

Norges Bank Preview: August 2020

Details:

Monetary policy decision: 0900BST/1000CEST/0400ET, Thursday 20th August 2020.

No new rate path or economic projections are due at this meeting, with just a short policy statement expected to be released.

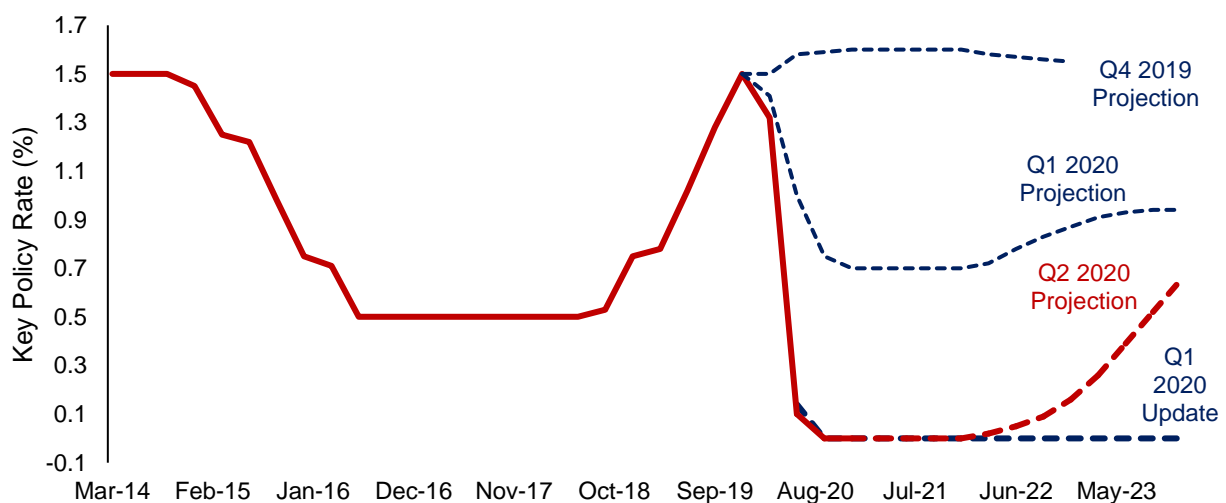
MNI Point of View

August Meeting of Little Consequence, Bank to Wait Until September Projections

June's policy projections were a surprise, with the Norges Bank going against the tide of other global central banks and specifying a date by which they expect to begin tightening policy. With this month's decision restricted to just the announcement on rates and a small policy statement, the Norges Bank will wait until September before shedding any more light on their policy intentions.

Ahead of the June release, there were some furtive clues that suggested the Bank could take a more proactive approach on the recovering economy including resilient debit card real-time transaction data and signs that the Norwegian property market had shrugged off any protracted downturn. This plays further into the view that financial imbalances and domestic stability are a key tenet for policy going forward.

Figure 1: Rate path projections surprisingly edged higher in June



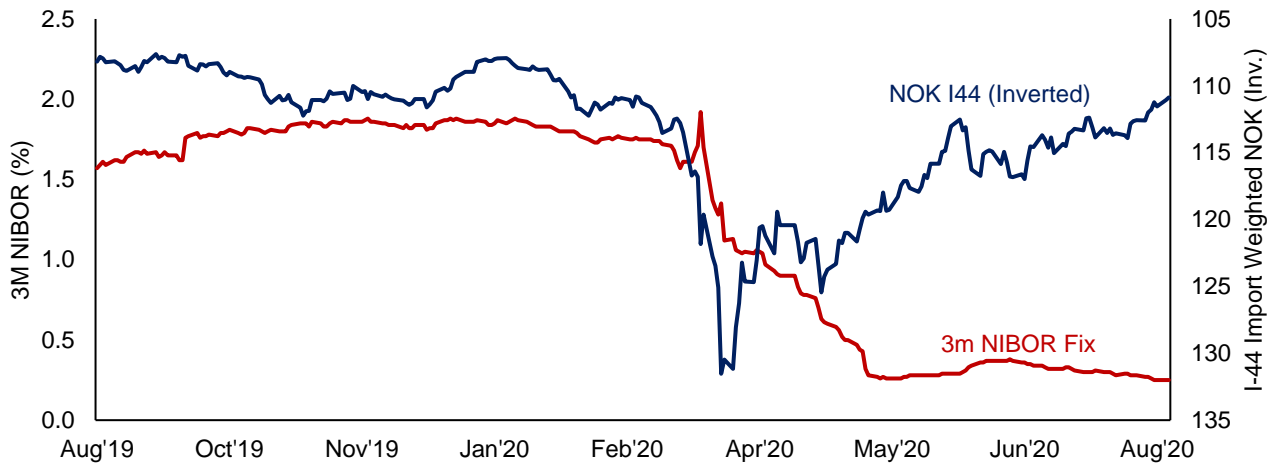
Source: MNI/Norges Bank

There remain both upside and downside risks to the Norwegian economic recovery, with bouncing oil prices and a bubbling property market on one hand, and the threat of a second COVID wave and a retrenchment of consumer spending on the other. How the executive board judge these risks will be evident in any revisions to the rate path projections in September.

All-in-all, the market response to June's rate decision was relatively sanguine, a tacit endorsement of the Bank's projections. Money markets had already been pricing in a decent chance of a 25bps rate hike in the coming three years ahead of June's decision, and that market pricing has been brought forward slightly over the past two months. Both currency and interbank markets have absorbed the decision well, with 3m NIBOR fixings dropping further headed into the second half of the year, in line with the broader global liquidity conditions.

NOK has appreciated slightly since June. Using the Norges Bank’s preferred I-44 import-weighted index, the NOK has risen around 3% since the last rate decision, largely driven by the acute weakness of the greenback over the past few months. This won’t be troubling the executive board yet – and certainly not this month.

Figure 2: NOK has erased 2020’s COVID-, oil-inspired weakness



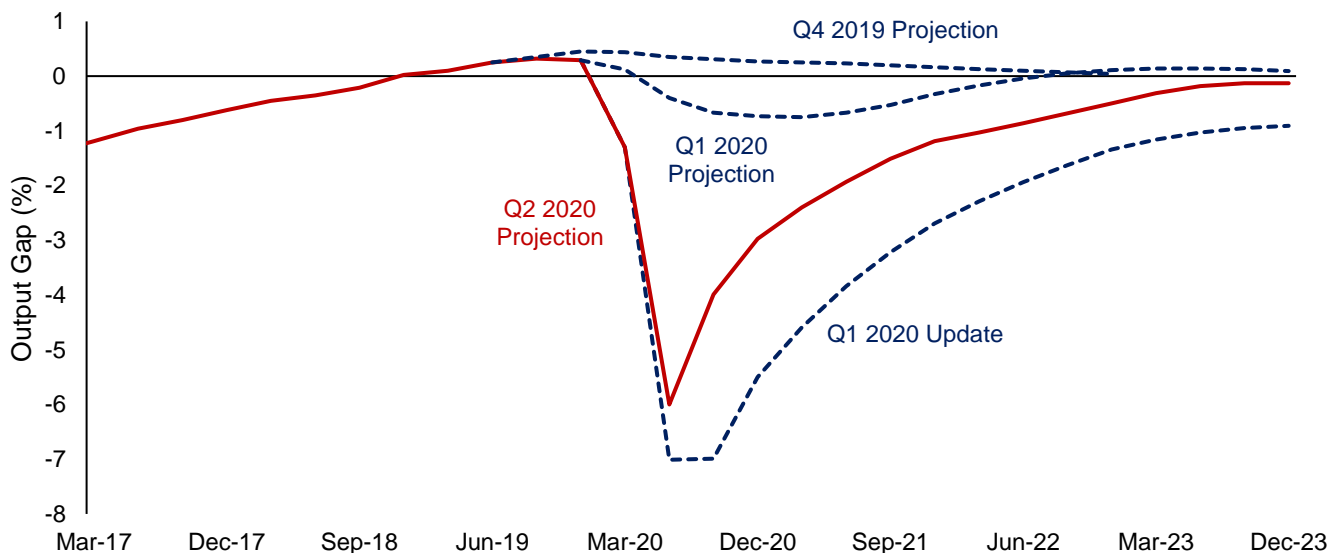
Source: MNI/Norges Bank/Bloomberg

Alongside the more hawkish rate path in June, the Bank cemented their stance that they don’t see the deployment of negative rates as a viable solution to any future downturn: “the Committee does not envisage making further policy rate cuts”. Barring any very considerable downside risks this year, that is to remain the case.

That’s not to say the Bank don’t have other tools at their disposal. Despite the bank removing the two-way risk to rates, there are policy measures available to ease financial conditions in any future recession (COVID-induced or otherwise). On August 14th, the bank extended the deadline of their extraordinary F-loans program to the end of 2020 and warned that the offerings of the F-loan program could be adjusted at short notice “if market conditions so warrant”. This should protect Norwegian markets from any meaningful liquidity shortage in the coming months.

This leaves the Norwegian economy well poised to follow the Bank’s forecasts, narrow and close the output gap over the coming two years, and justify higher policy rates.

Figure 3: Output gap expected to close further in the coming two years



Source: MNI/Norges Bank

Norges Bank Central Bank Watch

| MNI Norges Bank Data Watch List | | | | | | | | | | | |
|---------------------------------|-------|---------|--------|--------|--------|--------|------------|------------|----------|----------------|---------|
| | | Current | 3m ago | 3m Chg | 6m ago | 6m Chg | 2Y History | Hit / Miss | Vs Trend | Surprise Index | Z-Score |
| Inflation | | | | | | | | | | | |
| CPI | % y/y | 1.3 | 0.8 | ↑ | 1.8 | ↓ | | | | | -0.89 |
| Core CPI | % y/y | 3.5 | 2.8 | ↑ | 2.9 | ↑ | | | | | 1.41 |
| PPI | % y/y | -13.3 | -16.1 | ↑ | -3.9 | ↓ | | | | | -0.42 |
| Oil Price (Brent Active) | \$bn | 45.29 | 31.02 | ↑ | 55.41 | ↓ | | | | | -0.11 |
| Economic Activity | | | | | | | | | | | |
| PMI Manufacturing | Index | 43.3 | 42.4 | ↑ | 51.5 | ↓ | | | | | -1.83 |
| GDP | % m/m | 2.4 | 0.4 | ↑ | 0.1 | ↑ | | | | | 1.14 |
| Industrial Man Prod | % m/m | 0.4 | -3.0 | ↑ | 0.0 | ↑ | | | | | 0.97 |
| Regional Network Outlook | Index | 0.08 | 1.35 | ↓ | 1.49 | ↓ | | | | | -2.11 |
| Monetary Analysis | | | | | | | | | | | |
| M3 Money Supply | % y/y | 8.3 | 6.4 | ↑ | 4.3 | ↑ | | | | | 1.65 |
| Credit Indicator | % y/y | 4.5 | 4.7 | ↓ | 5.1 | ↓ | | | | | -1.00 |
| Non-Fin Corp Credit | % y/y | 3.5 | 4.0 | ↓ | 4.9 | ↓ | | | | | -1.17 |
| Household Credit | % y/y | 4.4 | 4.7 | ↓ | 5.0 | ↓ | | | | | -1.24 |
| Consumer / Labour Market | | | | | | | | | | | |
| Retail Sales | % m/m | 5.7 | -1.1 | ↑ | -2.3 | ↑ | | | | | 2.72 |
| Consumer Confidence (Q) | Index | -3.4 | 4.2 | ↓ | 12.3 | ↓ | | | | | -2.05 |
| Unemployment Rate | % | 4.9 | 9.5 | ↓ | 2.4 | ↑ | | | | | -0.15 |
| Ave Monthly Earnings (Q) | % y/y | 4.2 | 3.5 | ↑ | 3.6 | ↑ | | | | | 1.76 |
| Markets | | | | | | | | | | | |
| OBX | Index | 765 | 710 | ↑ | 822 | ↓ | | | | | -1.05 |
| Norway 10-Year Yield | % | 0.78 | 0.63 | ↑ | 1.32 | ↓ | | | | | -0.91 |
| NW Yield Curve (2s-10s) | bps | 59.0 | 41.8 | ↑ | 6.7 | ↑ | | | | | 0.68 |
| NOK TWI | Index | 83.55 | 78.28 | ↑ | 85.81 | ↓ | | | | | -0.12 |

Note: For quarterly data the 3m ago column will display the previous data point and the 6m ago column will display the data point prior to that.
Source: MNI, Bloomberg

Summary of Analyst Views

- All analysts surveyed see no change to either headline policy rates, with little of substance in the accompanying policy statement.
- Some analysts see upside risks to the already positive policy path projections, which could be revised further in September and bring forward the first rate hike.

Analyst Views (Alphabetic Order)

Barclays: Expects policy unchanged

- They write that while inflation overshoots continue to point to rate normalization, weaker-than-expected growth and sentiment data still pose considerable uncertainty to the recovery ahead.
- Overall, they expect a constructive but still cautious view on the Norwegian economy. They add that dovish or hawkish biases from the bank, in the near term, either expressed verbally or through projected rate profiles, are likely to act as less of an impetus for the general direction of the NOK, as global central banks remain in wait-and-see mode.
- While a potential pullback in risk sentiment, equities or oil prices remain near-term risks, Barclays are still constructive on NOK's medium-term prospects against the EUR and SEK.

Danske Bank: Expects policy unchanged

- Danske note that this week's meeting is "interim" with no monetary policy report or press conference, only a press release. They write that the Norges Bank took many by surprise in June by suggesting that a first rate hike could come as early as late 2022, having only five weeks earlier signalled unchanged rates until at least the end of 2023.

- Danske write that the recovery in economic activity has continued and growth in consumer spending has been particularly strong, while unemployment has fallen largely as expected and GDP growth in May was possibly slightly short of expectations.
- Inflation has been higher than expected, due not only to the impact of the weak NOK on import prices but also to an increase in domestic inflation. On the other hand, NOK has been stronger than anticipated, although this is largely a result of higher oil prices and an increase in global risk appetite. Economic and financial developments would suggest that the central bank could be marginally more aggressive in its message than in June. However, the upward trend in coronavirus cases in recent weeks in Norway and elsewhere means that the downside risk will probably be considered to have increased since then. They believe this points to no change from Norges Bank.

Goldman Sachs: Expects policy unchanged.

- They write that CPI-ATE inflation has picked up more strongly than anticipated by the Bank. Monthly mainland GDP growth, however, has come in slightly weaker. This could be interpreted as tentative evidence for a larger-than-expected supply hit to the economy.
- While no Monetary Policy Report will be published alongside Thursday's policy rate decision, Goldman Sachs will be watching Bank's language closely for an assessment of the relative size of demand and supply shocks affecting the Norwegian economy.

ING: Expects policy unchanged.

- In what will be an inbetween meeting (which means no new forecasts and a probably short statement), ING see the NB as simply reiterating the same monetary policy stance displayed in the latest announcement. A cautiously more optimistic tone than other G10 central banks should not come as a big surprise. They expect the rate announcement to be a non-event for NOK.

JP Morgan: Expects policy unchanged.

- JPM think the Norges Bank's forward guidance is unlikely to change much. Instead they think that the central bank wants to wait to assess more incoming data ahead of its September meeting, when also new forecasts will be published.
- They continue to expect the Norges Bank keeping the policy rate unchanged this year and in 2021, and currently see the risks to the Norges Bank's policy rate projection from June as balanced or slightly to the upside of an earlier hike in 2022, if economic developments do not deteriorate.

Nordea: Expects policy unchanged.

- Nordea do not expect any strong signals from the central bank now as they will wait until September. Market reactions will be muted.
- Overall, they expect that the Committee will reiterate their message from June; that "the policy rate will most likely remain at today's level for some time ahead".
- They write that if the Norges Bank were to compute a new rate path now, Nordea think they would have made only minor changes, which would be small and not significant enough for the Bank to change its view from June.
- A pick-up of new corona cases during the last few weeks, both in Norway and among out main trading partners, highlight the uncertainty. They see the Norges Bank emphasising this in their assessment.

TD Securities: Unlikely to see any policy changes.

- NOK depreciation in recent months has pushed inflation back to near-record highs, bucking COVID trends seen elsewhere. The housing market remains is also accelerating. While this is a non-MPR meeting, the Norges Bank could adopt a hawkish tone nearly as quickly as they turned dovish earlier this year.

SEB: Expects policy unchanged.

- They write that economic data have on balance, combined with strong home price gains, been slightly better than feared during the summer but downside risks have increased due to a resurgence in infections. Many important data have not yet been published.
- As such, they expect the Bank to stay neutral at the upcoming intermediate decision by not sending any strong policy hints ahead of the Sep MPR. The bank is likely to reiterate that the policy rate will remain at the present level in the coming period. They may announce whether to extend its extra-ordinary liquidity operations in connection with the decision.

Dates to Watch:

August 25th – June GDP

August 27th – July Retail Sales

September 1st – August Manufacturing PMI

September 3rd – August House Prices

September 24th – Norges Bank Rate Decision (with Monetary Policy Report and new projections)

MNI Policy

PREVIEW: Norges Set For August Hold; Hike On Far Horizon

- Policy Rate Seen Unchanged at 0%, With First Hike Likely At Back End Of Three-Year Forecast Horizon

By David Robinson

Norway's central bank is set to leave policy rates unchanged at a record low 0% Thursday following its August meeting, and signal a return to higher rates towards the end of its three-year forecast horizon, as a krone recovery eases any pressure for forex intervention.

The economy has outperformed Norges Bank's initial forecasts after the Covid pandemic hit and has largely re-opened. With death rates low by international standards, the bank is unlikely to do more than keep supplying ultra-cheap lending and dollar liquidity to the banking sector.

Its latest set of full economic projections, published in June's Monetary Policy Report, showed the policy rate at zero over the next couple of years before edging up to 0.5% in 2023.

While the August statement, though unaccompanied by quarterly projections, is likely to reaffirm the committee's view that rates should edge higher towards the tail end of its forecast horizon, persistent uncertainty over the path of Covid may prevent further fine tuning of the wording on the likely path of tightening.

--KRONE

The krone hit record lows in March, amid a world-wide rush for dollars as the pandemic swept through major economies, prompting the Norges Bank to say it was monitoring the move and looking at the case for intervention.

But it has since regained its poise, with the import-weighted krone exchange rate index touching 111.22 on Aug. 13, its strongest reading since Feb 20. Depreciation could boost inflation by raising import prices.

CPI-ATE inflation was forecast in June at 3.0% this year and 2.6% in 2021, before reaching the 2.0% target in 2022. A rallying krone could help to attain the target earlier, leaving the central bank facing a relatively benign scenario of strengthening activity and declining inflation.

Governor Oystein Olsen has made clear he is not in favour of either negative interest rates or quantitative easing, pointing to thin debt markets and the fact that Norway's government bond yields are not a key determinant of other borrowing rates.