

Norges Bank hikes rates but signals prolonged pause

With domestic oil-related activity increasing rapidly, the Norwegian central bank has gone against the tide and hiked rates to 1.5%. But amid lingering global trade, Brexit and geopolitical/energy uncertainty, the central bank's tightening cycle looks like it has run its course for now



The Norges Bank has cemented its position as the clear outlier in the global central banking arena, having decided to hike interest rates for the third time in 2019 at today's meeting.

This wasn't totally unexpected, as most analysts considered this would have been a close call. Oil investment/activity has been a key factor behind the central bank's hawkish stance over recent months. The recovery in global oil prices has seen both energy services, as well as investment in equipment, increase - especially given that break-even production costs are considered to be quite a bit below current market pricing for oil, according to the central bank.

Norges Bank's new rate path (which is little-changed versus the

June edition) signals that this year's tightening cycle has probably run its course for now

The fact that the krone has been much weaker than policymakers had anticipated also appeared to tip the balance in favour of earlier action. Going into the meeting, NOK was around 3% weaker on a trade-weighted basis than the central bank had assumed for the third-quarter.

Importantly though, Norges Bank's new rate path (which is little-changed versus the June edition) signals that this year's tightening cycle has probably run its course for now. The bank's press statement points to a number of uncertainties - Brexit, trade wars and geopolitical tensions in the Middle East - as reasons for caution.

1.5% Norway deposit rate
(25bp hike)

Higher than expected

We, therefore, suspect that interest rates will remain at 1.5% in Norway for the rest of this year. However, our base case assumes that some form of [trade truce is struck in the first half of 2020](#) between the US and China. If this comes to fruition, and the UK avoids a 'no-deal' Brexit, then we think there is a reasonable chance that the Norges Bank hikes rates again next year.

While a lot will depend on the timing of these political developments, for now, we're pencilling in another rate hike for the second quarter of 2020.

Author

James Smith

Developed Markets Economist, UK

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>.