Norges Bank green lights March rate hike

Norway's central bank is poised to hike rates for the third time this March. Rising oil prices and the higher global interest rate environment suggest policymakers will hike a total of four times this year. This is a medium-term positive for the krone

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

Norges Bank set to hike in March and four times overall in 2022

Norges Bank has kept Norway's key interest rate at half a percent this month. But following a time-honoured tradition, it has formally given the green light to another rate rise at the March meeting. It made similar statements of intent ahead of both the September and December rate rises last year.

None of this is that surprising, not least because the central bank was already forecasting at least three rate rises this year in its latest projections from December. It's worth remembering that Norges Bank tends to set policy more mechanically than most. And based on pretty much all of the usual factors that feed into the Bank's model, it looks like the next projection due in March will show both a faster pace of rate rises, and potentially a higher terminal rate, too.

Oil prices have moved higher along with global interest rates, both of which are traditionally hawkish factors for Norway's central bank. Likewise, as policymakers acknowledged in the latest statement, unemployment has undershot projections, while underlying inflation is pushing higher.

We, therefore, expect Norges Bank to signal a total of four 2022 rate hikes at its meeting in March, and there's little reason to doubt that will happen.

FX: Norges Bank remains a medium-term positive for NOK

Today's Norges Bank statement means markets can remain confident that the Bank is sticking to its plans to hike rates at least three more times this year. Monetary policy remains a bullish factor for Norway's krone in an environment where we expect markets to reward those currencies that can count on hawkish central banks.

Unlike other instances in the G10, NOK's money markets have not moved aggressively in overpricing monetary tightening by the domestic central bank, and the current pricing matches Norges Bank's projected rate path. This means that, should NB see a need to hike at a faster pace, the benefits would entirely be passed on to NOK.

The recent good performance of oil prices continues to shield the currency from swings in risk sentiment. As soon as market sentiment stabilises, NOK's attractive yield and benign external drivers point towards further appreciation in our view. We expect EUR/NOK to slip below 9.90 in 1Q, and to reach 9.50 by year-end.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com