

## European Watch

## Norges Bank review: back to 25bp

## 25bp and another 25bp in September

In line with our and consensus expectations, Norges Bank raised its policy rate by 25bp to 4.00%, slowing its hiking pace from the 50bp it delivered in June, and signalled another 25bp rate hike in September. Today's decision and guidance for September were in line with the path Norges communicated in June (Exhibit 1, Exhibit 2). We continue to expect 25bp in September and one last hike after then with balanced risks.

## No material news otherwise

Domestic & global developments since June have been in line with Norges' expectations. On the domestic side, headline % y/y CPI in July was 80bp below Norges' forecasts mainly on lower electricity but underlying ("CPI-ATE") was 10bp above. Within core, imported goods inflation surprised upwards but domestic goods & services downwards. The labour market has been slightly tighter than Norges expected but new vacancies have fallen. Activity has held up well but is slowing, while the stock of unsold homes has been large (suggesting downside risks for house prices). Energy prices have moved higher but NOK has been stronger so far in 3Q than Norges expected.

## Our base case remains Norges continues after September

Bottom line—not much news today. Norges' communication is typically centred around its forecasts, so we need to wait until September. That said, we note our proprietary mood indicator for Norges slowed but remained on hawkish ground (Exhibit 5). Going forward, we expect 25bp in September and another 25bp after then for a 4.50% terminal, with balanced risks (see [Nordics monthly: core problems 24 July 23](#)). FX will remain a key input: in June Norges expected underlying inflation at 3.9% y/y in Q4 24 and 2.9% in Q4 25, showing more tolerance than some of its peers. We also flag that "judgement" pushed down the front end of their model rate path by 17bp (Exhibit 3).

## NOK: we like it but mind risk and positioning

Norges' August meeting was a non-event—markets had moderated their expectations into this meeting after the July CPI data. NOK's underperformance over the past week has been driven by this adjustment and, of course, by the worsened risk sentiment, also given the long NOK positioning. While we continue to flag downside risks around risk sentiment and positioning, we remain constructive on NOK going forward, primarily vs. EUR, GBP, and SEK. We count on higher oil prices (our commodities team expect Brent at \$90/bbl in 2024) and Norges Bank staying the course—Norway's outlook remains robust by the European standards. With expectations very low, NOK also stands to benefit from China policy easing. At the end of last week, NOK was c. 3% weaker (in trade-weighted terms) than its history would suggest with Oct-22 as the starting point. This compares with a 7% underperformance in early June and 1% in mid-July (Exhibit 6).

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**Exhibit 1: Norges Bank's policy-rate projections (percent)**

Terminal was raised up by 61bp in June

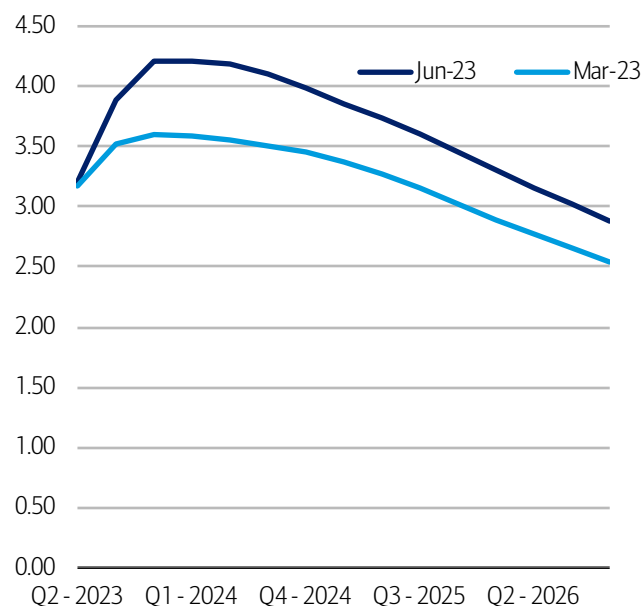
	Q2-23	Q3-23	Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26	Q3-26	Q4-26
Jun-23	3.20	3.88	4.21	4.21	4.18	4.10	3.98	3.86	3.73	3.61	3.45	3.31	3.16	3.02	2.88
Mar-23	3.18	3.52	3.6	3.59	3.56	3.51	3.45	3.37	3.27	3.16	3.02	2.89	2.77	2.65	2.54

Source: Norges Bank, MPR 2/23

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**Exhibit 2: Norges Bank's policy rate path as of June-2023 (percent)**

In June Norges projected a higher path throughout end-2026

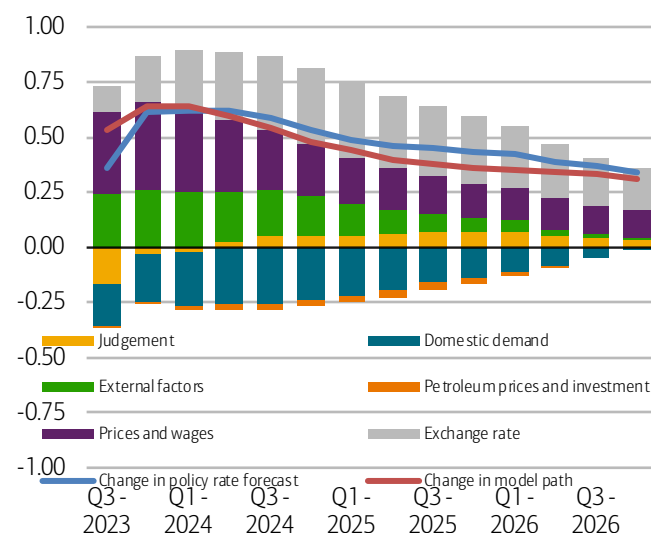


Source: Norges Bank, MPR 2/23

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**Exhibit 3: Decomposition of changes in Norges Bank's rate path**

"Judgement" pushed down rate path by 17bp near term but model and guidance in line afterwards



Source: Norges Bank, MPR 2/23, BofA Global Research. Note: Judgement is the difference (residual) between the rate-path changes and the cumulative contribution of the remaining five components.

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**Exhibit 4: Norges Bank's key forecasts as of June-2023 (in brackets changes vs Mar-23 forecasts)**

In June Norges' inflation &amp; wages forecasts moved higher vs March

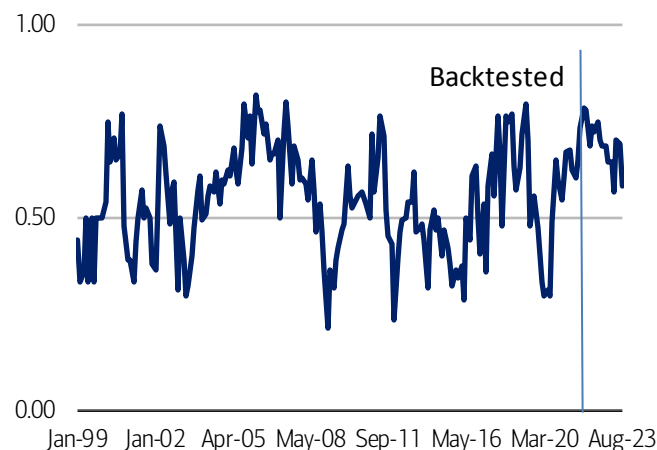
	2022	2023	2024	2025	2026
CPI	5.8	6.0 (1.1)	3.9 (0.6)	2.9 (0.3)	2.4 (0.3)
CPI-ATE	3.9	6.3 (0.7)	4.6 (0.8)	3.3 (0.4)	2.4 (0.2)
Annual wages	4.3	5.5 (0.4)	4.7 (0.3)	4.3 (0.3)	3.7 (0.3)
GDP, mainland Norway	3.7	1.2 (0.1)	0.2 (-0.3)	0.9 (-0.2)	1.4 (0.1)
Output gap, mainland Norway (level)	1.8	0.6 (0.0)	-0.5 (-0.2)	-0.8 (-0.4)	-0.7 (-0.4)
Unemployment (rate, level)	1.8	1.9 (0.0)	2.3 (0.1)	2.4 (0.1)	2.4 (0.1)
Mainland demand	4.9	-0.6 (-0.4)	0.3 (-0.9)	1.8 (-0.1)	1.9 (0.1)
Petroleum investment	-6.5	5.0 (-1.0)	3.0 (-1.0)	2.0 (0.0)	0.5 (2.5)
House prices	4.9	0.3 (3.2)	0.6 (0.6)	3.5 (-0.6)	4.9 (-0.5)
Real disposable income excl. dividend income	2.6	-2.4 (-0.5)	0.9 (-1.2)	2.3 (-0.3)	2.8 (-0.1)
Structure non-oil deficit as % of GPFG	2.7	3.0 (0.2)	2.6 (0.1)	2.6 (0.2)	2.5 (0.1)
Structural non-oil deficit as % of trend GDP	9.5	10.1 (0.5)	10.1 (0.4)	10.1 (0.7)	10.0 (0.4)

Source: Norges Bank, MPR 2/23. Note: Projections show percentage change from the previous year unless otherwise specified. In brackets is the change in projections relative to the December 2022 Monetary Policy Report. GDP figures are working-day adjusted. The output gap denotes the percentage deviation between actual and potential mainland GDP according to Norges Bank's estimates.

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**Exhibit 5: BofA Norges Bank mood indicator ("NORBI")**

NORBI slowed in August but remained on hawkish ground

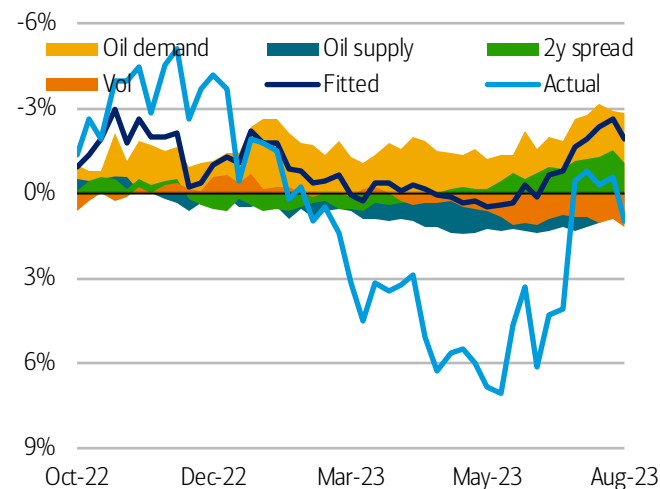


**Source:** BofA Global Research, Norges Bank. NORBI is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as NORBI is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This economic indicator was not created to act as a benchmark. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. For more details, please see European Viewpoint: Assessing Norges Bank's hawkishness

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**Exhibit 6: Fitted vs. actual NOK I-44 (inverted values)**

NOK 3% weaker than history would suggest as of last week with Oct-22 as starting point. Down from a 7% under-performance in early June but up from 1% in mid-July



**Source:** BofA Global Research, Bloomberg, Federal Reserve Bank of New York, Oil Price Dynamics Report, [https://www.newyorkfed.org/research/policy/oil\\_price\\_dynamics\\_report.html](https://www.newyorkfed.org/research/policy/oil_price_dynamics_report.html). Lower values of the import-weighted krone index (NOK I-44) show a stronger NOK. Weekly data through Aug 11. Regression estimates are for Jan 2018- Sep 2022. We regress changes in (log) NOK I-44 (Norges's import-weighted krone index) on: demand- and supply-driven changes in (log) Brent crude spot prices as per the New York Fed Oil Price Dynamics Report data; changes in Norway's 2-year trade-weighted swap spread; and changes in idiosyncratic NOK implied-vol spread.

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