

Norges Bank Review

Keeping the tightening bias, but increasing downside risk

- Norges Bank kept rates unchanged as expected
- Norges Bank kept the tightening bias from June
- Global turmoil has increased uncertainty about rates going forward.
- We keep our call for a slightly above 50% probability of a September hike
- NOK to continue to trade on global risk sentiment.

As expected, Norges Bank kept the policy rate unchanged at 1.25% at today's meeting. This was just a so-called 'in-between meeting', with no monetary policy report or press conference, only a press release.

In the press release, NB indicated that the assessment of the monetary policy report in June was that the interest rate would most likely be raised during the year. Since June, NB believes that the development in the domestic economy has been about as expected, while inflation has been lower.

Norges Bank points out that the escalation of the trade conflict and uncertainty surrounding Brexit could dampen global and domestic growth. On the other hand, a weaker import-weighted NOK may contribute to higher inflation.

Norges Bank concluded with two points:

- Overall, new information indicates that 'the interest rate outlook ... has changed little since June'.
- The international risk picture gives greater uncertainty about future interest rate developments.

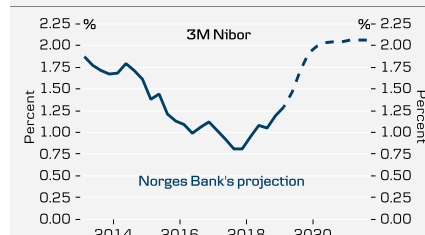
The first point clearly indicates that NB is retaining the tightening bias from June, which allows for rate hikes in September, October or December. The second point illustrates that the global turmoil involves a risk of slower domestic growth that may make further interest rate increases unnecessary.

All in all, the statement is partly in line with our prior expectations that Norges Bank will now not commit to the timing of further rate hikes, but neither call off the plan from June of further hikes. As we expect key domestic figures to confirm that growth remains above trend, we maintain our call that there is a slightly above 50% probability of a rate hike in September.

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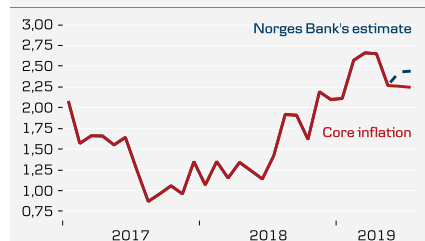
The outcome of the meeting was about as expected, thus leaving little lasting impact on NOK. Ahead of the September meeting, we think NOK will be in the hands of global economic and risk sentiment, where we see little prospect of a turnaround for the better. We remain on the side-lines in EUR/NOK for now.

NB signalled next hike in September



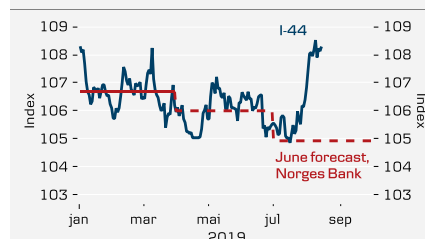
Source: Macrobond, Danske Bank

Inflation lower than expected...



Source: Macrobond, Danske Bank

...but the import-weighted NOK is weaker



Source: Macrobond, Danske Bank

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