



PREVIEW: Norges Bank policy announcement due Thursday 3rd November 2022

- Expectations are evenly divided between a 25bp and 50bp hike, market pricing is in favour of the hawkish option
- 25bp would chime with September's guidance amid concerns that the domestic economy is cooling
- However, the above forecast headline and core CPI readings potentially merits deviating from September's guidance and delivering a 50bp hike

Overview: Expectations are divided evenly between a 25bp and 50bp hike going into the policy announcement, from the current 2.25%, with market pricing leaning towards the hawkish option at present. A 25bp hike would chime with the explicit guidance provided in September given concerns that the economy is cooling. However, price pressures continue to ramp up with headline and core CPI both surpassing forecasts for September and thus potentially justifying a 50bp increase. Additionally, and somewhat dependent on the magnitude announced in November, we look for any potential inferences within the statement as to how much tightening to expect next month; reminder, September's guidance implied 25bp at both the November and December meetings. Note, as this is an interim gathering there will not be a fresh set of forecasts, but we will still receive written guidance from the Bank and Governor Bach will host a press conference at 09:30GMT.

Previous Meeting: At the September gathering, the Norges Bank hiked by 50bp, as expected, to 2.25% and guided participants towards a further hike "most likely" occurring in November. However, highlighting that the pace is set to slow with Governor Bache looking for a 25bp hike. A slowdown in the pace of tightening was regarded as being warranted due to there now being clear signs of an economic slowdown. While continued tightening action remains justified due to inflation being markedly above the 2.0% target alongside ongoing prospects that inflation will remain higher for longer. Alongside flagging a potential slowing of the tightening pace, the Bank took steps to keep optionality open by suggesting that a higher/lower policy rate vs projections may be merited depending on how inflation develops.

Inflation: The main input for November's meeting was September's CPI release which was notably hotter than expected and increased further from prior levels. Specifically, the headline YY lifted to 6.9% (exp. 6.2%, prev. 6.5%), while the core YY also increased, to 5.3% (exp. 4.9%, prev. 4.7%); which compares to the Norges Bank's forecasts from September of 6.44% and 4.74% respectively for that month. For reference and context, the September headline CPI print exceeds the Norges Bank's peak inflation forecast, while the CPI-ATE measure matches it. Most pertinently, the details of the release point to price pressures being fairly broad-based in nature. As such, the Norges Bank will need to make a judgement call on whether this print points to inflation remaining higher for longer than projected and thereafter if it justifies deviating from the newly installed guidance. Irrespective of the anticipated hike, the reading calls for an upward tweak to inflation projections; however, such forecasts are not updated until the December 15th gathering.

Domestic Cooling: Overall, non-price data has been mixed for Norway and a number of the readings are heavily dated. Firstly, August's Mainland GDP printed in-line with market expectations at 0.4% and was accompanied by a favourable revision to the prior – a release which gives credence to and cause for the Norges Bank to undertake a 50bp hike. Additionally, and adding conviction to those looking for a 50bp hike, September's retail sales data was encouraging, and the latest labour market inputs include the unemployment rate being marginally lower than the Bank's own forecast. Most recently, October's Manufacturing PMI lifted from the prior near neutral reading to expansion with the accompanying internals constructive, but prices continue to lift with the specific index at its highest since April and delivery times were also a headwind. However, other metrics including the Q3 Industrial Confidence Survey remaining downbeat and point towards growth stalling over the winter period, as indicated by the last Regional Network findings. Overall, both SEB and Nordea take the stance that the hawkish developments outlined above while pertinent are not sufficient to merit a deviation from the explicit guidance for a 25bp hike provided in September. However, neither desk is willing to fully exclude 50bp as a possibility.

For what it is worth, commentary from the Norges Bank has been essentially non-existent since the September policy announcement. The main updates have been two-way alterations to their daily FX purchases, though these are referred to as non-monetary policy operations.



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