

Norges Bank hikes and keeps guidance hawkish

Norway's central bank surprised markets with a 25bp hike to 4.25% today, stressing that inflation concerns are broader than the war. We now think a hold is more likely in June, but risks remain on the hawkish side, with guidance still pointing to another potential rate increase by year-end. We remain bearish on EUR/NOK for the coming months



Norges Bank Governor
Ida Wolden Bache

A hike on broad inflation concerns

Norges Bank delivered an out-of-consensus 25bp hike to 4.25% today, [in line with our call](#). In the statement, Governor Ida Wolden Bache stressed that “inflation is too high, and there are prospects that inflation will remain elevated ahead”. During the press conference, she reiterated that the rate rise was not only due to the war’s impact, again hinting at broader-based inflation pressures, with particular emphasis on elevated wage growth.

That said, there were also some indications that Norges Bank wants to take time to assess the implications for underlying pricing pressures. The overall economic assessment was not materially different from March, when rate projections embedded an average quarterly policy rate of 4.07%

in 2Q and 4.26% in 3Q. In our view, a hold looks more likely at the June meeting unless underlying CPI surprises meaningfully on the upside.

Another hike possible, but that's not our baseline for now

There were no updated rate or economic projections at this meeting, but guidance remained hawkish. The Bank indicated that the March forecasts remain valid, with the policy rate expected to end the year between the current 4.25% and 4.50%.

For now, our forecast doesn't include another rate hike in Norway. This reflects our expectation of relatively contained second-round effects on Norway's core inflation, as well as recent indications that the US and Iran may be getting closer to a deal. That said, this is not a high conviction call: underlying CPI had already shown volatility even before the war, and it is clear that Norges Bank will not hesitate to act.

At the time of writing, markets appear to be pricing in a June hike with some confidence. While some post announcement volatility may be distorting pricing, this still looks somewhat too hawkish for now. Underlying CPI may fail to rise already in April (data out next week), and Norges Bank may require a materially hot May print to justify a June hike. If rates are to be raised again, August looks more likely in our view.

NOK outlook remains solid

NOK entered the meeting with some heavy short-term bearish momentum vs EUR, as yesterday's oil selloff seemed to have triggered some sizeable positioning unwinding. The surprise hike has caused a near 0.7% drop in EUR/NOK, with markets seemingly leaning hawkish for future meetings, expecting at least another rate hike this year.

The krone has been one of our favourite currencies of late, also due to our hawkish call on Norges Bank. While a potential reopening of the Strait of Hormuz may cause new oil drops and EUR/NOK bounces, we think it will take a long time for energy prices to return to pre-war levels, leaving NOK structurally more attractive than EUR. Especially so in an environment of strong global risk asset performance and a wide rate advantage for NOK.

We continue to expect a break below 10.80 in EUR/NOK by this summer, and downside risks relative to our year-end target of 10.70.

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