

Hawkish Norges bank hints at June rate hike

The Norwegian central bank has given the green light to a June rate hike on the back of further currency weakness and higher oil prices. This also makes another rate hike in December more likely, firmly establishing Norges Bank as a hawkish outlier in the G10 space



Having raised rates to 1% back in March, the Norges Bank hinted back then that a June move also was reasonably likely. Since then, the krone has weakened further - contrary to the central bank's forecast for currency strength. Spot oil prices have also traded higher, adding further fuel to the recent rise in energy-driven investment.

Putting that together, the central bank's most recent statement now points explicitly to a June rate hike. In turn, this begs the question of whether the central bank will hike rates for a third time later this year.

A lot will depend on the outlook for global trade, which has been clouded by the recent escalation in tensions between the US and China. Our trade team believe a deal is still the most likely outcome, given that President Trump will not want to enter an election year with a weaker economy and a falling stock market. But given that this may not come until the second half of the

year, uncertainty is likely to weigh on global economic sentiment in the meantime.

Domestically though, the case for further tightening looks fairly solid. The recovery in energy prices is driving growth higher (via increased investment), along with domestically-generated inflation (this year's wage-setting negotiations resulted in a higher pay settlement).

As such, we think there is a reasonable chance that the Norges Bank will raise rates further in December, as well as at the forthcoming meeting in June.

Author

James Smith

Developed Markets Economist

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.