

Norges Bank preview: Still on track for a March hike

Despite growing doubts about the global hiking cycle, Norway's central bank looks set to confirm its intention to raise rates again in March. Solid domestic momentum and a weaker NOK should off-set a worsening global outlook for now



A central bank in hiking mode

Last year the Norges Bank delivered its first rate hike since 2011, and we think further hikes are on the way this year. In December, the policy statement explicitly stated the next hike will most likely come in March. We think this guidance will be maintained in the January statement.

Since the December meeting, there has been limited news on the Norwegian economy. But what new data there has been has come in mainly to the upside. December inflation was stronger than the NB expected, pointing to upside risks to the bank's inflation forecasts. Growth momentum remains solid judging by the latest industrial production and PMI survey data. Employment growth has also remained strong, and taken together domestic data looks to have been on the strong side of the NB's forecast.

In addition, oil prices have recovered from the late December fall, and are roughly unchanged from

the December meeting. The Norwegian Petroleum Directorate's latest survey indicates investment in the energy sector in 2019 will increase by more than 10% this year, slightly more than expected in the NB's latest forecast. While the outlook in 2020 and beyond is more uncertain, the near term prospects for the all-important energy sector look bright.

Despite increased global uncertainty

Set against this, the global outlook has taken another turn for the worse over the past month or so. Growth in Norway's key European partners looks to be weakening, China is now clearly slowing down, and even the rock-solid US economy is wobbling a bit. The equity market sell-off in December and subsequent revised guidance from the Fed has led to a material downward shift in near-term rate expectations across developed markets.

At the same time, the Norwegian krone weakened materially towards the end of 2018. And while NOK recovered a lot of ground at the start of 2019, it remains around 2% weaker than the NB's forecast average for 2019Q1. If the currency remains weak ahead of the March meeting, this is would be an important factor pushing for a tighter policy stance.

On balance, we think the NB's policy statement in January is likely to be little changed from December. Most importantly, the commitment to hiking in March will remain intact, though the caution around the global outlook will likely increase. Still, a hike in March would likely make the NB the only G10 central bank to raise rates in 2019Q1. That should underpin continued krone outperformance in coming months.