PREVIEW: Norges Bank Policy Announcement due Thursday, 21st September 2023

- Expected to hike by 25bp and take the policy rate to its likely 4.25% peak for this cycle.
- A move which is justified by the absolute level of CPI and near-term growth signals, factors which could spur a marginal lift to the repo path above 4.25%.
- Though, the marked pullback in CPI and latest Regional Network Survey offset this.
- Policy announcement at 09:00BST, press conference with Governor Bache from 09:30BST.

Overview: Expected to stick to the guidance provided in August and hike to 4.25%, according to all 30 respondents polled by Reuters. A move which would validate the June MPRs repo path and take the Norges Bank to its forecast peak rate, which is expected to remain in place until at least Q2-2024 with a full 25bp cut not forecast until Q4-2024 at the earliest. A 25bp hike is justified by the high absolute level of inflation relative to the 2.0% target alongside theoretical inflationary and by extension hawkish implications of recent growth data and the Regional Network's near-term view. However, this is balanced by the significant fall in CPI & CPI-ATE, both softer than the Norges Bank forecast at this point, alongside the Regional Network's finding that activity is expected to slow into the winter. Overall, recent developments argue in favour of a 25bp hike being delivered which is likely to be the final, though there is a chance the repo path will be lifted to price some optionality for further tightening given the absolute level of inflation and relative NOK softness. On this, desks vary significantly in their views, the likes of Nordea and SEB expect 4.25% to be the top, but acknowledge hawkish risks to this with market pricing roughly in-line with their view and currently implying a 4.35% peak. However, the likes of UniCredit believe the resilient economy, inflation level and NOK softness argue in favour of hikes in November and December as well, to a 4.75% peak.

Previous Meeting: On August 17th, the Norges Bank hiked by 25bp to 4.00%, as expected and provided guidance for another hike in September, assuming the economy evolved as predicted. A hike that was merited by the absolute level of inflation and as underlying inflation remained elevated, though the Bank acknowledged that headline CPI has edged down. Additionally, the statement included some two-way optionality on this guidance; specifically, if the NOK is softer than forecast a higher policy rate may be required while a lower rate could be merited if Norway experiences a more pronounced slowdown or there is a more rapid decline in inflation.

CPI: August's inflation data printed softer than the market forecast and in-line with the Norges Bank's own view. Specifically, the key CPI-ATE measure came in at 6.3%, in-line with the June meeting's forecast, while the headline inflation figure moderated from 5.4% to 4.8%, markedly below the 5.9% forecast, but still significantly above the 2.0% target level. Looking into the headline, the main reason for the cooler-than-expected outturn was a 1.0% decline in the YY energy component; a finding which comes in stark contrast to the data seen thus far in European peers, where energy has been an inflationary factor in recent releases. Overall, the inflation data validates the June MPRs projection for a policy peak around the 4.25% mark, i.e. September will likely be the last hike. However, the Norges Bank is unlikely to entirely remove pricing for another move, given headline inflation remains well above the 2.0% target and as EUR /NOK remains around the August meeting's level.

Growth/Regional Network: July's GDP was markedly stronger than expected by markets, and mainly driven by tourism and services, while construction activity fell. On the release, SSB's Sletten said that the month's household consumption increase came as "Many people went on vacation, and there was a significant growth in direct purchases abroad by resident households". Additionally, and likely in reference to the fall in construction activity, noting that during the main summer month of July some industries experience less activity and as such figures should be interpreted more cautiously given the potential for increased volatility. More pertinently, the latest Regional Network report chimes with the prior release in pointing to strong near-term activity as energy/oil underpin an economy which is experiencing marked differences across its sectors. Thereafter, contacts expect activity to slow into the winter period. As such, the regional network survey can be viewed as both a hawkish and dovish signal in relation to the 4.25% current peak rate forecast, though the expected slowdown likely skews the findings in favour of current guidance and as such validates the 4.25% peak set in June's meeting.

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