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FX NORWAY

Prospect of August hike in Norway can help the krone

After today's hawkish hold, we expect Norges Bank to deliver a 25bp hike at the August meeting, in line with its preference to front-load tightening and amid still-elevated underlying inflation. This should lend some support to NOK, especially against other high-beta currencies, although external drivers are likely to stay dominant over the summer



We wouldn't expect policymakers to close the door to further tightening when hiking in August, so risks remain slightly on the upside for NOK front-end rates this summer

A hawkish hold today

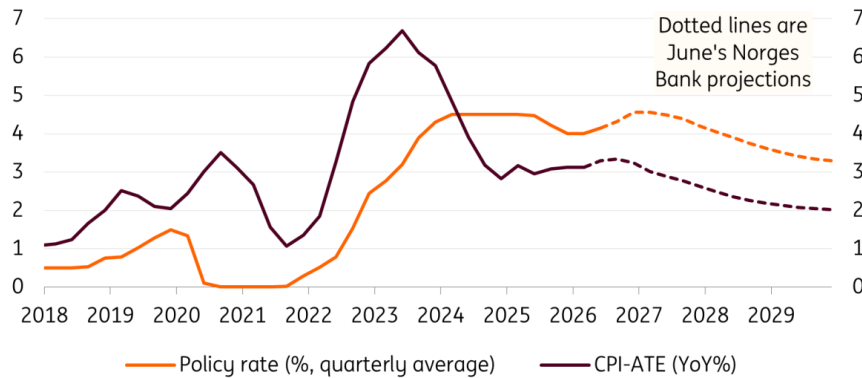
Norges Bank delivered no surprise today, holding rates at 4.25%. As we [expected](#), the communication was hawkish, with a clear signal that rates will likely need to rise again at one of the next few meetings.

Accordingly, the new rate projections show an average of 4.32% in this year's third quarter and 4.55% in the fourth. This fully prices in a 25bp hike in the third quarter, with roughly equal odds for August or September, and implies around a 20% probability of a further move between the final quarter of 2026 and the first quarter of 2027.

In our view, the key to the current policy stance in Norway is that inflation concerns predate

this spring's energy price volatility. We expect Norges Bank to remain mostly focused on bringing underlying inflation (CPI-ATE) sustainably back below 3.0% (currently 3.4%). In its latest projections, that is only achieved in the second quarter of 2027.

Norges Bank signals more tightening in new rate projections



Source: Norges Bank, ING

One last hike in August

Our call is for a 25bp hike in August. While CPI-ATE has been jumpy of late, it should stay above 3.0% in the next two months (June and July prints), and Norges Bank has shown a preference to front-load tightening.

At this stage, we see the August move as the end of the cycle. Norges Bank is likely to remain mindful of overtightening risk, while a period of softer energy prices should help reduce concerns about persistent inflation.

That said, risks remain skewed to the hawkish side, as there is a non-negligible chance that policymakers are underestimating second-round effects. Norges Bank also tends to be sensitive to interest rates abroad. Should the Federal Reserve or European Central Bank hike more than once this year, it would face both direct hawkish pressure and indirect pressure via potential krone depreciation, raising imported inflation concerns.

NOK can outpace other high-beta currencies

Market pricing roughly replicates Norges Bank's latest rate projections: 15bp for the August meeting, 27bp for September, and 30bp for December. As we wouldn't expect policymakers to close the door to further tightening when hiking in August, we think risks remain slightly on the upside for NOK front-end rates this summer. That is, assuming pricing for the Fed does not turn materially dovish, bringing other countries' rate expectations lower.

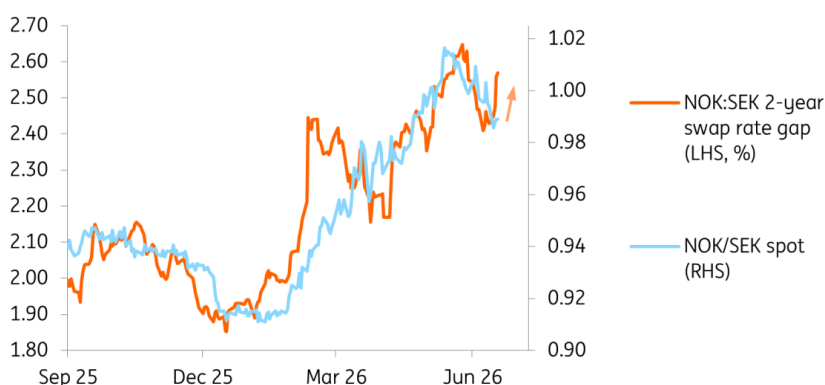
Norges Bank's hawkish stance is a positive factor for NOK. We expect it to be particularly visible

against currencies with similarly high beta to risk sentiment but more dovish central banks. We see good upside potential for NOK/SEK and downside potential for CAD/NOK.

In EUR/NOK and USD/NOK, external drivers should remain dominant. Our view is that oil prices are close to bottoming out, but the hawkish Fed poses a risk for less-liquid/high-beta currencies.

Still, we retain a downside bias on EUR/NOK, and expect a return below 11.00 this summer and further gradual decline towards 10.60 into early 2027 as fundamentals and carry should emerge as positive NOK drivers.

Policy differential points up for NOK/SEK



Source: ING, Refinitiv

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