PREVIEW: Norges Bank policy decision due 24th March 2022 at 09:00GMT/05:00EDT

- Expected to hike the Key Rate by 25bp, as outlined in January.
- Focus is, primarily, on the repo path which currently has three total 2022 hikes implied and is likely to see a hawkish revision to four or perhaps five.
- Merited by the current and expected inflation picture; albeit, there are some notable, but ultimately likely to be overlooked, headwinds in play.

Overview: Expected to hike its Key Policy Rate to 0.75% via another 25bp move, adhering to the guidance provided in January. Hence, focus for the meeting will, primarily, be on the repo path. Currently, the Norges Bank has three hikes (incl. March) implied for 2022, a view below the Norwegian Statistics Agency's own call for four hikes and is likely to see a hawkish revision. On this, the likes of SEB see five hikes taking place in 2022, i.e. at each MPR and one interim meeting. Scale aside, an upward revision to the rate path is justified by the global inflation environment, energy prices and domestic survey findings. Although some data prints and commentary within the Regional Network Report serve as headwinds to an upward revision, the current and expected inflation narrative likely overrides these factors. Alongside the repo path, which provides the first indication into 2025, new inflation and growth forecasts will be presented. Reminder, this is the first gathering with Bache as governor.

Previous Meeting: In January, the Norges Bank maintained its Key Policy Rate at 0.50% and reiterated guidance towards a March hike based on its assessment of the balance of risks and outlook. At this point in time, the Norges Bank noted that underlying inflation had increased more than expected and it is nearing the inflation target, even though the electricity support scheme for households is restraining CPI upside. In terms of global factors, the Committee expressed concern around the risk of a potential increase in domestic price/wage inflation amid capacity constraints and persistent global pressures. The meeting did not include a new set of forecasts or formal update to the repo path, which currently implies three hikes (incl. March) during 2022.

Inflation & Repo Path: In January, the Norwegian Gov't decided to extend the household electricity subsidy until March 2023, thus continuing to restrain inflation. Even amidst such intervention, inflation has continued to climb with headline and core measures printing notably above exp. for March amid the current geopolitical/energy situation, at 3.7% (exp. 3.2%) and 2.1% (exp. 1.6%), respectively. Interestingly, energy hasn't been directly driving CPI, however, its indirect influence is evident. More broadly, inflation expectations evidenced via the Regional Network Report (albeit, a pre-Russia /Ukraine survey) remain elevated and, alongside the current price situation and commodity developments, should serve as justification for a March hike, as guided. Such developments also serve to drive expectations for the Norges Bank to make another hawkish-alteration to its repo forecast, specifically, to lift it from the current three 2022 hikes to four, i.e. one for every MPR. Note, some desks, such as SEB expect five hikes to occur in 2022 (to 1.75%) followed by a further two increases in 2023, taking the terminal rate to 2.25% from the current path's 1.75%. For reference, market expectations are centred between four and five hikes in 2022

Other Developments: Inflation aside, the most significant worry is Russia-Ukraine, which will undoubtedly be noted as a point of concern; however, it is unlikely to be viewed as justification to deviate from their hawkish plan. In fact, as outlined above, the (indirect) impact from energy prices merits a hawkish-alteration. In terms of the Bank's view, Governor Bache has highlighted the significant uncertainty surrounding Ukraine and persistent price pressures abroad may result in higher prices/wages. Elsewhere, the Regional Network Report, which is somewhat limited in use given the survey period was pre-Ukraine, includes expectations for a notable rebound in activity for the six-months ahead i.e. the period until July. However, capacity constraints, recruitment and logistical challenges are all considerable headwinds, while the tight labour market indicates further upward pressure on wages in the future. Elsewhere, GDP for January missed market expectations and the notable crude-induced upside in the NOK since the last policy meeting serve as potential headwinds to a hawkish announcement; however, the inflation and related narrative(s) should override such restraints at present. Overall, while such factors are likely to be overlooked for now the Committees language/guidance regarding the timing of the next hike could serve as an indication into how significant they assess these headwinds to be.

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