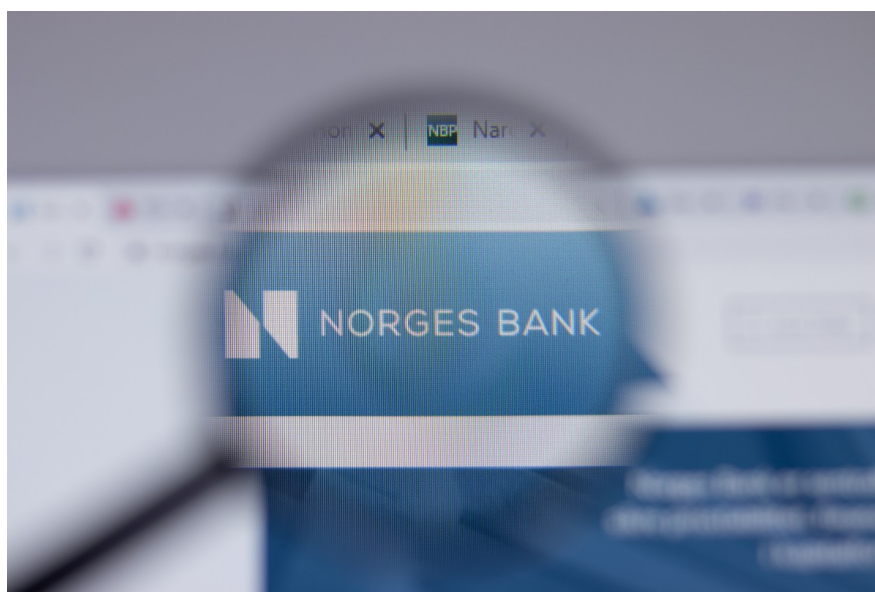


## A 50bp rate hike by Norges Bank, but we notice a small dovish tilt

Norway's central bank raises rates by 50bp and signals another hike will likely be delivered in November. Somewhat surprisingly, the statement hints at a slower pace of tightening from now on, but we still don't rule out another 50bp hike in November. Like in Sweden, attempts to lift NOK via higher rates should keep failing in the near term



### Another 50bp hike, but hints of a slower pace of tightening

Norges Bank delivered another much-anticipated 50bp rate hike today, bringing the policy rate to 2.25%. The move was fully in line with the Bank's determination to fight elevated inflation, as firmly reiterated by Governor Ida Wolden Bache in her post-meeting statement.

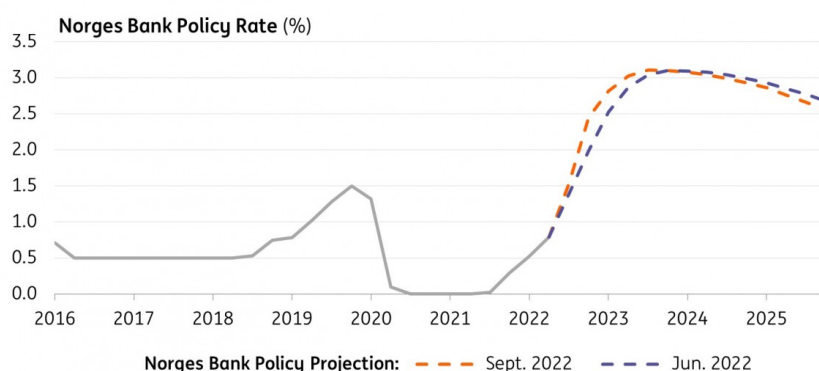
The Bank also released its updated economic and policy rate projections. While the inflation forecast was revised higher, the rate path was nearly unchanged from the June 2022 projections, with a peak expected at 3% in 2023 and remaining around that level into 2024.

Perhaps surprisingly, the Bank explicitly mentioned that "*monetary policy is starting to have a*

*tightening effect on the Norwegian economy*”, which “may suggest a more gradual approach to policy rate setting ahead”. This appears in contrast with other developed central banks which are refraining from diverging from their hawkish rhetoric with the aim of keeping inflation expectations in check.

There are two more Norges Bank meetings in 2022, on 3 November and 15 December. Today’s statement suggests that to get to the 3.0% projected terminal rate (so 75bp from the current level) with more gradual tightening, we could see 25bp hikes in November, December, and at the first meeting of 2023.

## Rate projections unchanged since June



Source: Norges Bank, ING

## We don't rule out a 50bp move in November

We had previously forecasted another 50bp hike in November, although the change in tone by Norges Bank does suggest a 25bp move is likely the baseline scenario for the Bank.

Still, we would not rule out a half-point move just yet, mainly because for one thing, the statement still points to some flexibility in the rate setting moving forward. Also, inflation may surprise to the upside, and Norges Bank may attempt to lift the krone by surprising markets on the hawkish side.

## NOK: Monetary policy impact very limited

In her statement today, Governor Bache said: “*a higher policy rate may also contribute to strengthening the krone exchange rate, which may curb imported goods inflation further out*”. In practice, however, the correlation between short-term rate differentials (which absorb monetary policy expectations) and the krone’s performance has faded in recent months as it has in many other developed currencies. The example of the neighbouring Riksbank in Sweden is emblematic; earlier this week, [a massive 100bp rate hike](#) only seemed to offer an opportunity for SEK bears to sell the currency at more attractive levels, and SEK plunged in the hours after the announcement.

The reason the correlation has faded is down to the numerous global and European macro factors along with geopolitical concerns and their impact on global risk sentiment as FX drivers. We think the unstable risk environment should continue to prevent a relinking of high-beta currencies with their rate differentials in the coming weeks.

We still see room for a recovery in NOK in the medium term, potentially starting later this year, and any risk stabilisation should allow the krone to benefit from the attractive commodity picture and high interest rates. We currently forecast a move to 9.80 in EUR/NOK in the first quarter of next year. However, downside risks in the near term remain elevated for NOK, especially considering its relatively low liquidity character which leaves it more exposed to swings in risk sentiment.

## Author

**Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.