

Norges Bank Preview

Unchanged rates and 'on hold' stance to be repeated

- Norges Bank is expected to leave the policy rate unchanged at 1.50% and signal unchanged rates for the coming period.
- This is an interim meeting, with no monetary policy report or press conference, and at which NB has tended to provide very little news in recent years.
- We expect no market reaction upon announcement.

What to expect: We expect no new signals from Norges Bank (NB) at its monetary policy meeting on 23 January. Hence, we expect NB to leave the policy rate at 1.50% and reiterate that rates most likely will remain unchanged in the period ahead. Note that this is an interim meeting with no monetary policy report, rate path or press conference. Indeed in recent years, NB has tended to give very little new information at these interim meetings which fall only one month after the last monetary policy report.

At the meeting in December, NB stated that '*the policy rate will most likely remain at this level in the coming period*'. Meanwhile, the rate path implicitly suggested a 40% probability of a 2020 hike, highlighting a modest bias towards further tightening.

Since then, key figures have been a bit disappointing. Mainland GDP increased by 0.3% in the three-month period from September to November. This is the lowest rate for more than three years and confirms that the economy entered a clear slowdown phase towards the end of 2019. However, this should be in line with the signals from the Regional Network Survey published in December, and is only marginally lower than the NB forecast from December.

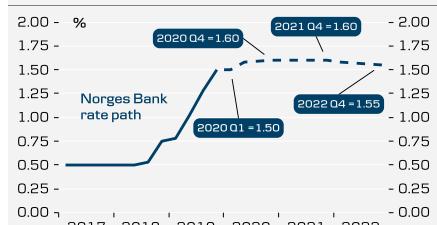
Also, core inflation fell to 1.8% y/y in December, against the expected 1.9% in the December MPR. We still believe that the risk of a stronger disinflationary trend is limited. Although growth has slowed down, capacity utilisation is still high, and wage growth will remain in the 3.2-3.4% region going forward. This means that domestic inflation (weight of 2/3) is most likely to stay up. At the same time, we expect the NOK depreciation through the second half of last year to gradually turn into higher imported inflation (1/3) in 2020 (Chart 3). Hence, we expect NB to put less emphasis on the marginally lower inflation print as long as the medium-term inflation drivers remain positive.

On the other hand, the import-weighted NOK has appreciated and is currently around 1% stronger than expected in the MPR in December. If this continues, it could affect the rate settings later in 2020, but neither the level nor the pace of the appreciation should cause any major concerns at this juncture.

If we are right in our broad consensus call, it should have virtually no market impact upon announcement. As Table 1 on page 2 shows the short interim NB meetings have generally failed to trigger substantial market moves since press conferences were removed from the interim meetings in 2017.

Our base case remains a fifth NB rate hike in 2020 (in June), but the probability of this call materialising has arguably fallen in recent weeks. We estimate a true probability of another NB hike as marginally higher than 50% given the recent news flow. In comparison, markets price roughly 2bp and 5bp worth of cuts (accumulative) for end-2020 and end-2021, respectively. Hence we still see value in positioning for higher short-end rates. For more on our market views please see the latest edition of *Reading the Markets Norway*.

Chart 1: NB is unlikely to give new signals to markets next week



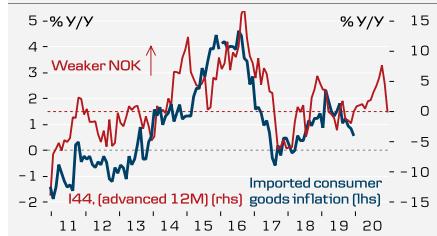
Source: Macrobond, Danske Bank

Chart 2: Marginally lower growth and inflation than projected



Source: Macrobond, Danske Bank

Chart 3: Wage growth and NOK suggest higher inflation ahead



Source: Macrobond Financial, Danske Bank

Note: Past performance is not a reliable indicator of current or future results

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Table 1: Since NB removed press conferences from the interim meetings in 2017 there has generally been a tendency of limited price moves

Daily change on days with "short" interim NB meetings incl. percentile ranks

| Date of meeting | EUR/NOK | | Brent crude (check) | | 2Y Swap spread (NOK-EUR) | | Tendency for big price moves |
|-----------------|-----------|-------------|---------------------|-------------|--------------------------|-------------|------------------------------|
| | Change, % | Percentile* | Change, % | Percentile* | Change, bp | Percentile* | |
| 08/05/2013 | -0.9% | 2 | -1% | 24 | 7 | 100 | |
| 24/10/2013 | -0.3% | 24 | -2% | 12 | -5 | 2 | |
| 08/05/2014 | -0.8% | 4 | 1% | 77 | 2 | 93 | |
| 23/10/2014 | -0.6% | 7 | -2% | 15 | 3 | 97 | |
| 07/05/2015 | -0.2% | 29 | 0% | 61 | 6 | 100 | |
| 05/11/2015 | -1.0% | 2 | -4% | 3 | 2 | 91 | |
| 12/05/2016 | -0.7% | 6 | 5% | 98 | 3 | 96 | |
| 27/10/2016 | -0.2% | 31 | -2% | 16 | 0 | 42 | |
| 04/05/2017 | 1.1% | 98 | 1% | 68 | -2 | 6 | |
| 26/10/2017 | 0.5% | 86 | 0% | 55 | 0 | 42 | |
| 25/01/2018 | -0.5% | 11 | 1% | 73 | 2 | 93 | |
| 03/05/2018 | -0.7% | 4 | 0% | 59 | 0 | 51 | |
| 16/08/2018 | 0.6% | 90 | -2% | 10 | 0 | 34 | |
| 25/10/2018 | 0.0% | 52 | 0% | 39 | 0 | 62 | |
| 24/01/2019 | -0.5% | 9 | -1% | 33 | 1 | 83 | |
| 09/05/2019 | 0.3% | 76 | 1% | 69 | 2 | 87 | |
| 15/08/2019 | 0.2% | 65 | -3% | 6 | 2 | 90 | |
| 24/10/2019 | -0.2% | 31 | 2% | 92 | 2 | 88 | |

Below purple line: no longer any Q&As

*History since 2013

Source: Bloomberg, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Frank Jullum, Kristoffer Kjær Lomholt and Arne Anders Lohmann Rasmussen.

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