Norges Bank preview: Close call, but a hold looks more likely

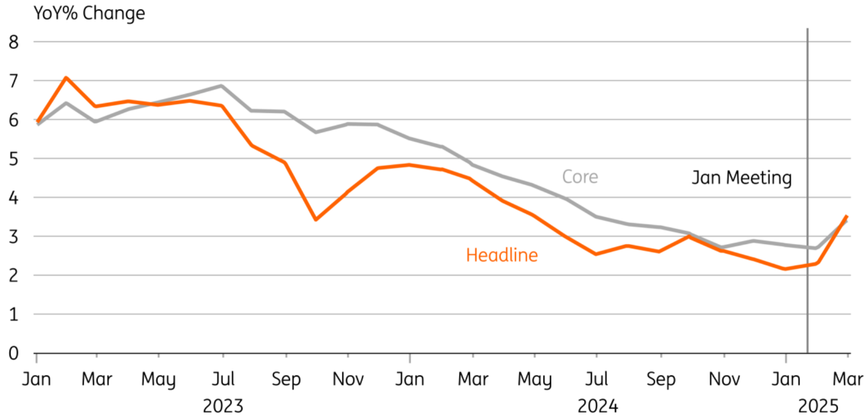
Norway's surprise spike in core and headline inflation in February suggests Norges Bank may keep rates on hold despite previously signalling that a cut was likely at the 27 March meeting. Market pricing is only -8bp for this week. Still, EUR/NOK is looking rather cheap, and we are bearish on the krone for the next quarter

We still think two or three cuts are possible this year in Norway, as inflation could ease back in the coming months

Inflation headache for Norges Bank

We believe that Norges Bank will delay its first rate cut in this cycle and maintain its policy rate at 4.50% for the 15th consecutive month on 27 March. The forward guidance provided by the Bank in the December and January meetings pointed to a cut in March, but a sharp rebound in February inflation prompted a hawkish repricing and a consensus shift towards a hold.

Norway's inflation back on the rise



Source: Macrobond, ING

In January, Norges Bank said rates would likely be cut in March, but that was conditional on data developments broadly following baseline assumptions. The latest projections (from December) embedded some inflation volatility, with headline bouncing around 2.5-3.0% throughout 2025. To cut rates at this point, Norges Bank would need to conclude that the big headline inflation rebound in February (from 2.3% to 3.6%) is mostly associated with temporary factors. The issue is that underlying inflation also jumped much more than expected in February, from 2.8% to 3.4%, which warns of broad-based price pressure.

Other factors look mildly dovish. The global rate picture has eased since the last round of forecasts, and mainland GDP contracted 0.4% in the fourth quarter. Incidentally, the krone's trade-weighted index has strengthened around 3.5% since the January meeting. That obviously adds up to the rather explicit guidance in January for a March cut and makes it a fairly close call. But we think the risks are skewed to a hold given the inflation surprise and risks of further inflationary pressure from US tariffs.

We still think two or three cuts are possible this year as inflation may ease back in the coming months, and we expect new rate projections to show easing only being delayed by a few months.

NOK rally still looks overdone

NOK has rocketed higher in the past few weeks, currently up 6.4% month-on-month and 9% year-to-date versus the dollar. That is largely due to a boost in European economic and equity sentiment, but the inflation surprise in Norway played a key role. Markets are pricing in only 8bp of easing for 27 March and only one cut in the next 12 months. The two-year NOK swap rate is now at 4.5%, the highest since July 2024 and 220bp above the euro's.

That said, our fair value model shows EUR/NOK is undervalued relative to short-term drivers, embedding an excess of optimism relative to European spending optimism and rotation from US equities back to Europe.

So, while EUR/NOK could remain pressured this week after a Norges Bank hold, we are less optimistic about further gains and actually see room for a EUR/NOK rebound to 11.50 in the second quarter, when US tariffs may materially temper European sentiment.

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