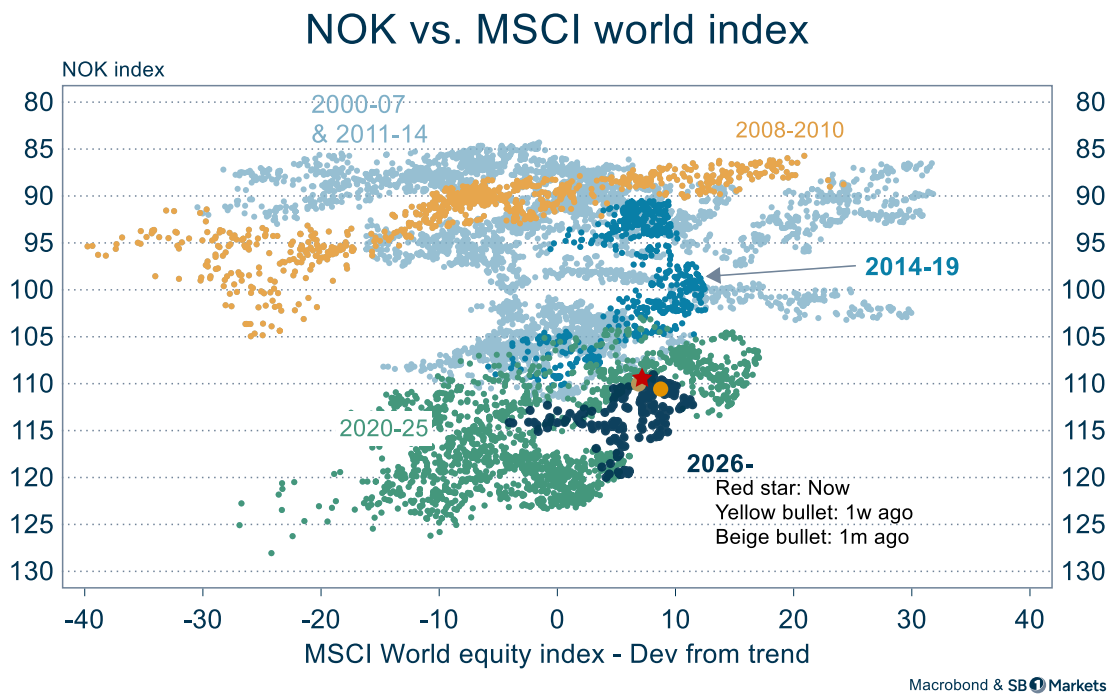




NOK uncorrelated with global equity markets in 2026 – and with a 'wrong' sign last week

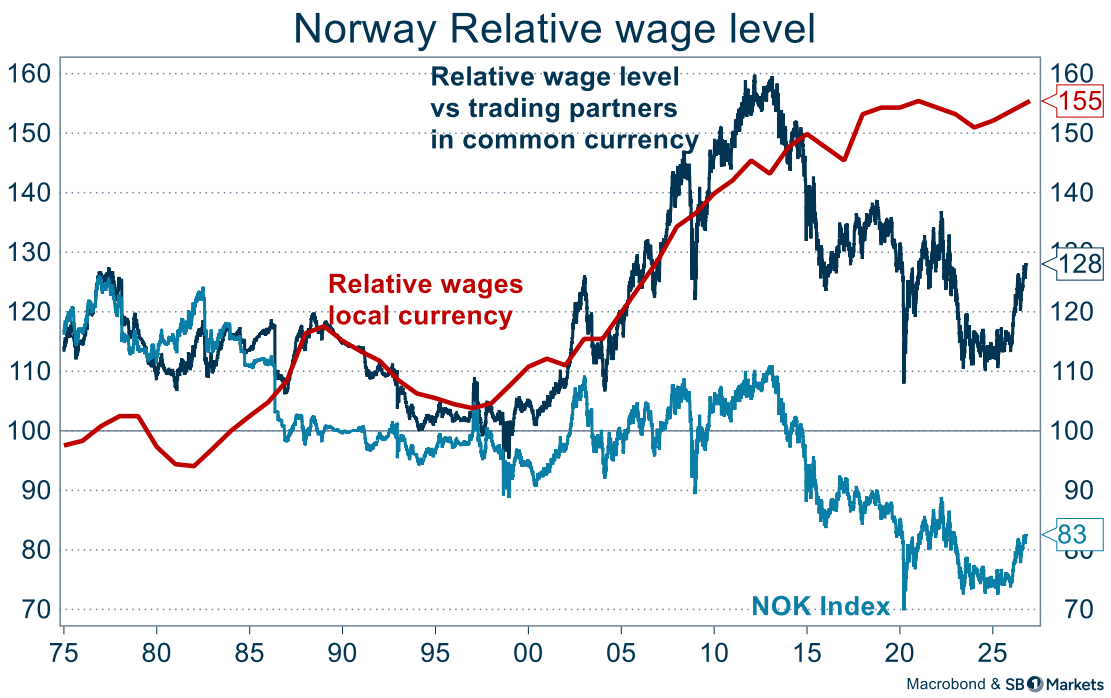
Normally, a stronger stock market has been supportive of the NOK – and vice versa. The pattern has not been that evident in 2026.

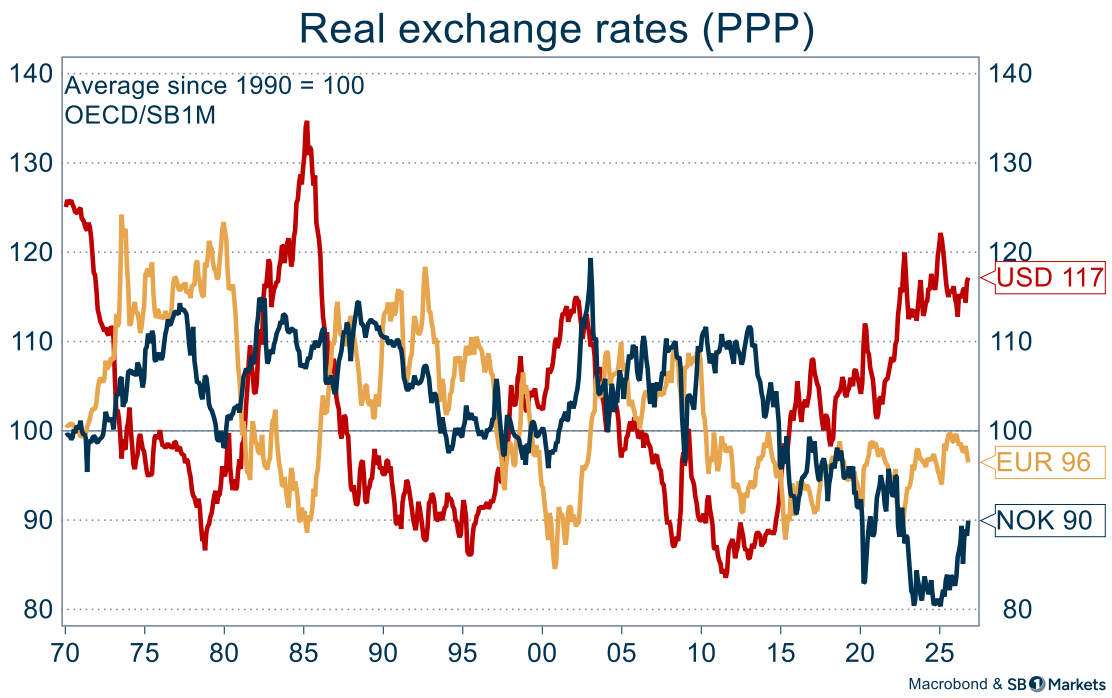




The relative cost position may be at a reasonable level. The price level is still rather low.

Thus, mixed signals vs. the NOK – but the upside is anyway not that large.





- Norway's wage costs have long been higher than abroad due to higher productivity, with a 5–20% gap before 2000.
  - The return from the Oil Fund now equals about 14% of GDP and finances a quarter of imports, justifying a higher cost level than before. The current wage-cost gap is 28%, up from 12% in 2024. This relative cost level may still be on the low side, but ***the gap to a fair value has certainly narrowed substantially***.
- Norway's price level vs. trading partners is 10% below the average since 1990, up from 20% below late last year. The level may still be too low, ***but this gap has also narrowed substantially***.
- Other currencies:
  - The real USD exchange rate is well above a long-term average level.
  - The real EUR exchange rate is close to an average.

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