

# Norges Bank Review

## Unchanged rates and signals

As widely expected, NB left the sight deposit rate unchanged at today's monetary policy meeting. The statement was also very balanced referencing four factors that relative to September's on-hold message have developed in a dovish direction and four factors that have developed in a hawkish direction. The statement concluded that:

*'Overall, developments since September do not differ substantially from the projections in the September Monetary Policy Report.'*

No Monetary Policy Report (MPR) - and thereby rate path - was published today. The rate path therefore still suggests a 40% probability of a rate cut before next summer, but we interpret this as an 'insurance premium' against a weakening of data and/or a massive NOK appreciation. As we expect neither of the two (cf. next section), we expect NB to leave rates unchanged for the next 12M.

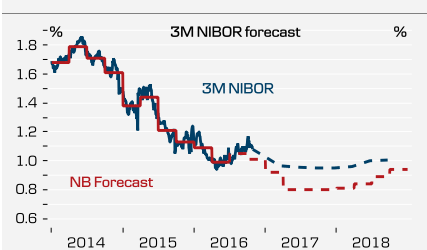
### NB will receive key information before the December meeting

Ahead of the next monetary policy meeting in December – where a new MPR will be released – NB will have received more information as input to its policy setting. In particular, the Q3 GDP release (15 November), the oil investment survey (23 November) and the Regional Network Survey (6 December) will be key for the revised rate path.

Global developments will naturally also be important; not least the development in the oil price as NB today re-stated that the stronger NOK 'partly' reflects higher oil prices (chart 2). As we expect the oil price to fall in the coming months and given an unfavourable year-end liquidity environment for the NOK (chart 3), we think the NOK will weaken in the coming months forecasting EUR/NOK at 9.10 in 1M and 9.20 in 3M. This view supports NB holding rates unchanged also in December. In 2017, we expect a gradual appreciation of the NOK on a higher oil price, fundamental valuation and real rate differentials (for more details see *FX Forecast Update*, 17 October 2016).

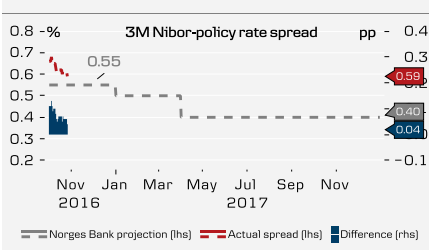
NB assumes that the Nibor-policy rate spread will fall to 40bp in Q2 17 (chart 5) from the latest spread of about 60bp (chart 5). This view was reiterated at today's press conference with Olsen referencing the cut-off date for the US Money Market Reform as a factor. In our view, it may be a bit optimistic to expect the spread to decrease shortly – especially in Q4 – which is affected by lower liquidity and year-end-uncertainty. The likelihood of measures directly aimed at bringing down interbank money market rates increases if spreads fail to normalise. This creates some downward risk to rates.

**Chart 4: 3M Nibor pricing is above NB's projections, but this ....**



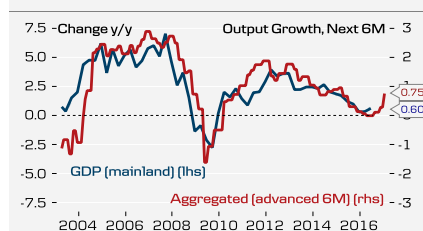
Source: Macrobond, Danske Bank Markets

**Chart 5: ... partly reflects a higher Nibor-policy rate spread than expected**



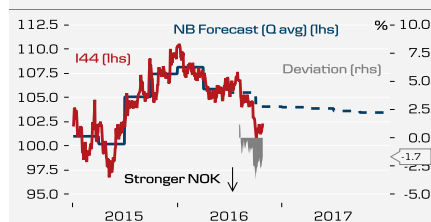
Source: Macrobond, Danske Bank Markets

**Chart 1: NB had little new information to react to and repeated September's message**



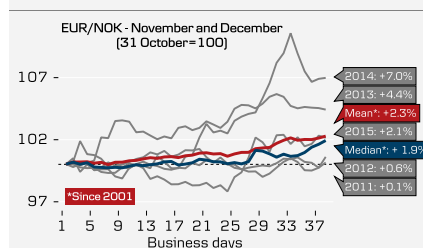
Source: Macrobond, Danske Bank Markets

**Chart 2: The NOK is stronger than expected ...**



Source: Macrobond, Danske Bank Markets

**Chart 3: ... but we think oil, seasonality will be NOK-negatives ahead of the December meeting**



Source: Macrobond, Danske Bank Markets

#### Chief Economist

Frank Jullum  
+47 45 25 85 29  
fju@danskebank.no

#### Chief Strategist

Jostein Tvedt  
+47 23 13 91 84  
jtv@danskebank.com

#### Senior Analyst

Kristoffer Kjær Lomholt  
+45 45 25 85 29  
klom@danskebank.dk

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report are Frank Jullum, Chief Economist, Jostein Tvedt, Chief Strategist, and Kristoffer Kjær Lomholt, Senior Analyst.

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