

## Norwegian inflation: More still to come

Solid inflation figures keep Norges Bank on track for a September hike



The headline inflation figure came in at 2.6%, ahead of consensus (2.4%) and even stronger than we'd expected (2.5%). Relative to the Norges bank's forecast, June inflation is a touch stronger. However, the upside surprise in headline inflation is entirely due to higher energy prices of both oil and electricity in Norway.

Like most developed market central banks, Norges Bank places much more weight on the core inflation measure (CPI-ATE). This measure of underlying price pressure remained subdued at 1.1%, in line with expectations and Norges Bank's forecast. Some part of the consumption basket – in particular food and clothing, but also air travel -- remain surprisingly weak this year. It's hard to see this weakness persisting for much longer.

The NB's core inflation forecast for the second half of the year is only 1.3%, a fairly low mark to meet. As the Norwegian economy continues to pick up speed and wages continue to improve, we see upside risk to the central bank's forecast.

Today's data marks another step closer to the NB delivering a first rate hike in September, and the initial reaction in currency markets saw the krone strengthen. EUR/NOK again tested the 9.40 level.

While NOK is held back by the overall risk environment and poor liquidity over the summer months, we continue to see appreciation pressure building. Buoyant oil prices and a relatively hawkish Norges Bank should eventually make more of an impression on currency markets.