

# European Watch

# **Norges Bank Review: hawkish**

## Upside risks to our terminal rate call

Norges Bank was more hawkish than we had expected today so on balance we raise our terminal rate call to 3.5% from 3.25%. We expect two more 25bp hikes (May and June). Our call will remain highly sensitive to how data evolve and especially the impact of recent banking sector issues on the policy outlook globally.

Norges hiked 25bp today to 3.0%, as expected. Norges expects to hike again in May, which we also forecast, writing "if developments turn out as we now expect, the policy rate will be raised further in May". The hawkish news from Norges was a 50bp uplift to their policy rate forecast from December, with the forecast policy rate now peaking at 3.5% in the summer. This was 25bp above our previous call of 3.25% for Norges, though we had highlighted the risks skewed up to our view because of currency weakness.

## Balanced guidance around the new path

We raise our terminal rate call 25bp, in line with Norges. Their commentary shifted the risks, although note but the guidance around that policy rate forecast is two sided. Norges raised the path because of stronger growth than expected and a weaker krone. They have a particular focus on global rates and likely especially the ECB. But Norges continues to signal that it believes rates are close to a peak: "the Committee's view that the policy rate needs to be increased to a somewhat higher level ahead than projected earlier." They highlight the data dependence of their call and its worth remembering they have not been afraid to pause their hiking cycle already (holding rates in January, for instance). We think one more hike is very likely, with the second one a little less so (but now our central case).

## Norges cares about NOK and seems willing to do its part

Norges surprised markets hawkishly resulting in a slightly stronger NOK after its decision. The weaker NOK was a key factor behind its higher projected rate path (Exhibit 3). While oil prices and risk sentiment are typically more important drivers for NOK, rate differentials also matter. Today's bottom line is that Norges Bank cares about NOK and seems willing to do its part to help avoid more and/or persistent NOK weakness.

Near term, we expect risk sentiment and FX vol to continue driving NOK. But we remain constructive on NOK for later in the year, counting on (1) more stable risk sentiment and a softer USD in 2H, (2) higher oil prices as international travel picks up in Asia, and (3) Norway's relatively strong fundamentals. We reiterate that slower does not necessarily mean lower and, even if it did, it could mean fewer rate cuts further out.

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#### 23 March 2023

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

Norges terminal rate up by 49bp vs its December forecast, and reached a little later

## Sep-22Dec-22 Mar-23 Jun23 Sep-23Dec-23 Mar-24 Jun24 Sep-24Dec-24 Mar-25 Jun25 Sep-25Dec-25 Mar-26 Jun26 Sep-26Dec-26

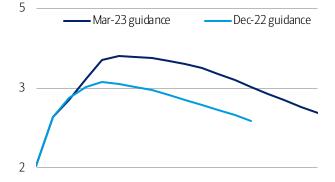
Mar-23 guidance	1.53	2.45	2.78	3.18	3.52	3.60	3.59	3.56	3.51	3.45	3.37	3.27	3.16	3.02	2.89	2.77	2.65	2.54	
Dec-22 guidance	1 53	2 46	2 82	3.03	3.11	3.08	3.03	2 96	2 87	2 78	2 69	2 59	2 49	2 38					

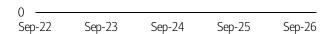
Source: Norges Bank, MPR 1/23

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

Higher terminal, fewer cuts



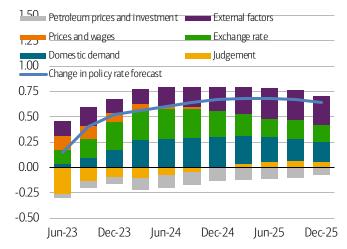


Source: Norges Bank, MPR 1/23

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

"Judgement" pushed down rate path by 26bp near term but pulled it up slightly further out. NOK and external factors key drivers near term

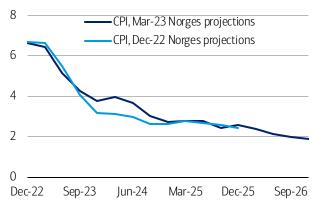


**Source:** Norges Bank, MPR 1/23, BofA Global Research. Note: Judgment is the difference (residual) between the rate-path changes and the cumulative contribution of the remaining five components.

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### **Exhibit 4: Norges Bank CPI projections**

Headline CPI slightly lower near term, somewhat stickier medium-term

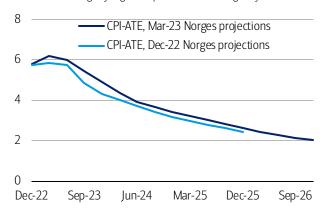


Source: Norges Bank, MPR 1/23

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## **Exhibit 5: Norges Bank CPI-ATE projections**

CPI-ATE revised slightly higher. Expected back to target by end-2026



Source: Norges Bank, MPR 1/23

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## Exhibit 6: Norges Bank's key forecasts as of Mar-2023 (in brackets changes vs Dec-22 forecasts)

Inflation, wages and mainland GDP revised higher vs the Dec forecasts

	2022	2023	2024	2025	2026
CPI	5.8 (0.0)	4.9 (0.1)	3.3 (0.3)	2.6 (0.2)	2.1
CPI-ATE	3.9 (0.0)	5.6 (0.4)	3.8 (0.2)	2.9 (0.2)	2.2
Annual wages	4.3 (0.4)	5.1 (0.4)	4.4 (0.1)	4.0 (0.0)	3.4
GDP, mainland Norway	3.2 (0.0)	1.4 (0.8)	0.6 (0.0)	0.9 (0.6)	0.9
Output gap, mainland Norway (level)	1.8 (-0.1)	0.6 (0.4)	-0.3 (0.5)	-0.4 (0.2)	-0.3

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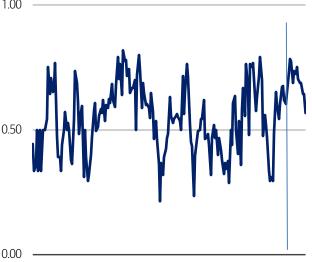
	2022	2023	2024	2025	2026
Unemployment (rate, level)	1.8 (0.0)	1.9 (-0.1)	2.2 (-0.2)	2.3 (-0.1)	2.3
Mainland demand	4.8 (0.1)	-0.2 (0.8)	1.2 (0.2)	1.9 (-0.4)	0
Petroleum investment	-5.5 (1.5)	6.0 (2.0)	4.0 (-8.0)	2.0 (0.0)	-2
House prices	5.0 (0.1)	-2.9 (1.4)	0.0 (-2.1)	4.1 (0.4)	5.4
Real disposable income excl. dividend income	2.5 (1.3)	-1.9 (0.4)	2.1 (0.1)	2.6 (-0.5)	2.9
Structure non-oil deficit as % of GPFG	2.7 (0.0)	2.8 (0.2)	2.5 (0.0)	2.4 (-0.1)	2.4
Structural non-oil deficit as % of trend GDP	9.4 (-0.3)	9.6 (0.7)	9.7 (0.5)	9.4 (0.1)	9.6

Source: Norges Bank, MPR 1/23. 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 7: BofA Norges Bank mood indicator (NORBI) (back-tested)

NORBI fell to its lowest level since Nov-20 but remains in hawkish territory



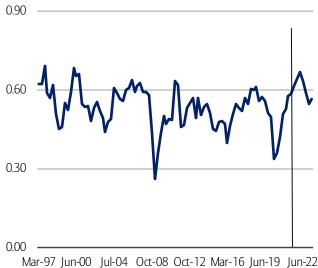
Jan-99 Dec-01 Feb-05 Jan-08 Mar-11 Jun-15 Jun-19 Sep-22

**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 8: BofA Norges Bank mood indicator for reports (NORBIREP) (back-tested)

But our mood indicator for Norges reports moved slightly higher



Source: BofA Global Research, Norges Bank. NORBI is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy reports. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as NORBIREP 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

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