

Norges Bank preview: The last stop before the rate hike

No policy change likely at the August meeting, but the Norwegian central bank looks set to reiterate its intention to raise the policy rate in September



No news is good news

At its last meeting back in June, Norges Bank (NB) confirmed its fairly hawkish policy stance by revising up its interest rate forecast slightly and specifying that the first rate hike will come in September (sharpening the previous, more vague intention to raise rates 'after the summer').

In the two months since most Norwegians will have been enjoying their summer holidays. And frankly, not all that much has happened to change the outlook for the Norwegian economy. The domestic momentum that underpins the NB's desire to raise interest rates gradually appears intact.

Employment is growing steadily at around a 0.5% 3m3m pace, in line with the NB's forecast. House prices look to be rebounding a bit faster than the NB expected in June. And core inflation, which had been a bit weaker than the NB's forecast in 2Q, picked up to 1.4% in the July data. That's below the 2% target but consistent with the NB's forecast, which sees underlying inflation returning slowly to target.

Economic growth in Norway's key trading partners also looks broadly on track, with Sweden's strong 2Q GDP print offsetting a slightly softer Eurozone growth. Interest rates in key economies have also remained broadly unchanged.

The spot oil price is down by around 3% since the June meeting. But looking at pricing across the oil futures curve, as the NB does, the average price is roughly unchanged, as the oil curve has flattened over the past couple of month. The trade-weighted krone has remained roughly unchanged over the summer, whereas the NB had expected a gradual appreciation. That would normally suggest somewhat tighter policy from the NB, but the krone's struggles are mainly down to the negative risk environment that prevails in markets, so we don't think the NB will be too concerned about short-term fluctuations in the exchange rate.

So the September rate hike remains on track

Taken together, there is little to change the NB's outlook since the June meeting. If anything, the data has been slightly to the upside for the NB. But the intensification of US-China trade tensions, the recent financial market turmoil in Turkey and Russia, and the general risk-off sentiment in global markets argue for caution. So we'd be surprised to see any material changes to the policy statement at the August meeting, beyond noting these developments. That means a confirmation that rates will rise to 0.75% in September, which at this point seems close to a certainty, and the intention to keep hiking rates roughly twice a year, with the next hike expected in March 2019.

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