

Norges Bank preview: Taking a breather

Expect Norway's central bank to take a breather on Thursday having hiked interest rates three times this year. The jury's out on whether policymakers will tighten again next year, but even so, NOK is our favoured European G10 currency as we head into 2020



Bank of Norway's Governor, Øystein Olsen, on the launch of new Norwegian banknotes in 2018

Thursday's meeting likely to signal a prolonged pause

[Unlike its Scandinavian neighbour](#), the Norges Bank looks set to take a breather having hiked interest rates three times so far in 2019. The question now is whether it looks to resume its tightening cycle again in 2020.

At this stage, Norway's central bank is likely to continue signalling a prolonged pause. While higher oil prices, a weaker krone and higher global interest rates all point to an upshift in its rate path, this will be tempered by more lacklustre activity data over recent weeks. In particular, the central bank's own regional network points to a moderation in output, particularly in the retail sector.

That suggests any upward shift in its interest rate projection should be fairly modest, and policymakers are unlikely to fully pencil in further rate hikes at this stage.

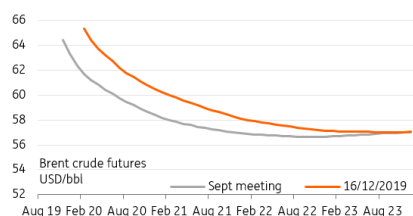
However, we wouldn't totally rule out one further rate rise in 2020. If global activity were to recover some poise (which we should note, our US and Eurozone economists are not currently expecting), then that may see the Norges Bank consider some modest tightening. A lot will depend

on how the NOK reacts to any positive re-evaluation of growth prospects.

For the time being, 2020 looks set to be a more relaxed year in terms of Norges Bank policy actions.

Various factors point to a slightly steeper interest rate projection this week

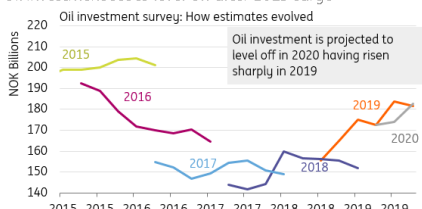
Slightly higher oil curve - slightly higher rate path ↑



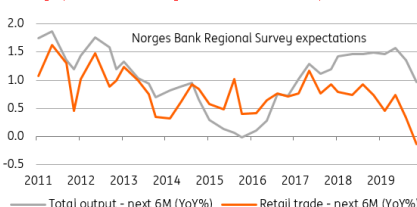
NOK weaker - Higher rate path ↑



Oil investment set to level-off after 2019 surge



Surveys point to slower growth - Lower rate path ↓



Source: Macrobond, Bloomberg, ING

Norges Bank meeting no game-changer for attractive NOK prospects

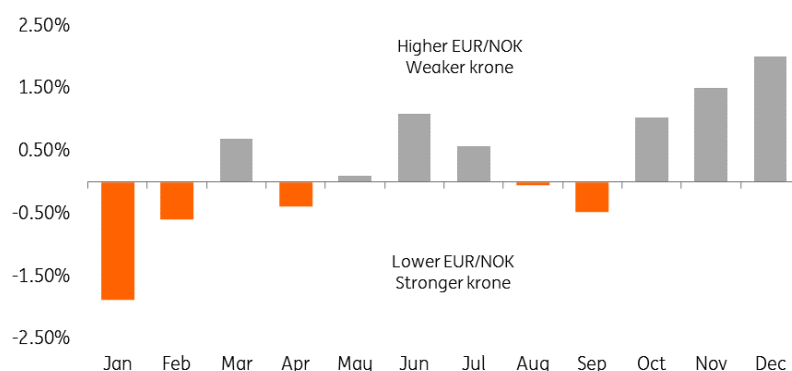
The widely expected 'on-hold' Norges Bank (NB) decision should have a negligible impact on NOK. The pause in the NB tightening cycle has been well signalled. The main impact on NOK will come via the updated interest rate forecast.

We expect only modest changes in the NB interest rate outlook, meaning that the forecast should continue pointing to a partial probability of a hike in 2020. Should the partial hike be taken off the 2020 NB forecast, which isn't our base case, this would be NOK negative. An unchanged forecast should have limited impact on the currency.

With risk appetite stabilising on the back of an improvement on the US-China trade front, we see NOK as the most attractive European G10 currency. Solid carry, seasonal NOK strength in January (as you can see in the chart) and cheap valuation all suggest the krone's outperformance early next year. On a regional basis, we prefer NOK to SEK as the former screens better on the carry-valuation basis.

NOK tends to do well early in the year

%, Seasonal EUR/NOK monthly performance throughout the year. 5-year trailing average



Source: Bloomberg, ING

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