

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.

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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.

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