

Snap | 23 June 2022

NORWAY

Norges Bank steps up tightening pace with 50bp rate hike

Norway's central bank has joined the 50bp club and is signalling another 25bp move in August. Hikes at every remaining meeting this year look likely, and that may well include another 50bp hike in September. Despite a more hawkish Norges Bank, the krone should remain vulnerable in the near term due to the unstable risk environment



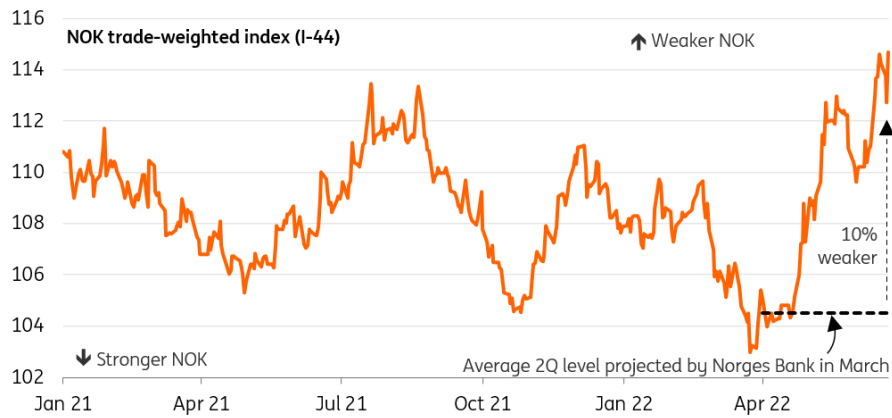
We still think two or three cuts are possible this year in Norway, as inflation could ease back in the coming months

Norges Bank has stepped up the pace of its tightening cycle, hiking rates by 50 basis points for the first time, having previously implemented three 25bp rate rises since last September. That's more than the consensus was expecting, but in reality, it shouldn't come as a huge shock.

Not only had policymakers flagged the possibility of a larger rate hike when they met last month, but most of the indicators Norges Bank looks at have been significantly more hawkish than they were in March when forecasts were last updated. NOK is around 10% weaker than the Bank had expected in March in trade-weighted terms, while the ever-increasing amount of tightening being priced into dollar and euro markets had also pointed to a more aggressive response from Norges Bank. Inflation has come in above expectations, too. The only thing that

hasn't budged much from the March forecasts is the price of oil.

NOK is roughly 10% weaker than NB had expected for the second quarter as a whole

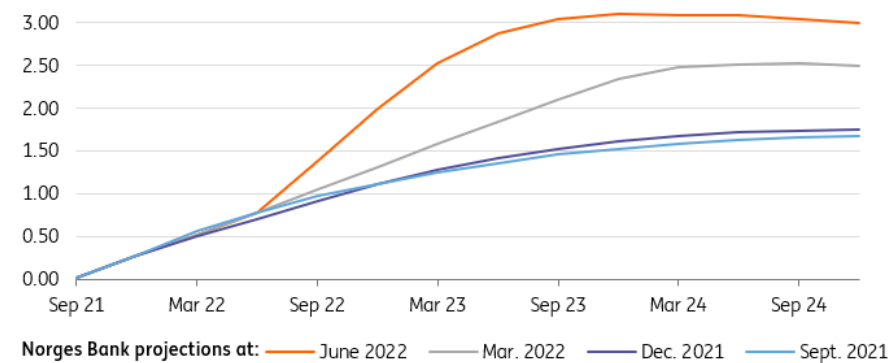


Source: Macrobond, ING, Norges Bank

The net result is that policymakers now expect a terminal rate of 3% by next summer, up from their previous estimate of 2.5%. Interestingly, NB is pre-committing to another 25bp hike in August, and the new rate projection appears to factor in roughly 100bp of total additional tightening this year.

There's little reason to doubt this assessment right now. The guidance on a 25bp hike at the August meeting is fairly specific, and means we probably shouldn't expect another surprise 50bp hike at that meeting unless something dramatic changes. But there is a certain advantage to frontloading in this environment, especially for an energy-intensive economy like Norway's. We probably shouldn't rule out another 50bp hike at the September meeting. Failing that, a rate rise at every remaining meeting this year looks increasingly likely.

Norges Bank rate projections compared over time



Source: Norges Bank, ING

NOK: Short term remains challenging

EUR/NOK traded lower only quite briefly after Norges Bank's rate hike, despite the swap market indicating that a 50bp was not priced in. Our impression is that markets remain reluctant to enter long-NOK positions in the current environment, as the low-liquidity character of the krone makes it exceptionally unattractive in periods of unstable risk sentiment. We think NOK will remain vulnerable in the near term on the back of this.

Accordingly, we think that the benefit to the krone from a more hawkish Norges Bank - as well from high energy prices - will become more visible in the second part of the year, when a potentially calmer risk environment may allow the krone to re-connect with its very attractive set of fundamentals. We still target a return to sub 10.00 levels in EUR/NOK by the end of the year.

Author

James Smith

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

Francesco Pesole

FX Strategist
francesco.pesole@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

THINK economic and financial analysis

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 www.ing.com.