

Norges Bank sticks to March rate hike plan

Norway could well be the only G10 central bank to raise interest rates in 1Q19, which should support the krone relative to peer currencies



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As was widely expected, the Norwegian central bank kept rates on hold at today's meeting. But the policy statement reiterated the crucial line that "the policy rate would most likely be raised in March 2019".

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This confirms our view that the NB is more likely to stick to its rate hiking plan than markets are currently pricing in, and more likely to retain a relatively hawkish policy stance compared to most other central banks over coming quarters.

The key feature of the January policy statement is the growing divergence between the domestic outlook and developments in the global economy. The Norwegian economy remains solid, with employment growing and price pressure increasing. With oil investment set to rise by 10% in 2019 and the housing market recovering after a soft period in 2017-18, the near term outlook looks good. Since December, upside surprise to inflation data has reinforced that the NB's forecasts remain on the conservative side, and the domestic outlook could be revised up in March.

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In contrast, the central bank is clearly more worried about global developments, with growth slowing in key trading partners and increasing financial market volatility reflecting greater uncertainty. Importantly, the NB's policy is directly influenced by rate expectations abroad (most importantly the ECB, Fed, and Riksbank expected policy paths). This means that the downward shift in rate expectations will likely push down on the rate path in March, offsetting the positive domestic story.

The January meeting is an 'in-between' meeting for the central bank, with no new forecasts or a press conference with the Governor. The reaction in the krone market – EUR/NOK is down from 9.75 to below 9.72 in the immediate aftermath of the statement – is stronger than usual after a meeting with little new information, which suggests market participants were unsure about the Bank's commitment to the March hike.

To the extent that markets are still not fully pricing the March hike, this should support NOK outperformance vs peers in the run-up to the March meeting. Especially if, as we expect, Norwegian data remains solid while peer economies (e.g. EZ, Sweden) continue to disappoint.