

# Norges Bank Preview

## Global turmoil calls for vaguer rhetoric

- In June, Norges Bank signalled a rate hike in September.
- Increasing global risk and a mixed picture domestically are set to prevent an explicit reference to September at this meeting but we expect Norges Bank to keep the tightening bias.
- We still expect Norges Bank to hike in September, as we expect key figures to confirm growth above trend.
- A hawkish Norges Bank is unlikely to counter the global headwinds currently facing NOK. We stay on the sidelines in EUR/NOK for now.

### What to expect

We are not expecting any new signals from Norges Bank at the monetary policy meeting on 15 August. This is an ‘intermediate meeting’, where the only release is the Executive Board’s statement of the decision. Usually, the threshold is very high for Norges Bank to give new signals to these meetings.

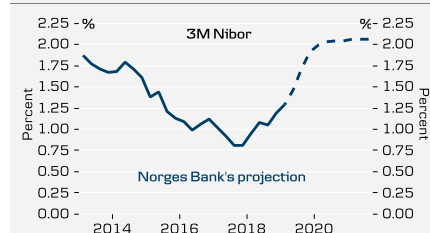
In June, Norges Bank went to great lengths – both in the rate projections in the monetary policy report and at the press conference – to signal that a rate hike was likely in September. On the face of it, then, we would expect this to be confirmed in the press release following the upcoming meeting on Thursday.

However, global risks have increased since the June meeting and domestic data have been slightly disappointing. Therefore, there is no need for the bank to commit itself yet to hiking rates in September. Instead, we expect Norges Bank to reiterate its message from June that **‘the policy rate will most likely be increased further in the course of 2019’**. This would keep the option of a September hike open, while giving the bank scope to postpone if the current uncertainty persists or worsens. That said, we still expect Norges Bank to hike in September, as we expect the oil investment survey (22 August), the GDP figures (29 August) and the Regional survey (10 September) to confirm continued growth above trend in the domestic economy.

The current environment is reminiscent of the situation in May. Norges Bank had indicated a rate hike ‘...in the course of the next half-year’ at the March meeting. Despite the rising global risks from the escalation of the trade war in early May, Norges Bank explicitly mentioned June at the May meeting. Hence, there is a clear risk that Norges Bank will be explicit on a September hike at this juncture. Our main objective to this is that in May both domestic growth and inflation had been stronger than expected. This is not currently the case.

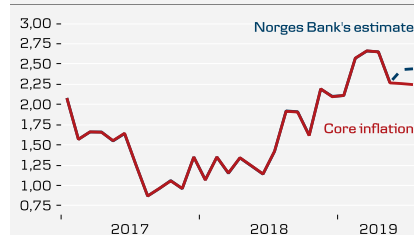
At the same time, there is a minor risk that Norges Bank will capitulate and turn neutral/dovish. However, the experience from May indicates that increasing downside risk is insufficient to change the bias, it needs to materialise in slower domestic growth as core inflation is above the 2% target and the medium-term inflation drivers (output gap and the import-weighted NOK) both indicate increasing inflation.

### Norges Bank signalled next hike in September



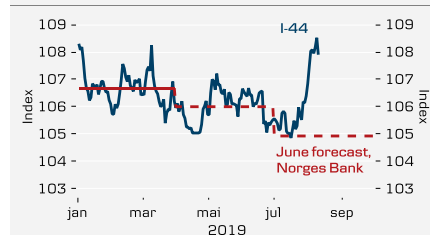
Source: Macrobond Financial, Danske Bank

### Inflation lower than expected...



Source: Macrobond Financial, Danske Bank

### ...but the import-weighted NOK is weaker



Source: Macrobond Financial, Danske Bank

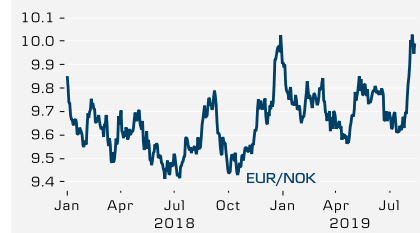
**Chief Economist**  
Frank Jullum  
+47 85 40 65 40  
fju@dankebank.no

**Senior Analyst**  
Jens Nærvig Pedersen  
+45 45 12 80 61  
jenpe@dankebank.dk

## FX

Since the end of July, the NOK has faced significant headwinds from a deterioration in the global macroeconomic outlook. In particular, the Fed's hesitant stance on the need for monetary easing and the escalation of the trade war were important triggers for the rally in EUR/NOK above the 10.00 level. In addition, the domestic economy has showed some tentative signs of weakness. Oil has hit bear market territory and measured in NOK terms the oil price is now at less impressive levels than it was in H1 and during 2018. Against this backdrop, NOK does not look particularly weak in our view. If Norges Bank comes out slightly on the hawkish side compared with market pricing on Thursday, we could see some temporary support for the NOK. However, the market would be likely to fade such a move, as Norwegian economic fundamentals and monetary policy matter less in the current environment. Until we see some further clarity on the outlook for the global economy, trade war, etc. we prefer to stay on the sidelines in EUR/NOK.

### Spike in EUR/NOK



Source: Macrobond Financial

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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, Chief Analyst, and Jens Nærvig Pedersen, Senior Analyst.

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