

Norwegian Fixed Income

Thursday 15 August 2019

Norges Bank favouring flexibility



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Norges Bank kept the key rate stable at 1.25%. The bank concluded that the rate path from June remains valid, but uncertainty to the policy outlook has increased. Norges Bank thus sent a neutral message, favouring flexibility in the policy setting ahead. We nonetheless regard the likelihood of a Sep hike as reduced.

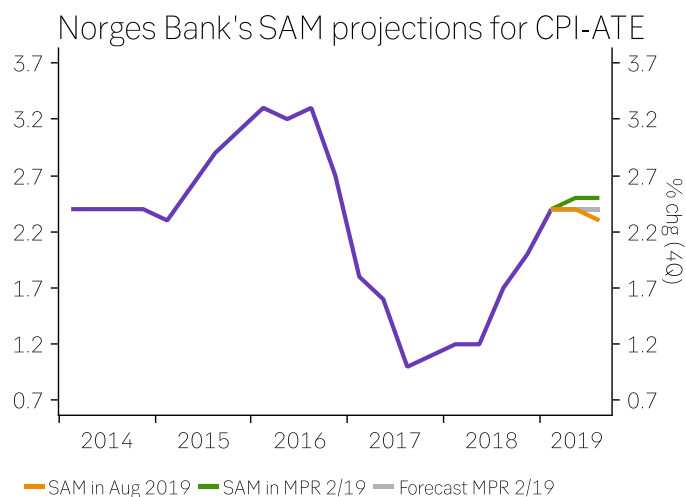
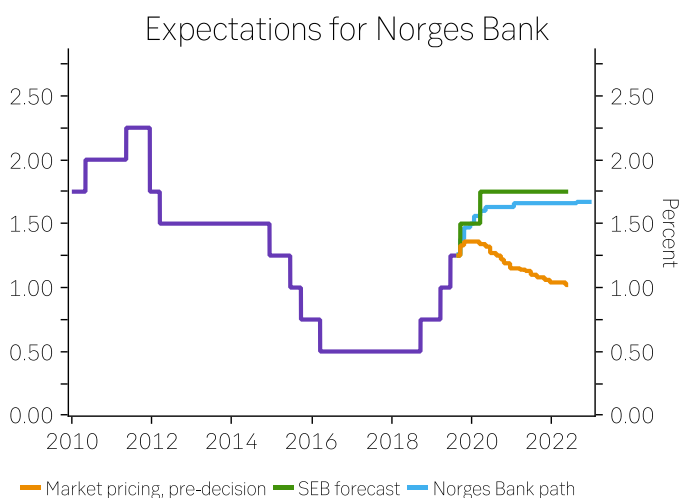
Firstly, it suggests that **the rate path from June is still valid which implies one rate hike before year-end**. Secondly, uncertainty regarding the policy outlook has increased. We regard this as a signal that **Norges Bank wants to gain flexibility** in order to evaluate important incoming domestic data and global developments before deciding on the next possible rate hike. We read the statement as the overall balance and risks is skewed on the downside.

Domestic outlook remains solid

At intermediate meetings, the board only assesses developments against the projections from the previous MPR. Hence, no new outlook was presented. However, Norges Bank concluded: *“Growth in the Norwegian economy is solid, in line with the projections in the June Report”*. Mainland GDP rose by 0.3% m/m and 0.4% m/m in April and May, respectively. Growth is set to rebound in Q2 and Norges Bank’s 0.8% q/q forecast seems reasonable. The bank’s short-term forecasting model SAM is broadly unchanged relative to that indicated ahead of the June MPR. Labour market developments have been broadly as expected. Moreover, Norges Bank did not pay any particular attention to risks related to financial stability (which it rarely does at intermediate meetings), but simply concluded that *“Developments in house prices and household debt have been broadly as assumed in June”*.

Regaining flexibility in the policy setting

Norges Bank kept the policy rate unchanged at 1.25% at today’s intermediate rate decision, as widely expected. The focus ahead of the decision was on the Board’s statement and whether the bank would pinpoint the timing of the next hike or leave the door open by reiterating that the guidance from the June MPR which indicated one hike before year-end. **The Board gave unclear signals** by concluding that: *“Overall, new information indicates that the outlook for the policy rate for the period ahead is little changed since the June Report. The global risk outlook entails greater uncertainty about policy rates going forward”*.

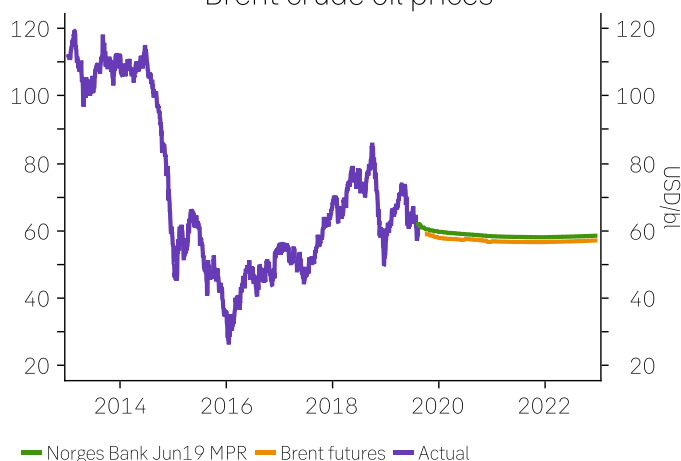


CPI-ATE was 2.2% y/y in July which was 0.2%-points below Norges Bank’s forecast. The bank noted that *“Underlying inflation has been a little lower than projected”* but also noted that *“a weaker krone may contribute to higher inflation ahead”*. The bank’s projection from the June MPR implies that the year-on-year rate in CPI-ATE should be 2.3% in August (the final input ahead of the Sep MPR). The bank’s short-term forecasting model SAM indicates a slight downside risk to the bank’s near-term CPI-ATE trajectory.

Global uncertainty an increasing concern

Norges Bank has repeatedly stated that there is considerable uncertainty surrounding global economic developments. In June, Norges Bank highlighted the risk of deepened trade tensions, weaker external demand and lower oil prices. But as the bank speculated, the krone has remained weak. The bank highlights in the statement that *"Growth prospects for Norway's trading partners appear to be a little weaker than assumed in June... Trade tensions between the US and China have deepened... Trading partners' forward rates have fallen"*. The statement does not include any elaborations on how this impacts the domestic outlook; the bank only concludes that it may weigh on domestic growth. Meanwhile, oil prices are broadly the same as in June.

Brent crude oil prices



Source: Bloomberg, Macrobond, SEB

What's next?

Overall, **the message is probably as neutral as it gets**; it keeps the door open for a rate hike while signalling that Norges Bank has become more uncertain on the way forward. Relative to our expectations, however, the guidance was dovish as it in our view reduces the probability for a September hike. A move in September can still not be ruled out, but we believe that **developments ahead must surprise on the positive side for Norges Bank to deliver a rate hike already on Sep 19th**. There are several important domestic data releases ahead of the Sep MPR (see table below). However, our expectations imply that data should be broadly in line with Norges Bank's projections. Hence, a rate hike would be conditional on the external environment (growth, trade tensions, Brexit) not deteriorating further – or preferably improving.

To watch	Date	Norges Bank (NB)
Growth outlook:		
Mainland GDP Q2	Aug 29	Monthly data supports NB's
Monthly GDP July	Sep 9	0.8% q/q growth forecast for Q2.
Oil Investment Survey Q3	Aug 22	The Q2 survey put nominal investment growth in 2019 at 21.0% and -6.2% in 2020. NB forecasts +14.0% in 2019 and +1.0% in 2020 (volume). 2020 outlook the most important one.
Regional Network Report	Sep 10	Previous report pointed to mainland GDP growth of 0.8% in coming quarters. Employment expectations and capacity constraints important in relation to the domestic price pressure.
Labour market outlook:		
Registered unemployment	Aug 30	Registered unemployment the important one, but job growth
LFS unemployment	Aug 21	even more so as it impacts the assessment of capacity utilisation/wages. NB forecasts unemployment of 2.2% (SA) and job growth of 0.4% q/q.
Employment Q2, QNA	Aug 29	
Inflation outlook:		
CPI-ATE	Sep 10	CPI-ATE was 2.2% y/y in July – 0.2ppt above NB's forecast. A
Inflation expectation survey	Aug 22	2.3% y/y rate is expected in August. The import-weighted NOK is weaker than assumed. Inflation expectations should remain anchored, but watch wage expectations (NB: 3.5% 2020).
Labour share, QNA	Aug 29	
Housing market		
Credit growth	Aug 28	NB expects home prices to rise
Existing home prices	Sep 4	1.3% on average in Q3, implying a 0.3% m/m decline in Sep.