

# Investing Opportunities in Norway

October 2011

- **Short-term interest rates will probably continue to rise**
- **Bond yields are likely to rebound from very low current levels**
- **The krone is not under clear pressure to rise or fall.**

Economic growth resumed in 2009 fuelled initially by fiscal stimulus, extremely accommodative monetary policy and the end of destocking by firms. Since then, the other components of private sector spending have accelerated with high oil prices provided additional support. The economic expansion over the past two years has led to renewed employment growth and increased utilisation of capacity by firms. Unemployment is low and some capacity constraints may emerge over the coming few years but competitive forces should be sufficient to keep inflation constrained (see table of key forecasts).

The Norges Bank implemented extraordinarily accommodative monetary policy settings during the 2008/2009 recession. They began the process of moving towards more normal settings in the final months of 2009 and the first half of 2010 before pausing from the middle of 2010 until the middle of this year. Despite the recent resumption of rate hikes, financial market turbulence has pushed expectations of interest rates down sharply in recent months. Financial market pricing implies that the sight deposit rate is expected to be close to 2% through the coming two years (see top chart). An easing of monetary policy in line with market pricing is possible but if the economic environment unfolds in line with our expectations, a more likely outcome would be a further rise in short-term interest rates throughout the next couple of years.

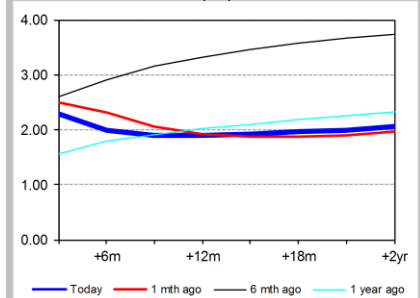
Bond yields have declined sharply in the past couple of months and are now at multi-decade lows (see middle chart). The low bond yields have almost certainly arisen because of very low short-term interest rates and very low global yields. At current bond yields, the Norwegian yield curve is inverted. If short-term interest rates were to rise, Norwegian bond yields would probably rise as well. If short-term interest rates were to rise and global bond yields were also moving upwards towards more normal levels, Norwegian bond yields would almost certainly rise. 10 year bond yields could rise towards 5% during the next couple of years.

The krone quickly recovered from the downward spike of 2008/2009 and in trade weighted terms the currency is near the previous peaks of 2003 and 2008 (see bottom chart). High oil prices may be providing some support for the currency. If interest rates rise in line with our expectations and the current account surplus remains extremely large, there are no obvious reasons why downward pressures on NOK will emerge.

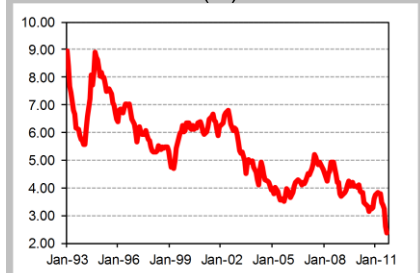
Norwegian equities have declined sharply in recent months and have provided a loss in excess of -5% during the past twelve months. Despite this, high oil prices and supportive financial conditions are still providing support to the corporate sector. The Norwegian market is influenced by global growth, so a solid global environment would support equities whilst a downturn would lead to underperformance by Norwegian equities.

Key Forecasts			
	Dec-12	Dec-13	Dec-14
GDP	2	3	3
CPI	2	3	3
Sight depo	4.00	5.00	5.00
10 year	4.75	5.25	5.25
EUR/NOK	7.75	7.75	7.75
NOK/SEK	1.13	1.13	1.13
USD/NOK	6.20	6.46	6.74

90 Day FRA Strips (%)



10 Year Bond Yields (%)



Norwegian Krone (Trade Weighted Index)

