

Norway: More hawkishness on the way?

Having delivered a relatively hawkish message in December, the Norges Bank is unlikely to make significant changes at this week's meeting



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Limited news suggests an uneventful meeting

In December, the Norges Bank (NB) delivered an upbeat assessment of the Norwegian economy, revising up forecasts for GDP and inflation, and shifting forward the expected date for its first rate hike by two quarters into December 2018. The central bank will not deliver new forecasts at the January meeting.

There have been only a few new data points since the last meeting, and they have come in largely in line with the NB's forecasts. Headline inflation rose to 1.6% in December, with core inflation picking up from 1.2% to 1.4%. Key short-term indicators, including industrial production and PMI surveys, are consistent with the 0.6% Q4 figure the NB expects. House prices continued to fall in December, but at a moderate pace that will not overly worry the central bank, which expects prices to trough only towards the middle of 2018.

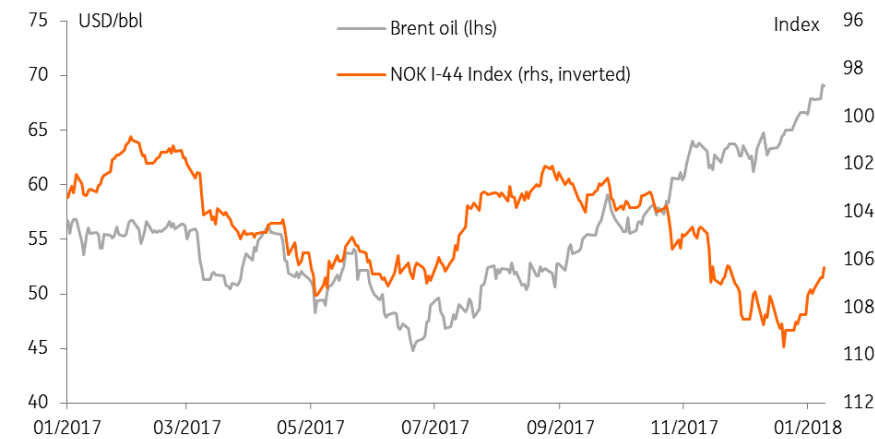
Rising oil prices suggests more hawkishness may be on the way

The Norges Bank will probably also be pleased that the positive correlation between the Norwegian krone and oil prices has returned in 2018. The two decoupled during the autumn as concerns about the housing market and seasonal patterns in NOK demand pushed the currency down even

as oil prices marched steadily higher. A simultaneous boost from stronger oil and a weaker currency was an important factor in explaining the more hawkish policy path in December.

Since then, Brent is up roughly another 9% and the Norwegian Petroleum Directorate published a fairly upbeat forecast for hydrocarbon production and exploration in 2018 and beyond (a key driver for Norwegian growth). That means there is a chance of further upwards revisions to the Norges Bank's forecast, though that is most likely a story for March or June, should the oil price hold up.

Oil and NOK reconnected at the end of December



Source: Macrobond