Norges Bank Preview: January 2022

Details:

Monetary policy decision: 0900GMT/1000CET/0400ET, Thursday 20th January 2022.

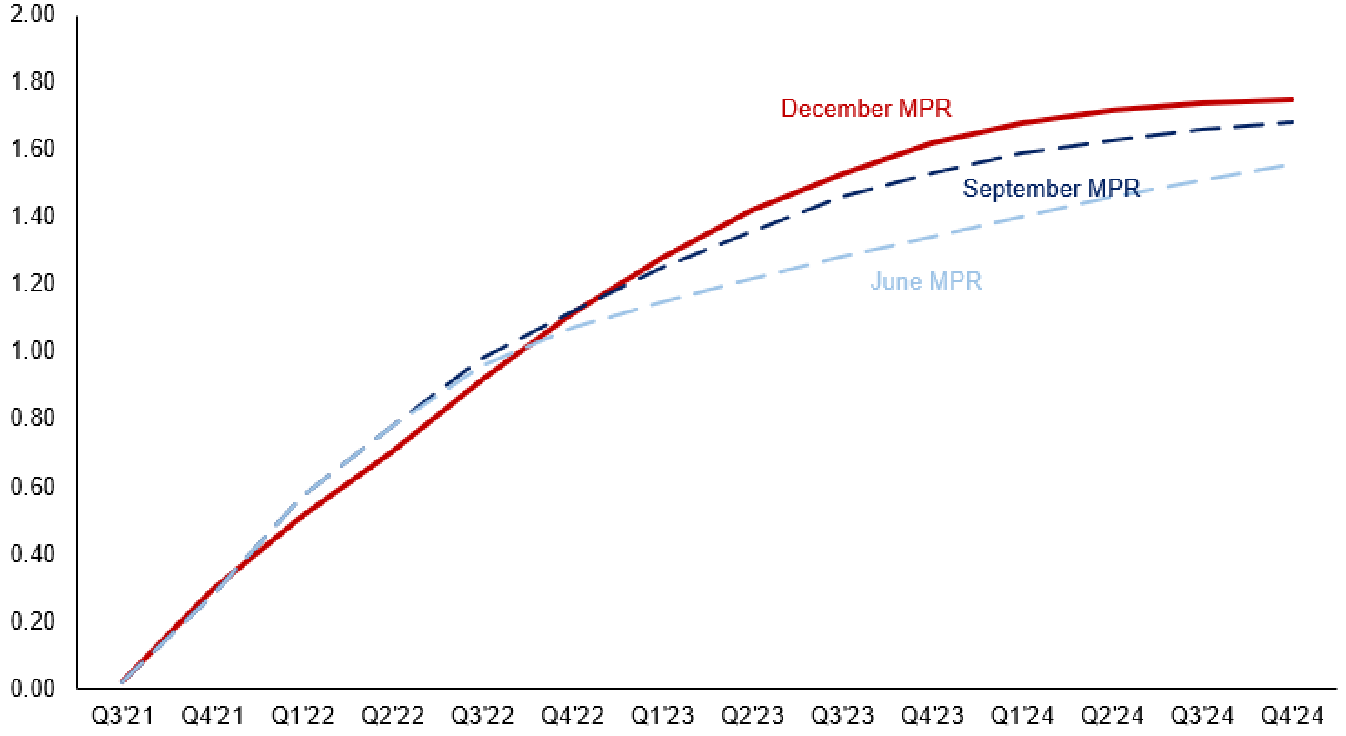
MNI Point of View

Following December's hike to 0.50%, the Norges Bank are expected to keep rates unchanged in January, alongside the guidance provided by December's monetary policy report. They are also likely to restate their view that "the policy rate will most likely be raised in March". This sets up the bank for four rate hikes in 2022, bringing the main policy rate to 1.50% at year-end. There are no fresh rate path projections or economic forecasts at this meeting.

The Norges Bank shrugged off concerns surrounding the omicron variant in December, hiking rates by 25bps to 0.50% and name-checking March as the next most likely meeting at which rates will next be raised. By tightening policy and raising the terminal rate of the path projections, the bank have now solidly indicated that wage and price pressures are expected to remain elevated in the near-term, and will counter any risks from new variants, activity restrictions or vaccine effectiveness.

Data since December's decision is supportive of this view, with underlying CPI rising well ahead of both market and Norges Bank expectations (1.8% Y/Y vs. Exp. 1.4%, Prev. 1.3%), and well within range of the longer-term target. This reinforces the Norges Bank's tightening bias and may see the board reverse the 2022 path concessions made at the last meeting.

Figure 1: Terminal rate boosted to 1.75%



Source: MNI/Norges Bank

The path revisions are likely the board retaining some optionality on the path this year, allowing some wiggle room should they need to pause the tightening cycle in the face of new activity restrictions or other omicron-induced market fallout. Health data is also improving faster than expected and the government rolling off more COVID-related restrictions also argues in favour of a steeper front-end of the curve.

Figure 2: Concessions in 2022 pricing could be swiftly reversed in March

	Dec MPR	Sept MPR	Change
30/09/2021	0.02	0.02	-
31/12/2021	0.29	0.28	+1bps
31/03/2022	0.51	0.57	-6bps
30/06/2022	0.70	0.78	-8bps
30/09/2022	0.92	0.98	-6bps
31/12/2022	1.11	1.12	-1bps
31/03/2023	1.28	1.25	+3bps
30/06/2023	1.42	1.36	+6bps
30/09/2023	1.53	1.46	+7bps
31/12/2023	1.62	1.53	+9bps
31/03/2024	1.68	1.59	+9bps
30/06/2024	1.72	1.63	+9bps
30/09/2024	1.74	1.66	+8bps
31/12/2024	1.75	1.68	+7bps

Source: MNI/Norges Bank

In December, the medium- and longer-term path forecasts saw notable upgrades, with the terminal rate upped to 1.75% - a level the board have deemed as close to neutral. This suggests further economic progress, price pressures and a buoyant housing market could prompt a requirement for more constrictive policy within the forecast horizon, suggesting the path could steepen further from here.

Norges Bank Central Bank Watch

MNI Norges Bank Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	5.3	4.1	↑	2.9	↑					2.21
Core CPI	% y/y	1.8	1.2	↑	1.4	↑					1.80
PPI	% y/y	68.7	57.8	↑	37.1	↑					1.35
Oil Price (Brent Active)	$bn	88.31	76.06	↑	70.76	↑					0.97
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
PMI Manufacturing	Index	58.0	59.5	↓	61.0	↓					0.58
GDP	% m/m	0.7	1.0	↓	1.5	↓					-0.18
Industrial Man Prod	% m/m	0.0	0.0	⇨	-0.1	↑					0.32
Regional Network Outlook	Index	0.95	0.92	↑	0.08	↑					0.18
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	% y/y	6.4	6.3	↑	6.8	↓					-0.60
Credit Indicator	% y/y	5.1	5.4	↓	5.2	↓					-1.40
Non-Fin Corp Credit	% y/y	4.9	4.8	↑	4.5	↑					0.53
Household Credit	% y/y	5.0	5.2	↓	5.1	↓					-1.35
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales	% m/m	0.9	-3.8	↑	5.8	↓					0.19
Consumer Confidence (Q)	Index	13.7	11.0	↑	4.7	↑					1.42
Unemployment Rate	%	2.2	2.4	↓	2.9	↓					-0.91
Ave Monthly Earnings (Q)	% y/y	3.2	2.1	↑	2.9	↑					0.17
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
OBX	Index	1083	1034	↑	993	↑					1.48
Norway 10-Year Yield	%	1.89	1.59	↑	1.36	↑					1.19
NW Yield Curve (2s-10s)	bps	43.5	62.5	↓	69.9	↓					-0.96
NOK TWI	Index	87.46	85.81	↑	85.30	↑					0.73

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Summary of Analyst Views

- All analysts see no change from the Norges Bank in January, with the bank restating their view that March will be the next most opportune meeting to raise rates.
- Most analysts see three further hikes this year, but some see as many as four by year-end.

Analyst Views (Alphabetical Order)

Bank of America: Sees rates unchanged in January, but 5 further hikes this cycle

- Expects Norges Bank to continue guiding to a 25bp rate hike in March at their policy meeting in January. Omicron risks have likely subsided since their last meeting with further evidence of milder symptoms and rapid retreat in case numbers in countries where the variant spread early.
- The latest hard data show 0.7% mom GDP growth for November, similar to Norges assumptions. Norges assumes a 1% fall in GDP in January already. We see little to change that view, but reasons to expect a faster recovery from that drop than Norges has factored in. Core inflation meanwhile runs below target, but stronger than Norges had expected in the latest data. This should keep Norges on track to hike in March.
- Our proprietary Norges Bank mood indicator remains close to all-time most hawkish levels. With solid growth and inflation prospects brightening as wage growth improves the main question about Norges is whether they will guide to more than the 5 hikes (to 1.75%) they already forecast by end-2024. That would take their policy rate to the highest since 2011.

Barclays: Expects unchanged, indicating another 25bps in March

- We expect Norges Bank to keep the bank rate unchanged, and continue to indicate that a 25bp hike is likely in March. We expect limited changes in the bank's view given it is an interim meeting with no forecast updates, and developments since the December meeting have largely evolved as expected.
- But we think the Board's tone will nonetheless be cautiously constructive, as the case for the March hike has likely strengthened now compared to the December meeting. This comes as downside risks to growth from the Omicron variant have reduced, while inflation risks have increased, and the timeline of global tightening cycle has been brought forward.

Goldman Sachs: Expects NB to take stock, with guidance remaining intact

- We expect Norges Bank to remain on hold. At the December meeting, Norges Bank signalled that "the policy rate will most likely be raised further in March".
- We expect Norges Bank to take stock of economic developments at Thursday's meeting, concluding that they developed largely in line with the December forecasts and that the guidance remains intact.

JPMorgan: Expects no change in rates

- With COVID-19 restrictions easing in Norway and economic developments being stronger than expected at the December meeting, we expect Norges Bank confirming that another rate hike is coming in March
- We expect the statement to strongly indicate that another rate hike will be delivered in March. At the December meeting, Norges Bank made a March rate hike conditional on COVID-19 restrictions, saying that "if there is a need for more stringent and protracted containment measures that pull down economic activity through spring next year, further rate hikes may be postponed". This risk seems to have diminished. Thus, despite a record-high number of cases and the peak still likely being ahead of us, the hospital capacity appears not to be at risk, thanks to Omicron being milder and likely more short-lived than previous mutations.
- Norges Bank is currently signaling three rate hikes in 2022, but we think they will end up hiking four times. Markets are fully pricing in rate hikes in March and June, with a total of ~3.5 hikes in 2022. The biggest risks to our 2022 forecast appear to be COVID-19-related and mismatches in the labour market. A minor risk to our hawkish forecast is the likely appointment of former PM Jens Stoltenberg as Norges Bank Governor, who could turn out to be less hawkish than Governor Olsen. We see very limited risk of Norges Bank hiking at "in-between" meetings (such as the January or May meetings) or hiking 50bps at a single meeting.

Morgan Stanley: Omicron risk down, inflation risk up

- We expect Norges to keep its rate unchanged while indicating a 25bps hike in March. We note reduced downside risks to growth from Omicron but increased inflationary risks. The timeline of the global tightening cycle has been brought forward, in our view.
- We expect limited changes in the bank's view given this is an interim meeting with no forecast updates, and developments since the December meeting have largely evolved as expected. But we think the board's tone will nonetheless be cautiously constructive, as the case for the March hike has likely strengthened now compared to the December meeting.
- Norway, having been hit earlier by the variant, has also started to gradually ease restrictions, eg, relaxing alcohol sales and access to schools, from 14 January. With Norway supplying almost a quarter of the European gas market, the terms of trade shock continues to be a tailwind for Norway. On the other hand, the Norwegian government has announced subsidies worth around NOK13bn to ease pressure on household energy bills, which should soften the blow to domestic demand.
- The latest CPI-ATE overshoot (actual 1.8% vs Norges forecast 1.15%) shows price pressures are broad based, and Norges needs to revise upward its forecast inflation path.
- Markets are pricing almost four hikes in Norway this year, in line with our expectation of four 25bp hikes in March, June, September and December respectively. However, market pricing for Norges looks modest in comparison to the aggressive hiking cycles priced in for many other G10 central banks. Should rates market pricing adjust, we think NOK would likely withstand pressure, and benefit from widening rate differentials.

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We maintain our recommendation of shorting EURNOK (spot ref 10.1350, target 9.6050, stop-loss 10.40). The risk to this trade is long NOK positioning.

Nordea: Will be on hold, to confirm the key rate will be raised further in March

- The statement from Norges Bank's will be factual, noting that developments since their last meeting have been mainly on the positive side.
- The main news since the last meeting is the higher-than-expected rise in core inflation in December to 1.8% Y/Y. The raise was broad based and suggests that core inflation will come above the 2% target sooner than expected by the central bank.
- Overall, the developments since December have so far been better than expected by the central bank, while the NOK is in line. Although Norges Bank will not conclude on the effects on the rate path, our own assessment is that the sum of news warrants a higher rate path vis-a-vis the rate path from December (supporting our long-held view for four rate hikes this year).
- Overall, we expect that the Committee will reiterate their message from December: "Based on the Committee's current assessment of the outlook and balance of risks, the policy rate will most likely be raised further in March". Market forward rates are currently priced broadly in line with the rate path from Norges Bank so market reactions should thus be muted.

Scotiabank: On hold

- After hiking its deposit rate by 25bps to 0.5% back on December 16th, Norges Bank guided that it was planning a further hike likely at the March meeting when another round of forecasts and freshened rate guidance arrives. That naturally implies they will stay on hold this time.

SEB: Expects NB to confirm a March hike

- Considering signals from the Committee in December that the next hike is likely in March, an unchanged policy rate at 0.50% is widely expected. The government has eased some of the national restrictions, and economic data has on aggregate been somewhat stronger than expected. Overall, it should be enough to convince the Committee to confirm a March hike.
- Considering that the market is fully pricing a rate hike in both March and June, such an outcome should not result in any large market moves.

Svenska Handelsbanken: Norges Bank will reiterate that rates will most likely be raised in March

- We expect the central bank to reiterate its communication from December: Namely, "the policy rate will most likely be raised in March."
- As we see it, the case is strong for another move in March. We also believe that there is upside risk to Norges Bank's rate path for 2022; meaning, it is now more likely that we will see four, and not three, rate hikes this year. That said, Norges Bank will probably refrain from sending any new policy signals on this occasion – just sticking to its call for another hike in March, and using the time leading up to the important March meeting before it decides upon the further trajectory of the key policy rate path.

Swedbank: NoBa's confidence in March hike has strengthened

- Less uncertainty around virus situation and increasing price pressure, means NoBa's confidence in March hike is strengthened. Swedbank continue to expect hikes in March, June and September.
- The main message will be that the policy rate "most likely" will be hiked by another 25 bps to 0.75% in March, as they communicated in December.
- Since the December meeting, it has more firmly been established that the severity of Omicron is far less that of Delta. Some restrictions have even been eased, supporting Norges Bank's strategy.
- The MPC's hawkishness regarding the mounting price and wage pressure was the key factor behind the rate hike in December. The latest CPI figures is now indicating that inflation is coming up earlier than anticipated. Underlying price pressure will continue to be a decisive driver for the timing and number of hikes throughout 2022.
- The economic development since December has largely strengthened the case for a March hike: November GDP figures came in somewhat stronger than expected. The preliminary unemployment figures point to a

smaller impact on the labour market from the Covid restrictions than was feared. Oil prices are up by USD 10 and gas prices remain high.
- Housing prices, on the other hand, have been noticeably weaker than expected. Not much emphasis should be put on this, unless we have several months of declining prices ahead of us, which is unlikely given the current market balance of high demand and falling supply.

TD Securities: Unlikely to sway far from December message

- The latest growth and inflation figures have come in stronger than the Norges Bank expected, offsetting some near-term drag from recent strict COVID measures. That said, with no MPR at this meeting, and a new Governor at the helm by the time of its March meeting, it's unlikely the Norges Bank will sway far from its December message that a rate hike is likely in March.

MNI STATE OF PLAY: Norges Bank To Stick To March Hike Guidance

By David Robinson

Norges Bank looks set to keep its policy rate unchanged at 0.5% in January, pausing a tightening cycle that saw it move ahead of the central bank pack after hiking in both September and December, although policymakers will likely restate guidance that the next hike is on the way, most likely in March, when they will have completed their next full forecast round.

The latest prices data, with Norway like many other countries seeing inflation rising faster than expected, support the central bank's case for pressing ahead with tightening but there is no expectation that it will deliver a surprise hike at the January meeting.

No fresh forecasts and no press conference at outgoing Governor Oystein Olsen’s last meeting, offers no opportunity for the Monetary Policy and Financial Stability Committee to explain any shift in the pace of tightening, leaving policymakers maintain their stance of leaving policy steady at interim meetings.

RESTATE

The committee is instead likely to simply restate its December guidance that given "the outlook and balance of risks, the policy rate will most likely be raised further in March", leaving the debate open on whether three or four hikes can be expected this year, lifting the policy rate to either 1.25% or 1.5% by year end.

The committee's December forecasts pointed to hikes in March and June with a single hike then likely in the second half followed by a sharp deceleration in the pace of tightening, with the policy rate projected to be at just 1.75% at the end of 2024.

Inflation has, like elsewhere, surprised to the upside, with the target core CPI measure, CPI-ATE, rising to 1.8% y/y in December from 1.3% in November -- Norges Bank’s December forecast round saw it flatline at 1.3%. CPI, which provides an international comparison, came in at 5.3% in December, up from 5.1%, despite state support dampening somewhat the impact on households of surging energy prices.

CURRENCY APPRECIATION

Developments since Norges Bank's December meeting, however, have not been one directional. The krone, which tends to reflect a mix of oil prices and interest rate differentials, has been buoyant, pushing down on import prices. On the import weighted I-44 measure, the Norwegian krone stood at 107.47 on Jan 17 compared with 110.32 on December 15, when the decision to hike the policy rate was taken, a 2.6% appreciation.

Olsen, speaking to MNI following the December hike, welcomed advanced economy central banks to moving to more restrictive policy, having previously noted that although the Norwegian central bank has been an early mover other central banks could well catch up (MNI INTERVIEW: Norges Head Hails Retreat Of Expansionary Policy).

“We are coming closer to a situation where the very expansionary monetary policy is going to be gradually reversed. That is a positive thing," Olsen said.