

# Norges Bank Preview: June 2020

## Details:

**Monetary policy decision:** 0900BST/1000CEST/0400ET, Thursday 18<sup>th</sup> June 2020.

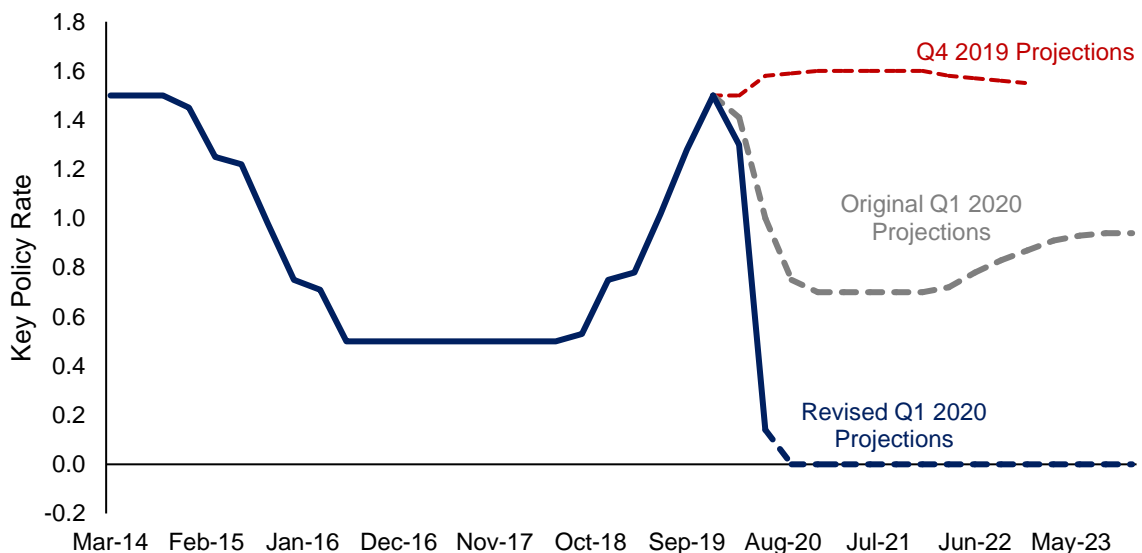
Fresh rate path projections, growth and inflation forecasts will be released, followed by a press conference with Norges Bank governor Olsen in Norwegian at 0930BST/1030CET/0430ET.

## MNI Point of View

### Bank to reinforce lower-for-longer message, but negative rates a step too far

The Norges Bank’s lower-for-longer message was hammered home at May’s policy meeting, at which the Bank renewed their rate path projections to see no move on the rates out to the end of the forecast horizon at Q4 2023. It’s likely the Bank will reiterate and stress this theme at Thursday’s meeting, but will stop short of suggesting any possibility of negative interest rate policy.

**Figure 1: Rate path projections flat out to 2023**

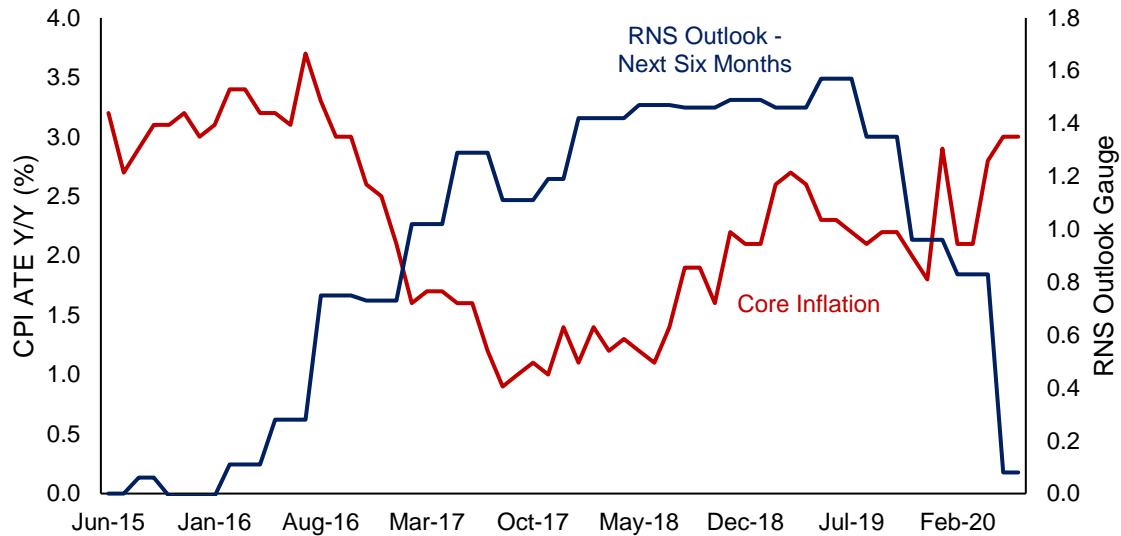


Source: MNI/Norges Bank

The lower-for-longer rate path projections are likely to come despite economic data generally printing toward the more optimistic end of the Norges Bank’s scenario analysis as outlined in the May report. Core inflation metrics are of particular interest, with the Bank’s preferred CPI-ATE measure holding at 3% in May as currency weakness skewed import prices.

Olsen and the board will look through this upside pressure on inflation for now, with more troubling signs from their GDP projections and the Regional Network Survey making the Bank far more tolerant of above-target price rises. Their own forecasts see the domestic economy not reaching its pre-COVID peak until Q3 2022.

Figure 2: NB's network most pessimistic since 2016



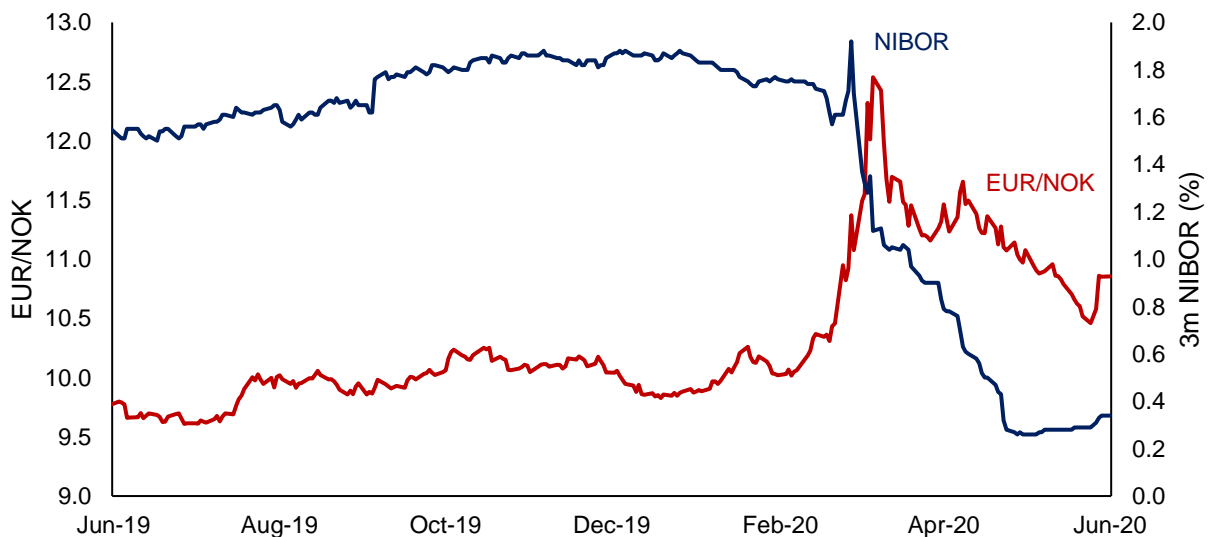
Source: MNI/Norges Bank/Bloomberg

Unlike other global central banks, it's unlikely the Norges Bank will suggest that they could consider negative interest rate policy at any point across the forecast horizon. In recent speeches, governor Olsen made it clear that the Bank have noted the negative rates debate among its peers, but the smooth functioning of financial markets is now a priority and as such "The Committee does not envisage making further policy rate cuts".

Secondly, it's clear that the cumulative 150bps in rate cuts this year are already having the desired effect on consumption and the domestic economy. In recent weeks, the Bank have already flagged that consumer spending on goods has been running higher than the comparable period in 2019 and the drop in spending on services is swiftly being reversed.

It's likely that these factors are behind the Norwegian money market pricing in a decent chance of a 25bps rate hike by the end of the forecast horizon, despite the Bank's flat rate path.

Figure 3: Interbank rates well under control following 150bps cumulative rate cut



Source: MNI/Norges Bank/Bloomberg

**Dovish risk:** Any signal that the Norges Bank would consider negative interest rates across the forecast horizon would be a considerable dovish surprise. The market response would likely be aggressive selling pressure in the NOK and a re-pricing of policy rates in money markets.

**Hawkish risk:** There remains an outside risk that the Norges Bank could tie their rate policy with other economic indicators including the labour market. With oil prices now more stable, Norway is seen recovering at a quicker pace than its peers, meaning Norwegian rates could rise sooner-than-expected – albeit not until the tail-end of the forecast horizon.

## Norges Bank Central Bank Watch

MNI Norges Bank Data Watch List											
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	1.3	0.9	↑	1.6	↓					-1.04
Core CPI	% y/y	3.0	2.1	↑	2.0	↑					1.38
PPI	% y/y	-17.5	-7.4	↓	-9.5	↓					-1.28
Oil Price (Brent Active)	\$bn	41.01	49.70	↓	57.88	↓					-0.75
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
PMI Manufacturing	Index	45.9	51.7	↓	54.0	↓					-1.55
GDP	% m/m	-4.7	0.1	↓	0.2	↓					-1.19
Industrial Man Prod	% m/m	-1.6	0.4	↓	-0.1	↓					-0.87
Regional Network Outlook	Index	0.08	1.35	↓	1.49	↓					-2.11
Monetary Analysis		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
M3 Money Supply	% y/y	8.8	4.5	↑	4.6	↑					2.55
Credit Indicator	% y/y	4.6	5.0	↓	5.6	↓					-1.25
Non-Fin Corp Credit	% y/y	3.7	4.5	↓	6.1	↓					-1.14
Household Credit	% y/y	4.6	4.9	↓	5.0	↓					-1.54
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Retail Sales	% m/m	4.8	0.6	↑	-1.0	↑					2.77
Consumer Confidence (Q)	Index	-7.6	4.7	↓	14.4	↓					-2.21
Unemployment Rate	%	6.4	2.3	↑	2.1	↑					0.47
Ave Monthly Earnings (Q)	% y/y	3.5	3.6	↓	3.5	↔					0.82
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
OBX	Index	742	748	↓	824	↓					-1.52
Norway 10-Year Yield	%	0.58	1.12	↓	1.39	↓					-1.43
NW Yield Curve (2s-10s)	bps	45.6	7.4	↑	12.2	↑					1.22
NOK TWI	Index	81.97	84.55	↓	86.08	↓					-0.52

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 or the Bank's rate path projections at June's meeting.
- Most analysts see the Bank acknowledging upside pressure on short-term inflation forecasts via a revision to projections, but all of those analysts see the Bank remaining highly tolerant of above-target price rises for now.

## Analyst Views (Alphabetic Order)

**Barclays:** Sees policy rates unchanged and rate projections at zero across forecast horizon.

- Expects the Norges Bank to look through any possible underlying inflation overshoots to signal continued policy support.
- Also expects the bank to firmly rule out the possibility of negative rates and asset purchases, as the nation's oil fund provides ample resources to needed fiscal stimulus.
- While FX intervention remains an option, recent recovery in NOK has reduced the need for such actions.

**Citi:** Expects policy unchanged

- Sees 0% as the lower bound and see no changes to growth forecasts, but could be an update to inflation projections.

**Danske Bank:** Expects policy unchanged with a risk of upward revision to rate projections

- Danske write that since the May Monetary Policy Report, economic developments in Norway have mainly been on the positive side and some important downside risks seem reduced. As a result, Danske see the Norges Bank probably adjusting growth and inflation forecasts upwards and moving towards the positive alternative scenario from May.
- Due to this, they expect the Bank to adjust the rate path projections upwards, signalling a gradual rate hike from the end of 2022 and into 2023 but keep rates well below neutral even at the end of the forecast period.

**DNB:** Sees policy unchanged, growth and inflation forecasts could be tweaked

- Since the May meeting, the Norwegian economy has removed several of the imposed restrictions on the economy and there seems to have been a pickup in activity. It is likely that Norges Bank will raise its forecast for the mainland economy, but there will still be an outlook for a large and long-lasting negative output gap. As such, this is not the time for signalling changes in the policy rates.
- Sees the Bank's forecast for growth of -7.4% in Q2 as too low and expect an upward revision and think it likely the Norges Bank will revise its unemployment forecast slightly lower, concluding that capacity utilisation is far below normal, but not as low as assumed in May. DNB see short-term inflation forecast as possibly being revised up, while longer-term forecasts may be little changed.

**Goldman Sachs:** Sees policy unchanged.

- Expects Norges Bank to remain on hold after the May Monetary Policy Update gave a clear signal that the Norges Bank see no further policy rate cuts.
- The Bank may publish details about further past FX interventions, following their purchases of NOK3.5bn, or signal a readiness to do so in the future. However, given the NOK has appreciated since it hit record-weak levels against a number of currencies in March, GS see the probability of this happening is low.

**Handelsbanken:** Expects no change in policy rates and an unchanged rate path projection.

- Sees the Norges Bank as continuing to point to zero interest rates across the forecast horizon.
- There is no basis for the bank to revise the interest rate outlook already, even if the Norwegian economy is on the rise again from scratch.

**HSBC:** Sees policy unchanged, with rates on hold until at least the end of 2021.

- After surprising markets in May with a cut to zero, HSBC expect the June meeting to be uneventful. They point to recent relatively strong data for April and the quick re-opening of the domestic economy. As such, further easing seems unwarranted.
- HSBC see further policy tools as unlikely to be discussed with asset purchases not a relevant policy for Norway. Therefore, there should be little market interest in this meeting.

**JPMorgan:** Expects policy unchanged

- Sees the Norges Bank to look through temporary upside pressure on core inflation given weak economic activity elsewhere and keep rates unchanged.

**ING:** See policy unchanged, rates on hold throughout 2020 and 2021.

- Doesn't expect any major changes this month, with Governor Olsen being clear that there's little appetite for negative rates or quantitative easing, given neither are particularly viable options for the Norwegian economy.
- Expects rates to remain on hold for at least the remainder of 2020 and 2021.

**Morgan Stanley:** Expects policy unchanged.

- See the Norges Bank sticking to the zero lower bound, stressing that they will keep rates lower for longer.

**Nordea:** Sees rates unchanged and does not expect significant change in projections or rate path.

- Sees the meeting likely to be fairly uneventful. The current accommodative stance supports a faster rebound in activity ahead.
- Nordea see it as certain that rates will not change after the Monetary Policy and Financial Stability Committee expressed that they do not envisage making any further cuts. While Norges Bank has not categorically excluded the possibility of negative rates, they have expressed scepticism about their benefits. As such, Nordea see 0% as the lower bound.
- On the rate path projections, Nordea see the NB as emphasising that economic uncertainty is still unusually high, warranting a patient approach. As such, the NB will present a rate path similar to the one from May, which is consistent with rates on hold in the period ahead. There is some potential for a higher rate path towards the end of the forecast horizon as the outlook does not seem as bleak as in May.

**SEB:** Sees rates unchanged, with a 0% rate path projection across the forecast horizon.

- Sees the Bank remaining in crisis mode and thus expect it to stay put at 0% and maintain a flat rate path this month.
- SEB write that the Norges Bank sent a strong message in May that the Committee does not envisage cutting the policy rate further as it may jeopardize the functioning of financial markets. This stresses that the 0% policy rate is expected to prevail at least through 2023.
- They believe it is too early for Norges Bank to align with market pricing, which eyes a rate hike as soon as 2022, and that the Norges Bank has now emptied its conventional tool box. Does not expect temporarily high inflation to derail their dovish policy stance for now, with the Committee focused on the inflation goal over time.
- Given the market moves since the last policy update, the Bank are likely to forecast a stronger NOK, which will dampen the inflation trajectory further out. On FX, Olsen is likely to reiterate that the Committee will continue to monitor developments going forward.
- On F-loans, SEB expect the Bank to reiterate that extraordinary loans will remain in place during the summer, but it may announce some minor changes to loan conditions.

**Swedbank:** Expects policy and path projections unchanged.

- Sees economic developments since the May meeting as having been slightly more positive than what Norges Bank projected and, despite core inflation being driven higher by rising import prices, total CPI remains close to 1%. As such, high inflation is not a worry for the Norges Bank now.
- Swedbank argue that keeping the policy rate unchanged in June should be undisputable, but do not believe that the policy rate will stay at zero forever and not even through 2023 as the bank projected in May.
- Nonetheless, it feels too early for the Norges Bank to point that out now. As such, they believe the bank will eventually raise rates as a function of the situation on the labour market as this will be appropriate to signal when it becomes clear that registered unemployment is set to fall below 3%. This should become clear sometime in 2021 but for the moment it seems premature for Norges Bank to have that as its main projection.

## Key Inter-meeting Comments

Date	Speaker	Key Comments	Link
26th May	Ida Wolden Bache	"March: The outlook changed dramatically"  "A useful indicator: Use of debit cards"	<a href="https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-26-bache/">https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-26-bache/</a>
19th May	Øystein Olsen	"It is uncertain how negative rates will influence the economy and financial markets, particularly in the current situation"  "The Committee does not envisage making further policy rate cuts."	<a href="https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-19-hearing/">https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-19-hearing/</a>
13th May	Øystein Olsen	" The outlook and the balance of risks imply a very expansionary monetary policy stance"  "Policy rate [...] will most likely remain at today's level for some time ahead"	<a href="https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-13-video/">https://www.norges-bank.no/en/news-events/news-publications/Speeches/2020/2020-05-13-video/</a>

## MNI Policy

### **PREVIEW: Norges Bank Done With Cuts; Flat Rate Forecast**

- *Policy Rate On Hold At Zero In June; Focus On Policy Pass Through*

*By David Robinson*

The Norges Bank looks set to keep policy unchanged Thursday, with the accompanying Monetary Policy Report showing a flat rate path as policymakers take stock after easing measures in both March and May pushed the policy rate to a record low 0%.

The bank's Monetary Policy and Financial Stability Committee seems done with rate cutting for now, having stated following the May meeting it was "of particular importance to ensure well-functioning financial markets" and that "it does not envisage making further policy rate cuts," therefore taking negative rates out of the equation.

The policy rate was shown holding at zero through 2023, and a repeat of this looks more than likely in the June MPR.

What comes next for the Norges Bank, if further action is needed, remains unclear, as Governor Oystein Olsen has set out the case against QE, noting the idiosyncrasies of Norwegian debt and bank funding.

Interest rates in the relatively small and illiquid government bond market are not key reference rates for other markets and Olsen believes bulk central bank buying risked drying up liquidity without driving down the interest rates faced by firms and businesses.

#### --MONEY MARKETS

The central bank has looked for other ways to push down on borrowing costs, providing several rounds of F-loans, three-month loans in NOK and USD, with the latest announced Tuesday for USD 3 billion of loans at a lowest permitted rate of the 3m USD OIS rate plus 0.25 percentage points.

Its liquidity and credit easing operations are not tied to the regular policy meetings, softening the focus on the regular meetings with the policy rate now set for a prolonged period at zero.

The MPFSC has also reduced the likelihood of surprises in the quarterly MPRs by providing updated forecasts and much more detailed commentary in non-MPR meetings.

#### --PROJECTIONS

The projections accompanying the May meeting showed higher inflation in the year ahead as a result of krone depreciation but with high unemployment and low wage growth forcing it to moderate thereafter. CPI-ATE, the target inflation measure, was expected to be 2.8% up on the year in 2021, falling to 2.1% in 2022 with mainland, or non-oil, GDP falling 5.2% this year and rising 3.0% next year and 3.3% in 2022.

June's MPR will update these forecasts. The central bank's latest Regional Agents Report highlighted the plunge in economic activity but did suggest some brighter spots ahead and with Covid infection rates relatively low in Norway and the economy at the forefront of re-opening it is not clear that the economic situation is deteriorating much more than Norges Bank previously envisaged.