



PREVIEW: Norges Bank Policy Announcement due Thursday 19th January 2023 at 09:00GMT/04:00ET

- Likely to keep the Key Policy Rate at 2.75% after guiding participants towards a Q1 hike at the last gathering.
- Judged to be prudent given the March MPR will provide a full set of forecasts and a clearer view of how the economy is faring.
- However, a hike in January cannot be entirely ruled out given CPI-ATE ticked up to essentially match the Norges Bank's target.

Overview: Overall, the Bank is likely to wait for the full March MPR to pull-the-trigger on the guided tightening for Q1, rather than undertaking such action at this week's interim gathering. Holding fire will provide the Bank with another two inflation readings, and a clearer view of the dynamics between the headline decrease and core increase that was seen in December; albeit, a January hike cannot be entirely ruled out given that CPI-ATE ticked up to essentially match the Norges Bank's target.

Previous Meeting: In December, the Bank hiked by 25bp to 2.75% as expected. While guiding participants towards further tightening most likely occurring in Q1 and keeping two-way optionality on the magnitude of the hike dependent on how inflation develops. Given this, the accompanying Repo Rate forecast was subject to very minor downside alterations and currently implies around 35bp of tightening before a peak around March 2023; i.e. a 25bp move in Q1 2023 and then some optionality for another move, if inflation remains stubbornly elevated as the forecasts for CPI-ATE imply. In terms of measures taken thus far, the Bank noted that the considerable action has begun to have a tightening effect on the economy and acknowledged that the labour market is slightly tighter and the economic slowdown might be longer lasting than forecast in September - in-fitting with what data has shown since.

Inflation: This time, the Bank is likely to stand-pat as December's headline inflation measure saw a marked and encouraging downturn to 5.9% YY from 6.5%, and while the core measure ticked up slightly to 5.8% from 5.7%, this essentially matched the Norges Bank's December CPI-ATE forecast of 5.75%. CPI aside, the month's PPI metric also showed a slowdown in pace to 18.7% YY (prev. 22.3%), while on a more hawkish note housing prices lifted by 1.5% YY (prev. 1.1%). Overall, price data out of Norway clearly remains elevated, but is essentially in-line with the Norges Bank's forecasts from a core CPI perspective and the accompanying headline measures have seen encouraging marked declines. As such, while the Norges Bank will undoubtedly keep a close eye out for any resurgence, the data thus far does not seemingly necessitate deviation from the implied guidance for a March hike.

Unemployment/Tightening Effect: In December, the Norges Bank highlighted that the labour market had become slightly tighter since the prior meeting prior. Since then, the December labour market data saw the unemployment rate remain steady at 1.6%. In addition to the labour commentary, the Bank remarked that the economy is beginning to experience the tightening effect from policy action taken thus far – evidenced by the broader trend in home price data, for instance. Though, on the flip side, GDP growth remains robust and has been stronger than expected, which would typically give cover for hawkish action, if deemed necessary. However, given some temporary factors within the latter release and the general finding that the economy is feeling the effects of policy tightening, it is perhaps unlikely that the Norges Bank would wish to pre-empt the March gathering's full set of forecasts and additional data points that will be available by then.

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