PREVIEW: Norges Bank Policy Announcement due Thursday, 14th December 2023

- **Expected to leave rates at 4.25%, as recent developments should satisfy the condition that "… underlying inflation is on the decline".**
- **However, a hike cannot be entirely dismissed given ongoing NOK weakness.**
- **Thereafter, attention turns to whether the path implies another hike (in the scenario of a hold) and then on where the first cut is projected as markets price two 2024 cuts.**

OVERVIEW: On balance, developments since November's meeting point to rates being left unchanged given CPI-ATE came in cooler than forecast in November and in line for October alongside the latest regional network implying inflationary drivers are dissipating. Factors which should allow rate setters to be satisfied that "… underlying inflation is on the decline", not to mention the softer growth outlook and lower oil prices. However, CPI jumped back up and the core measure is only modestly shy of forecasts which alongside ongoing NOK weakness could spur a final hike, in line with the headline guidance from the last gathering. Consensus via Reuters for the decision points to an unchanged outcome, with 15/27 in favour of rates being left at 4.25% while the remaining 12/27 expect a hike. Moving to the repo path, near-term alterations will depend on hike/no-hike in December and thereafter markets are attentive to when the first cut is implied (currently Q3-2025) and, in the scenario of unchanged, if there is any probability for another hike occurring in the near term. Reminder, this meeting comes with new forecasts and is followed by a press conference 30-minutes after the 09:00GMT decision.

PREVIOUS MEETING: November's announcement saw rates left at 4.25% with guidance that the policy will "likely be raised in December" countered by the admission that rates may be left unchanged in December if "the committee becomes more assured that underlying inflation is on the decline". On the economy, the statement said that since the September MPR "inflation has fallen more than expected, and economic activity has been somewhat lower than projected". An announcement which resulted in initial NOK pressure, but this pared in the minutes after the release.

RATE DECISION: Given the two-way guidance from November's announcement around December, inflation developments since that gathering take centre stage. Most pertinently, November's CPI-ATE came in at 5.8% Y/Y (exp. 6.0%) and as such cooler than the Norges Bank's 6.1% forecast for this print, while the headline ticked back up to 4.8% (exp. 4.9%) from 4.0%; a release that desks were generally waiting for before making their call for December. Subsequently, the likes of SEB and Nordea look for rates to be held at 4.25%. Prior to this, October's CPI was markedly hotter than expected but crucially in line with the Norges Bank's forecast. Inflation aside, the key Regional Network report was soft on the growth front but saw wage expectations essentially unrevised, providing rate setters with some confidence that underlying pressures are falling alongside adding to concern around the growth narrative. On that, Q3 GDP was weaker than forecast given marked pressure during September, which itself was cushioned to a degree by unusual agricultural/weather effects. More recently, October's Mainland print inched higher from the prior by the 3M/3M remains at zero and SSB surmised it by making clear that "seen in total, figures show a weak development in the last months". Developments which, alongside the pullback in crude prices, point to rates being left unchanged in December as the committee is likely to be "more assured that underlying inflation is on the decline". However, the fact that inflation remains in proximity to target and the NOK has depreciated in recent weeks means the possibility of a hike cannot be entirely dismissed.

REPO PATH/GUIDANCE: In the scenario that rates are left unchanged, policymakers may well choose to imply some probability of further tightening taking place and allow time to be certain that underlying inflation is on the decline. Guidance could be provided verbally or by the latest projections within the MPR. If rates are raised, the Norges Bank could make clear that such a move is expected to be the last one, given the tenor of recent data from both a price and growth perspective. Irrespective of the rate decision, the Norges Bank will not be willing to verbally discuss easing rates at this point but the repo path will be subject to near-term tweaks (depending on hike/hold) and then on when the first cut occurs. Currently, the path implies the first cut in Q3-2025 (3.96%) from the current 4.25% rate. Market pricing implies the first rate reduction in September 2024 and another at either the November or December 2024 meetings. As such, the new forecasts will almost certainly disappoint market expectations; for what it is worth, Nordea believes the path will imply one cut in Q4-2024.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com