Norway hikes rates to 0.5% despite Omicron uncertainty

High oil and gas prices are a bigger factor than Covid-19 for the Norwegian central bank as policymakers hike rates by another 25bp, and signal another in March. The krone looks attractive and we expect EUR/NOK to find its way below 10.00 in the new year

Despite Omicron, Norges Bank has carried on as planned with a 25bp rate hike at its latest meeting, following a similar move back in September.

That shouldn't come as a huge surprise, partly because policymakers had signaled the move fairly explicitly over recent weeks, but also because energy prices are a critical input into the Norges Bank's thinking. And with oil prices well supported and gas prices continuing to rise, policymakers clearly felt that further tightening made sense this month, despite Omicron.

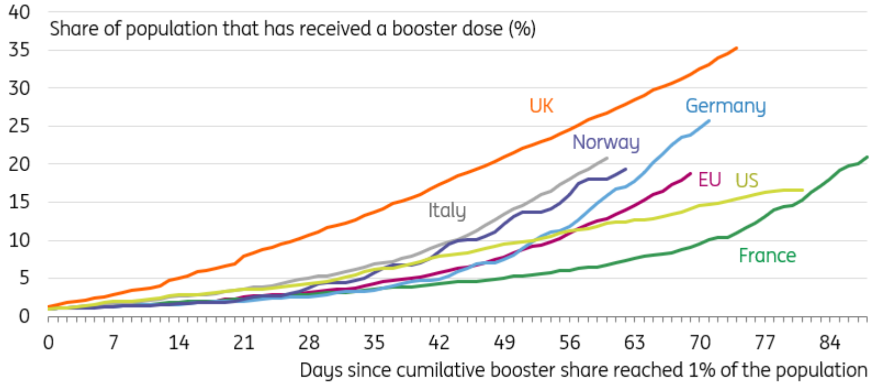
Interestingly, though again unsurprisingly, the Bank has also kept its interest rate projection essentially unchanged from September, and if anything has nudged up the terminal rate for 2024. That now sits at 1.75% (from 0.5% now), and policymakers are projecting three rate rises next year, with the first expected in March.

For the time being, there's little reason to disagree with that assessment – not least because it's neatly in line with what the Fed is now looking at.

The Norwegian central bank's latest projections are also already factoring in a noticeable hit to consumption from the current Covid-19 wave. Cases have surged and the government has begun to introduce new restrictions. But like other parts of Europe, Norway benefits from a reasonable start to its booster vaccine campaign. And like much of the developed world, we don't expect Omicron to make a lasting dent to Norway's economic recovery.

Unless that changes, we think Norges Bank will plough on with its tightening cycle as planned.

Norway has had a reasonable start to its booster campaign



Source: Our World in Data, ING

Day zero is the date that the share of the population with a booster jab hit 1%

FX: Norges Bank remains bullish factor for NOK

NOK was understandably stronger following the Norges Bank rate announcement, although it appears there is still some room for market interest rate expectations to catch up with the upside.

The spread of Omicron and its potential implications for the global economy and energy markets will make for a challenging period for the high-beta NOK in coming weeks. But the notion that Norges Bank is currently by-and-large overlooking new Covid-related risks and remains on track for its 2022 tightening cycle is set to keep NOK an attractive currency in periods of calm risk sentiment.

We expect EUR/NOK to find its way below 10.00 in the new year, and we target 9.60 for 4Q22

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