

Norwegian Fixed Income

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Norges Bank near the rate peak, NOK to remain weak



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Norges Bank's message yesterday was somewhat unclear but the rate path from June remains the bank's base case for now. We expect the bank to deliver a final rate hike in September and keep rates on hold at 1.50% in 2020. Even so, we have revised our EUR/NOK forecast higher eyeing 10.30 by year-end.

does not in itself rule out such a move. We believe there are 3 requirements for Norges Bank to hike rates on Sep 19th:

1. **Domestic data should (at least) be in line with the bank's projections.** This implies that the Norwegian outlook remains solid and there should be no visible domestic weakness from the heightened uncertainty among trading partners. Norges Bank wants an encouraging message from the regional network and from oil operators in Statistics Norway's investment survey.
2. **The global risk outlook should not deteriorate further.** In particular this will relate to trade tensions, growth indicators and oil prices. Moreover, the economic outlook conveyed by other central banks at next week's Jackson Hole conference may impact Norges Bank's assessment of the risk outlook.
3. **The overall balance of risks should be broadly neutral.** Ahead of previous rate decision, the overall risk outlook has been rather balanced as domestic developments have mainly surprised on the upside and weighed up for the increase in global risks. The overall judgement between the two considerations above should thus be broadly balanced.

To conclude, **we continue to forecast a 25bps hike at the upcoming Sep 19th rate decision**, though admittedly the forecast is more uncertain. We believe Norges Bank will adopt a more cautious approach following this meeting and **expect the policy rate to remain at 1.50% until the end of 2020.**

Norges Bank to deliver a final hike

Norges Bank delivered an unclear message [yesterday](#), which if anything was rather neutral. Obviously it was a bit dovish compared to our expectations of guiding towards a September hike. The vagueness relates to the key conclusion in the statement:

*"Overall, new information indicates that the outlook for the policy rate for the **period ahead** is little changes since the June Report. The global risk outlook entails greater uncertainty about policy rates **going forward**".*

The message has been interpreted differently among Norges Bank watchers. Referring to the "period ahead" normally means until the next MPR. The second sentence is the tricky one as it refers to "going forward". Some have interpreted this as referring to the period after the Sep MPR, while others believe it also includes the September decision. To complicate things more, in a video post on Facebook Olsen read the press statement but with a slightly different wording. Instead of saying "going forward" the governor said "further ahead". Probably he didn't put any meaning into the change of wording, but it underscores the trickiness of how to interpret the statement.

In our view, the fact that Norges Bank didn't want to pre-commit but instead maintained flexibility is a clear sign that the uncertainty also could impact the decision on whether to hike in September. Moreover, it is not that different from the conclusion on the rate path in the June MPR: *"The projections are uncertain and the uncertainty increases through the projection period"*. Nonetheless, Norges Bank stated that the policy outlook is little changed implying that the bank sticks to the message from the June MPR **suggesting one more rate hike before year-end with an overweight towards the September meeting**. Hence, that there's no clear guidance towards a Sep hike

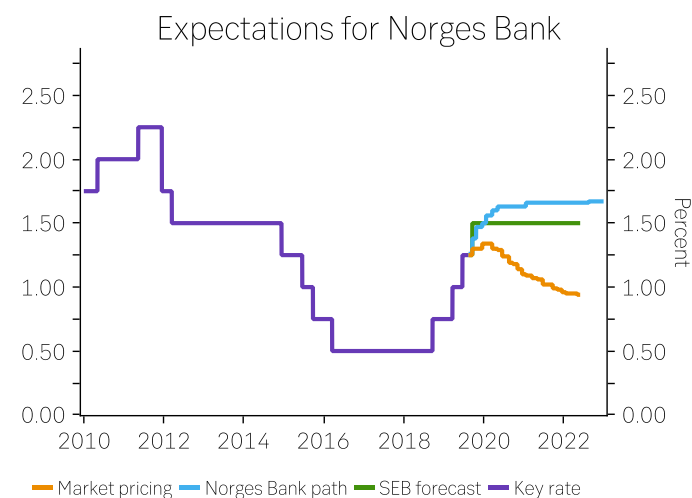
Revising our NOK forecasts lower

Yesterday we revised our EUR/NOK forecast higher for much of the forecast period. This partly reflects the poor price action in the NOK this summer and that the anticipated support from solid fundamentals, e.g. strong economic growth and rate hikes from Norges Bank, has been lacklustre. Although we expect Norges Bank to deliver one final rate hike in September this is unlikely to have any material impact on the trend in the krone. The current environment is negative for small currencies in general and we believe general risk sentiment will remain a decisive driver in the FX market. Hence, recession fears and concerns for the escalating trade war between the US and China are likely to keep NOK weak for the remainder of the year. We expect **EUR/NOK to trade somewhat higher towards year-end** while forecasting a **gradual recovery of NOK in 2020.**

FX	Aug 15	1M	Q3 19	Q4 19	Q1 20	Q2 20
EUR/USD	1.116	1.13	1.15	1.17	1.19	1.19
EUR/NOK	10.03	10.10	10.10	10.30	10.10	9.90
USD/NOK	8.99	8.94	8.78	8.80	8.49	8.32
GBP/NOK	10.88	10.86	10.63	11.08	11.22	11.25
NOK/SEK	1.069	1.07	1.09	1.07	1.08	1.09

Market pricing for Norges Bank

Note: Norges Bank has recently published its meeting calendar for 2020. Please see the dates in the market pricing table.



Upcoming data releases

In the table below, we have summarized the important domestic data releases due ahead of the September MPR:

Date	Data	For	Norges Bank / Comment
Aug 21	LFS unemployment	Jun	
Aug 22	Oil investment survey	Q3	14.0% 2019, 1.0% 2020
Aug 22	Inflation expectations survey	Q3	Watch wage expectations
Aug 29	Mainland GDP / employment	Q2	0.8% q/q / 0.4% q/q
Aug 30	Retail sales	Jul	
Aug 30	Registered unemployment, SA	Aug	2.2%
Sep 6	Manufacturing production	Jul	
Sep 9	Monthly GDP	Jul	
Sep 10	CPI-ATE	Aug	2.3% y/y
Sep 10	Regional Network Report	Q2	Input on GDP, employment, resource utilisation
Sep 19	Norges Bank rate decision		MPR 3/19

	Market			Jun19 path			SEB		
	Rate	chg	Y/Y	Rate	chg	Y/Y	Rate	chg	Y/Y
20.06.2019	1,25	25	25	1,25	25	25	1,25	25	25
15.08.2019	1,25	0		1,26	1		1,25	0	
19.09.2019	1,30	5		1,38	12		1,50	25	
24.10.2019	1,30	0		1,47	9		1,50	0	
19.12.2019	1,34	4	9	1,50	3	25	1,50	0	25
23.01.2020	1,34	0		1,56	6		1,50	0	
19.03.2020	1,30	-4		1,60	4		1,50	0	
07.05.2020	1,29	-1		1,63	3		1,50	0	
18.06.2020	1,24	-5		1,63	0		1,50	0	
20.08.2020	1,19	-5		1,63	0		1,50	0	
24.09.2020	1,18	-1		1,63	0		1,50	0	
05.11.2020	1,14	-4		1,63	0		1,50	0	
17.12.2020	1,10	-4	-24	1,63	0	13	1,50	0	0
21.01.2021	1,09	-1		1,66	3		1,50	0	
18.03.2021	1,07	-2		1,66	0		1,50	0	
06.05.2021	1,06	-1		1,66	0		1,50	0	
24.06.2021	1,02	-4		1,66	0		1,50	0	
19.08.2021	1,02	0		1,66	0		1,50	0	
23.09.2021	0,99	-3		1,66	0		1,50	0	
04.11.2021	0,98	-1		1,66	0		1,50	0	
16.12.2021	0,96	-2	-14	1,66	0	3	1,50	0	0
20.01.2022	0,95	-1		1,66	0		1,50	0	
17.03.2022	0,95	0		1,66	0		1,50	0	
05.05.2022	0,94	-1		1,66	0		1,50	0	
23.06.2022	0,94	0		1,66	0		1,50	0	
18.08.2022	0,90	-4	-6	1,67	1		1,50	0	
22.09.2022	---	---		1,67	0		1,50	0	
03.11.2022	---	---		1,67	0		1,50	0	
15.12.2022	---	---		1,67	0	1	1,50	0	0

* We have assumed a credit spread of 31-40bps

** Meeting dates for 2021-2022 are our guesstimates