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FX NORWAY

# Norges Bank: On track towards tightening in 2022

The Norges Bank kept rates unchanged today reiterating the validity of December projections. This means that the road towards tightening monetary policy in 2022 remains intact, which coupled with the expected global recovery and weak USD environment should benefit NOK. We expect EUR/NOK to dip below 10.00 this year



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## No surprise from the Norges Bank

As expected, the Norges Bank did not surprise today.

Interest rates were kept on hold and with the January meeting being an interim one, no new forecasts were presented. The most important part of the statement is 'economic developments have so far been broadly in line with the projections in the December Report' which means the forward guidance for the gradual rise in interest rates in 2022 remains unchanged.

Although the Bank recognises that the stricter lockdown measures are holding the recovery back, the vaccination programme should translate into growth picking up later in the year. The

same offsetting trend works for other variables: NOK is stronger but equally oil prices are higher vs the December forecast.

Hence, limited need to change the message from the December meeting.

### **NOK outlook remains upbeat**

With no real surprise delivered today, the impact on NOK has been fairly limited and EUR/NOK hovers around the 10.2500 level.

Looking ahead, we are upbeat on NOK and expect EUR/NOK to dip below 10.00 this year as the currency should benefit from the global economic recovery, the soft dollar dynamics and the central bank being the most hike-prone in the G10 FX space.

That said, we now expect the pace of NOK appreciation to slow, in part to the fact that January tends to be seasonally the strongest month for NOK and meaningful gains have already been observed during the earlier part of the month.

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