



## PREVIEW: Norges Bank rate decision due Thursday 22nd September 2022

- Expected to hike by 50bp to 2.25% and present a hawkish revision to the Repo Path.
- Action which is merited by the current inflation backdrop and ongoing concern around its trajectory.
- However, a more-hawkish announcement cannot be ruled out, particularly given aggressive action from peers and the weaker NOK; though, the consumption implications perhaps lessen such a view.

**Overall:** Expected to hike the Key Policy Rate by 50bp to 2.25%, after delivering an equal magnitude hike in August and providing guidance towards a further rise at this meeting and a faster increase than the June MPR implied. Once again, hawkish action is justified by concern over the inflation situation – however, recent data and ongoing attention around the implications of rate hikes on consumption perhaps serves to offset calls for a hike of a greater magnitude.

**Previous Meeting:** In August, the Norges Bank hiked the Key Policy rate by 50bp as expected taking it to 1.75%. Adding, that the rate will most likely be increased in September and assessing that inflation will remain higher for longer than expected to suggest a faster increase in the rate than forecast in June's MPR. In reaction to this there was some modest appreciation in the NOK, largely as bets for a more conservative 25bp hike were unwound – though, as the overall meeting was in-fitting with expectations, the upside was shortlived. Note, the Norges Bank did caveat that the increase in rates and elevated inflation may cool the housing market and curb household consumption faster than expected.

**50bp:** As has been the case in recent announcements, price pressures and a desire to prevent inflation from remaining higher for longer serve as the main justification for further policy tightening. August's CPI came in less-hot than expected at 6.5% YY (exp. 7.1%, prev. 6.8%) with the associated core metric also below forecast at 4.7% (exp. 4.8%), though lifting from the prior 4.5% level. However, this remains well above the Norges Bank's forecasts and was driven by an unexpected decline in fuel and the respite provided by government support measures. Perhaps more pertinently, inflation expectations remain elevated and the most recent Regional Network report highlighted contacts reporting sharp price rises and expecting high energy prices/wage growth to push prices higher for the year ahead. Though, more encouragingly, over half of the respondents expect this increase to slow in the coming year.

Elsewhere, the clearly expressed concern that aggressive action could cool the housing market/consumption faster than expected serves as a factor against more-hawkish action; a concern that is evident in, admittedly dated, metrics from July where the reduced level of private consumption hit that month's GDP metric.

Overall, the inflation backdrop serves as justification for another 50bp increase from the Norges Bank and a lifting of the repo path, which currently implies a rate of around 2.30% at the end-2022, and as such is already heavily outdated. While the slowdown in consumption is a heavily flagged point of concern at the Bank, it is once again likely to be overshadowed by price pressures; however, it may well be cited, in the press conference or elsewhere, as to why a more substantial hike did not occur.

**75bp:** Given the expectations for further inflationary pressures, pronounced global Central Bank tightening (e.g. Riksbank +100bp, ECB +75bp) and a possible desire to attempt to turn the NOK's recent bad fortunes around to offset imported inflation, a 75bp, or perhaps greater, move cannot be ruled out. For reference, EUR/NOK continued to decline after the August meeting to a 9.60 low, but in the weeks since, the NOK has seen pronounced pressure with the cross lifting back above 10.30, though shy of 2022's 10.50+ peak. Factors which could serve to justify an above-consensus hike, particularly when placed in the context of the recent tightening action by European peers and a focus on preventing rate differentials from becoming an unfavourable catalyst for the NOK. However, concern around the growth outlook and the recent inflation metrics showing tentative, but far too soon to state definitively, signs of a peak serve to offset calls for an above-50bp move.

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