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NORWAY

Norges Bank to ease faster than it projects after hawkish cut

In line with our call, Norway's central bank cut rates by 25bp to 4.0% today. But forward guidance now shows the bank's baseline is no further reductions until mid-2026. We aren't so convinced, and we expect the next move in January. NOK has held up well, but bigger gains may still have to wait



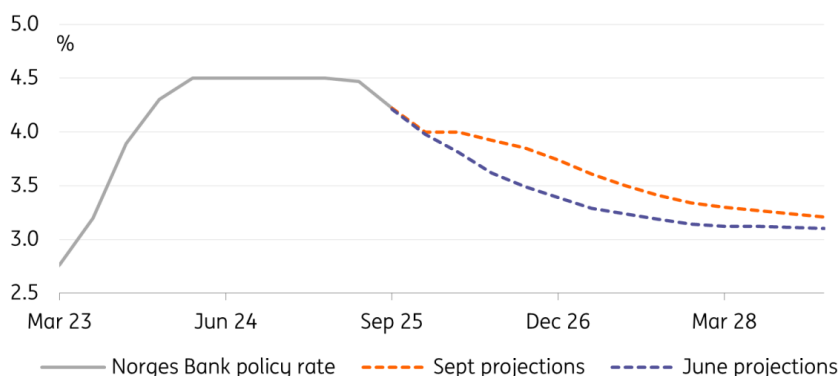
Norges Bank Governor Ida Wolden Bache

A (very) hawkish cut today

Norges Bank cut rates from 4.25% to 4.0% on Thursday, which was in line with our call and with a narrow consensus majority. Market pricing was 15bp ahead of the announcement. However, this was as hawkish a rate cut as it gets. Governor Ida Wolden Bache said "we will probably not reduce the policy rate ahead as quickly as envisaged before summer" and "the forecast presented today is consistent with one rate cut per year in the coming three years."

New rate projections have been revised some 20-40bp higher across 2026, with the next expected rate reduction delayed from 1Q26 to 2H26. All this is driven by expectations for stickier headline and underlying inflation.

A major revision higher in rate projections



Source: Norges Bank, ING

Our new call: January, but don't rule out December yet

Before this meeting, we were forecasting a rate cut in December following the move today. Based on today's communication, it is clear that the bar for further rate cuts is higher, as Norges Bank wants to see more compelling evidence of disinflation.

However, the real positive rate remains elevated in Norway, and the shallower rate path can negatively influence business optimism that had partly relied on faster rate cuts. Our commodities team sees bearish risks for oil prices into year-end, and we expect the Fed to cut rates at the next four meetings, which could add pressure to Norges Bank.

Norges Bank rate projections have also not been a very accurate indicator of policy moves this year, and the governor has highlighted flexibility for future moves.

We are changing our call from December to January for the next Norges Bank move, which is still more dovish than the Bank's projections. But we think it's too early to entirely rule out a cut by the end of this year. Also, we expect the inflation picture to become benign enough in the coming quarters to justify at least another follow-up rate cut in 2026.

Big NOK gains may need to wait

After an initial NOK drop, markets assessed the overall statement as hawkish, which led to higher front-end swap rates and a rally in the krone. Our tactical call on EUR/NOK was 11.70 as we were expecting a cut to be accompanied by less hawkish projections.

This clearly puts NOK in a stronger position, although data retains the potential of a dovish rethink. We remain cautious about the near-term downside potential for EUR/NOK (year-end target 11.50), although the delayed Norges Bank easing cycle strengthens our bullish NOK medium-term call. We now think EUR/NOK can break below 11.00 before mid-next year.

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