

Norges Bank hikes and signals more tightening in May and beyond

Norway's central bank surprised on the hawkish side today, as its well-telegraphed 25bp rate hike to 3.0% was accompanied by a pledge to hike again in May, as policymakers moved to counter the inflationary effect of a weaker krone. Updated rate projections now signal rates will reach 3.50% this summer



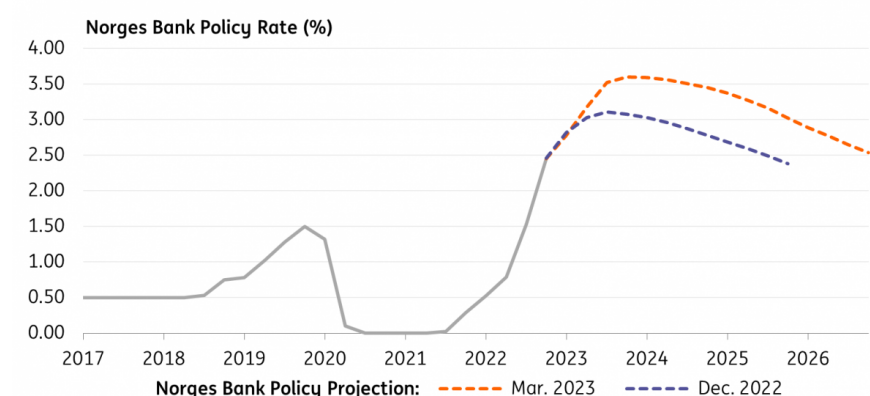
Policymakers are trying to counter the inflationary effect of a weaker krone

A hawkish surprise

Norges Bank today hiked rates by 25bp to 3.0%, in line with what had been previously announced. Despite inflation having been slightly slower than previously expected thanks to lower energy prices, the central bank pointed to wage growth and currency weakness as drivers for further price pressures, and ultimately pledged to raise rates again at the next May meeting.

In the new set of economic forecasts, Norges Bank signalled at least two more rate hikes before the peak, which should be 3.50% reached during the summer. Despite lower energy prices and higher rates, Norges Bank did not bring forward expectations for a return to sub-3.0% inflation, which is still expected at the end of 2024.

New Norges Bank rate projections



Source: ING, Norges Bank

The aim is to support NOK

It appears quite clear – in our view – that the hawkish tilt in the policy message was an attempt to offer support to the krone, whose recent weakness poses (as admitted in the statement) upside risks to inflation. As shown below, the trade-weighted NOK is trading below the late 2020 levels.

Norwegian krone trade-weighted index



Source: ING calculations

This is fully justified by the fact that NOK is the least liquid currency in G10 and was therefore very exposed to the tightening in global financial conditions, market volatility, and lately the turmoil in the banking sector.

A hawkish Norges Bank cannot counter those characteristics of the krone, but should European sentiment continue to stabilise, it can offer a breeding ground for recovery that can ultimately help Norges Bank limit imported inflation. Still, we think EUR/NOK will remain highly volatile, and a sustainable return below 11.00 will require a more substantial return of market confidence in the financial system: something that we may not see in the very near term.

Author

Francesco Pesole

FX Strategist

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>.