PREVIEW: Norges Bank Policy Announcement due Thursday 5th May 2022

- Expected to keep the Key Policy Rate at 0.75% and reiterate that the next hike will “most likely” occur at June’s MPR.
- Domestic developments do not justify a deviation from the policy path provided in March.

Overview: Expected to keep the Key Policy Rate at 0.75%, according to 18/21 respondents surveyed by Reuters, in-fitting with the guidance provided at the March MPR confab, where Governor Bach guided participants to a June hike. As this is an interim meeting, we will not receive formal updates to the repo path or fresh economic forecasts. However, verbal guidance will be given and is likely to reiterate a June hike and once more reference a higher policy rate to stabilise inflation around the 2.0% target.

Previous Meeting: In March, the Norges Bank delivered its flagged 25bp rate hike to 0.75% and guided towards a further increase at the June MPR meeting. Additionally, the repo-path saw a ‘dovish’ increase to four 2022 hikes (vs prev. three and against some calls for five) while the terminal rate experienced a marked hawkish lift to 2.52% (prev. 1.75%). The accompanying press conference from Governor Bache noted, in particular, that a 50bp hike could become necessary if inflation was to increase more than expected and hikes at intermediate meetings (i.e. non-MPR) are possible if required. The initial announcement itself sparked limited NOK reaction, with upside occurring beforehand, though the subsequent commentary from Bach saw the NOK move back in proximity to earlier best levels.

Data Developments: Since the March MPR, inflation for that was released and proved to be ‘cooler’ than expected at 2.1% YY (exp. 2.3%, prev. 2.1%) for the core X-ATE reading; 2.1% compares to the Q1 and Q2 projections provided in March of 1.98% and 2.49% respectively. Note, the April release is scheduled for May 10th. The headline YY inflation reading printed at 4.5% (exp. 5.0%) rising from the prior 3.7%. While inflation remains elevated, the below-expected prints, particularly referring to the ATE metric as it does not directly benefit from the government’s electricity support scheme, do not justify a hawkish deviation from the March guidance. Elsewhere, the unemployment rate continues to dip and would generally be a wage-growth driver with associated inflation implications, though seemingly not enough to drive inflation above market expectations at this stage. Separately, February’s GDP reading missed expectation but did increase notably from the prior release. Overall, the data narrative does not support a deviation from the Norges Bank’s March MPR guidance of a June hike. Reminder, between the May and June meetings there are two more inflation releases alongside the Q2 Regional Network Report as key catalysts for the Bank.

NOK & Oil: Throughout April, the NOK has come under steady pressure as oil prices wane from recent best levels, amid factors including a resumption of COVID measures in China, and the USD driving higher to print multiple YTD peaks amid an increasingly hawkish Fed environment. Note, SEB highlights market pricing for the Norges Bank has lifted in the last week or so; such a move perhaps follows the Riksbank announcement (unexpected hike, Repo Path indicating 2.5 additional 2022 hikes) and potential readover from the broader hawkish Central Bank dynamic – i.e., pricing has increased for reasons not directly pertinent to the Norwegian economy.

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