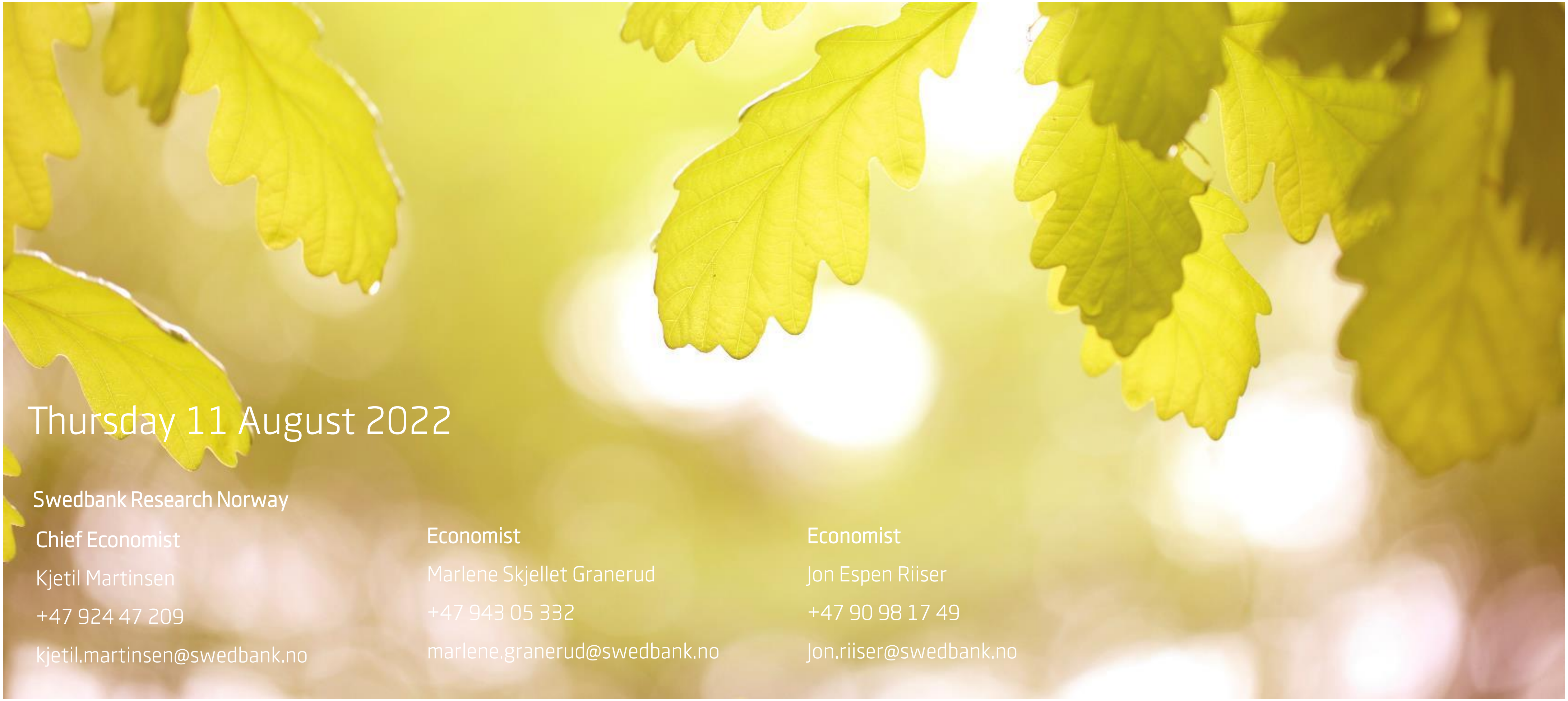
Swedbank Research

Produced and published: 11/08/2022 13:05

Norges Bank Preview:
50 is the new 25

Norges Bank monetary policy meeting. Announcement 18 August 2022, 10:00 CET



Thursday 11 August 2022

Swedbank Research Norway

Chief Economist
Kjetil Martinsen
+47 924 47 209
kjetil.martinsen@swedbank.no

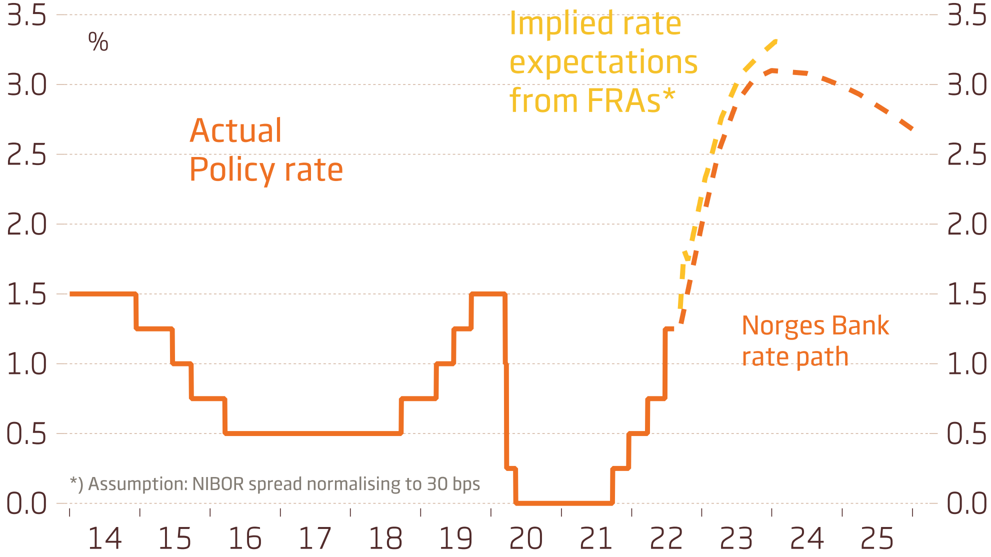
Economist
Marlene Skjellet Granerud
+47 943 05 332
marlene.granerud@swedbank.no

Economist
Jon Espen Riiser
+47 90 98 17 49
Jon.riiser@swedbank.no

50 is the new 25. We expect Norges Bank to deliver double hikes in August and September as inflation outlook has deteriorated

June rate path signals 25bps hikes at every policy meeting through January 2023

Norges Bank policy rate with rate path



Sources: Swedbank & Macrobond

- Norges Bank's rate path was revised markedly up at the June meeting, now signaling four more hikes this year, and another three-four in 2023, before a rate cut is priced in with quite high probability in end-2024. Norges Bank still sees a 'normal' rate to be around 1.75%.
- Our expectation is for Norges Bank to end its hiking campaign at 2.75% by this year's end, and to refrain from hiking rates next year. We expect 50bps hikes at the meetings in August and September and 25bps hikes in November and December.

Time to act even more forcefully to combat inflation

Global monetary policy have been under pressure for quite some time already. Norges Bank was among the first Western central banks to start hiking rates last autumn, taking the gradual approach, as the economy recovered quickly after covid related lockdowns.

Other central banks, such as the Fed and ECB, have been more behind the curve on tightening policy as inflation has skyrocketed and economic developments have been strong on the back of reopening effects and high demand for labour. Hence, several central banks have resorted to non-conventional policy hikes of large sizes.

Over the last months, however, it is more evident that Norges Bank has also fallen markedly behind the curve. Lowest recorded unemployment rate and highest recorded core inflation says it all. Norges Bank is forced to act more forcefully.

Norges Bank undertook the policy shift in June, by hiking by 50bps and guiding for another 25bps hikes at the August interim meeting. This was the most hawkish turn since the introduction of the inflation target in early 2000s. And still, it is likely not enough. Based on stronger developments in the labour market and higher realised CPI prints over the summer, inflation is likely to exceed Norges Bank's projections both in the short and medium term.

Hence, 50 is now the new 25. We expect Norges Bank to hike by 50bps at the upcoming August meeting and in September, followed by 25bps in both November and December. This should leave the policy rate at 2.75% by year-end, which we deem to be the peak.

As more central banks go non-linear in their policy responses, the risk of seeing a unfavourable outcome for the real economy, including housing and financial markets, increase. However, central banks will have to use these markets as vehicles for lowering inflation, as it remains the sole priority ahead. And as long as the Norwegian housing market keeps well up, Norges Bank will not hesitate to tighten policy fast ahead. Although it will hurt for households and hence also businesses.

But the slowdown of the economy, and potential rate cuts next year, will be the next chapter of this cycle. Inflation will likely rewrite that part as well, as central banks can no longer only look to the real economy for finetuning its policy response. This cycle is certainly different.

IMPORTANT INFORMATION

This report (the "Report") has been compiled by analyst(s) at Swedbank Macro Research, a unit within Swedbank Research that is part of Large Corporates & Institutions ("Swedbank Macro Research"). Swedbank Macro Research is responsible for preparing reports on economic developments in the global and domestic markets. Swedbank Macro Research consists of research departments in Sweden, Norway, Finland, Estonia, Latvia, and Lithuania.

What our research is based on

Swedbank Macro Research bases its research on a variety of aspects and analysis, for example, a fundamental assessment of the cyclical and structural economic, current or expected market sentiment, expected or actual changes in credit rating, and internal or external circumstances affecting the pricing of selected FX and fixed-income instruments.

Recommendation structure

Recommendations in FX and fixed-income instruments are done both in the cash market and in derivatives. Recommendations can be expressed in absolute terms, for example attractive price, yield, or volatility levels. They can also be expressed in relative terms, for example, long positions versus short positions. Regarding the cash market, our recommendations include an entry level, and our recommendation updates include profit and often, but not necessarily, exit levels. Regarding recommendations in derivative instruments, our recommendations include suggested entry cost, strike level, and maturity. In FX, we will only use options as directional bets and volatility bets with the restriction that we will not sell options on a net basis, i.e., we will only recommend positions that have a fixed maximum loss.

Analyst's certification

The analyst(s) responsible for the content of this report hereby confirm that notwithstanding the existence of any such potential conflicts of interest referred to below, the views expressed in this Report accurately reflect their personal views about the financial instruments and/or capital markets covered. The analyst(s) further confirm not to have been, nor are or will be, receiving direct or indirect compensation in exchange for expressing any of the views or the specific recommendation contained in the report.

Distribution & recipients

This Report is distributed by Swedbank Macro Research within Swedbank AB (publ) ("Swedbank"). Swedbank is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen). In no instance is this Report altered by the distributor before distribution.

In Finland this Report is distributed by Swedbank's branch in Helsinki, which is under the supervision of the Finnish Financial Supervisory Authority (Finanssivalvonta).

In Norway this Report is distributed by Swedbank's branch in Oslo, which is under the supervision of the Financial Supervisory Authority of Norway (Finanstilsynet).

In Estonia this Report is distributed by Swedbank AS, which is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon).

In Lithuania this Report is distributed by "Swedbank" AB, which is under the supervision of the Central Bank of the Republic of Lithuania (Lietuvos bankas).

In Latvia this Report is distributed by Swedbank AS, which is under the supervision of The Financial and Capital Market Commission (Finanšu un kapitala tirgus komisija).

If you are not a client of ours, you are not entitled to this research report.

This Report is not intended for physical or legal persons who are citizens of, or have domicile in, a country in which dissemination is not permitted according to applicable legislation or other decisions.

This Report or any information in it is not for release, publication, or distribution, directly or indirectly, in or into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures.

In the United Kingdom this Report is addressed to and directed only at, and should only be relied upon by, persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), persons who are high net worth entities falling within Article 49(2)(a) to (d) of the Order or are persons to whom it may otherwise be lawful to communicate the Report to (all such persons being referred to as (Relevant Persons"). No other person should act or rely on this Report and persons distributing this Report must satisfy themselves that it is lawful.

Limitation of liability

All information, including statements of fact, contained in this Report has been obtained and compiled in good faith from sources believed to be reliable. However, no representation or warranty, express or implied, is made by Swedbank with respect to the completeness or accuracy of its content, and this Report is not to be relied upon as authoritative and should not be taken in substitution for the exercise of a reasoned, independent judgment by you.

Be aware that investments in capital markets, such as those described in this Report, carry economic risks and that statements regarding future assessments comprise an element of uncertainty. You are responsible for such risks alone and Swedbank recommend that you supplement your decision-making with material which is assessed to be necessary, including (but not limited to) knowledge of the financial instruments in question and the prevailing requirements as regards trading in financial instruments.

Opinions contained in this Report represent the analyst's present opinion only and may be subject to change. In the event that the analyst's opinion should change or a new analyst with a different opinion becomes responsible for Swedbank Macro Research's coverage, Swedbank will endeavour (but does not undertake) to disseminate any such change, within the constraints of any regulations, applicable laws, internal procedures within Swedbank or other circumstances.

If you are in doubt as to the meaning of the recommendation structure used by Swedbank Macro Research in its research, please refer to "Recommendation structure."

Swedbank is not advising or soliciting any action based upon this report. This report is not, and should not be construed as, an offer to sell or as a solicitation of an offer to buy any securities.

To the extent permitted by applicable law, no liability whatsoever is accepted by Swedbank for any direct or consequential loss arising from the use of this report.

Conflicts of interest

In Swedbank Macro Research, internal guidelines are implemented in order to ensure the integrity and independence of the research analysts. For example:

- Research reports are independent and based solely on publicly available information.
- The analysts are not permitted, in general, to have any holdings or any positions (long or short, direct or via derivatives) in such financial instruments that they recommend in their investment analysis.
- The remuneration of staff within the Swedbank Macro Research department may include discretionary awards based on the Swedbank's total earnings, which include investment banking income. However, no such staff shall receive remuneration based upon specific investment banking transactions.

Planned updates

An investment recommendation is normally updated twice a month. This material may not be reproduced without permission from Swedbank Research.

Producer

Produced by Swedbank Macro Research.

Swedbank LC&I, Swedbank AB (publ), SE-105 34 Stockholm.

Visiting address: Malmskillnadsgatan 23, 111 57 Stockholm.

Swedbank