

Norges Bank hikes rates and hints at another later this year

The Norges Bank has lived up to its status as the hawkish outlier in the developed market central bank space. We expect today's rate hike to be followed by another in December, although as ever a lot will depend on how trade tensions evolve



In stark contrast to many of its developed markets peers, Norges Bank has taken its tightening cycle a step further on Thursday by increasing interest rates a quarter point to 1.25%. Given this move was clearly flagged back in May, the bigger focus is the Norwegian central bank's new interest rate projection – and as expected it's a tale of two halves.

Probably the biggest news is that the central bank thinks it will “most likely” hike again over the course of 2019, having previously seen the next move around the first quarter of 2020. That follows a better-than-expected reading from the latest oil investment survey for 2019 spending. As policymakers note, the break-even cost for oil-related activities in Norway is much lower than current energy pricing, which is incentivising firms to expand. The krone also hasn't appreciated as the central bank had projected back in March.

The story looks slightly different beyond the middle of 2020. The mechanical way that the central

bank calculates its interest rate projection means that the combination of a move lower in the oil price curve and a sharp decline in international rate expectations, has resulted in a lower path for policy further out. That said, the change compared to the March interest rate projection is very marginal.

This latter point means these new set of forecasts are perhaps marginally more hawkish than expected. We expect the central bank to hike rates again December, although as ever a lot will depend on how trade tensions evolve over coming months.

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>.