PREVIEW: Norges Bank Policy Announcement due Thursday 23rd March 2023 at 09:00GMT/05:00EDT

- Expected to hike by 25bp, in fitting with guidance provided at January's meeting.
- Tightening is justified by inflation remaining elevated and the domestic economy faring better than expected.
- Further out, the rate path is harder to judge as the recent inflation print and broader financial stability argue against guiding higher, while NOK weakness suggests otherwise.

OVERVIEW: Expected to continue the tightening cycle as flagged at the January meeting, and with all but one respondent in the latest Reuters poll expecting a 25bp hike to be delivered, while the outlier sees a 50bp tightening move from the current 2.75%. A hike is justified by inflation remaining elevated and the domestic economy proving to be more resilient than the last set of forecasts indicated. However, the repo path is less certain with most respondents expecting another 25bp hike in Q2, though some take a more hawkish view. One factor to be attentive to is the assessment of the NOK, with desks highlighting this could be used as justification for further tightening given the inflationary pressures that are associated with a weak NOK .

PRIOR MEETING: In January, the Norges Bank left its Key Policy Rate unchanged at 2.75%, in fitting with the majority view heading into the meeting. An announcement that was essentially a reiteration of the statement from December and in-fitting with the guidance provided at that meeting. On the economy, the Bank acknowledged that inflationary pressures remain pronounced, though a global easing in such pressures had been seen and the impact of marked tightening thus far argued against further action at that point in time. For reference, the decision was unanimous. Accompanying guidance pointed towards the "policy rate most likely being raised in March".

INFLATION: February's inflation reading was cooler than expected and in relative proximity to the Norges Bank's Q1-2023 forecasts from the December meeting. Specifically, the headline YY rate printed at 6.3% (exp. 6.8%, NB 6.64%), while the core measure came in at 5.9% (exp. 6.3%, NB 5.86%), to mark an easing of inflationary pressures following the upside seen in January's data. The fact that inflation remains well above target, and has been persistently elevated for a significant amount of time serves as an argument for a 25bp hike at this meeting. However, further out the larger-than-expected cooling in the magnitude of inflation for February provides a potential counterargument to an upward revision of the repo path. Elsewhere, and turning attention to FX, DNB expects recent NOK weakness which it writes can be thought of as for every 1pp of NOK depreciation this increases CPI-ATE by 0.1pp over 5/6 months, to be described as a temporary phenomenon, but to prompt a rate path increase of at least 25bp given the inflation implications. Separately, Nordea takes the view that the weak NOK could prompt the Norges Bank to hike by 50bp in March; though they are forecasting a 25bp hike.

DOMESTIC BACKDROP: Inflation aside, the economy is proving to be more resilient than expected in Q4, according to both hard data and more recent survey indications. Specifically, the latest regional network report showed that developments are stronger than predicted in the prior survey; however, wage and cost expectations are expected to tick up in 2023, with the wage growth figure seen substantially higher vs the estimates from November. Specifically, Norway posted modest GDP growth of 0.2% for Q4, beating the Norges Bank's forecast for no growth, while the Mainland figure was 0.8% in-line with market expectations. More recently, January's retail sales data was markedly stronger than the prior reference period, while manufacturing and housing data has been steady. In slight contrast, February's PMI remained in contractionary after the January reading was revised incrementally below the neutral mark.