

Norges Bank turns even more hawkish amid high energy prices

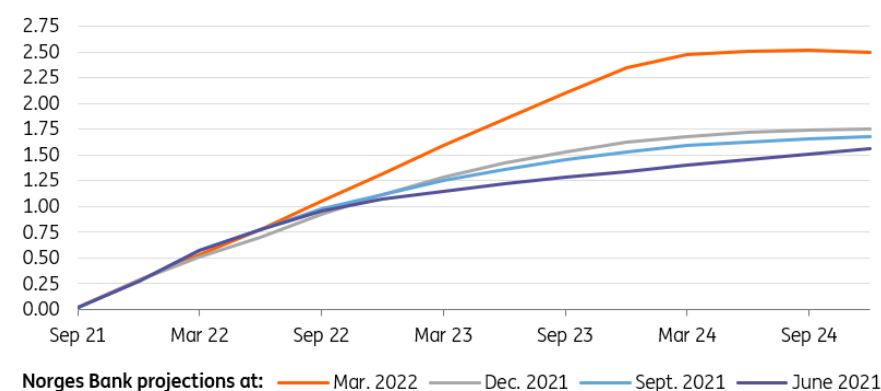
Norway's central bank has hiked rates again, but more importantly now sees three more hikes by the end of 2023 than it had previously envisaged. There's no reason to doubt this and we expect at the very least, three more hikes this year. EUR/NOK still looks likely to trade sustainably below 9.50 in the near term



Norway's central bank has hiked rates for the third time, taking the deposit rate up to 0.75%. This will come as very little surprise given policymakers had made it abundantly clear, both in the December projections and again at the first meeting of 2022, that this was the plan.

But the bigger news is that Norges Bank has considerably upgraded the number of rate hikes it expects to implement by the end of 2023. The central bank now projects seven further moves – so one a quarter- until the end of next year, up from the four it had previously pencilled in. The chart below shows just how big a change this is, compared to the incremental revisions to the rate projection over the past few meetings.

Norges Bank projects seven more hikes by the end of 2023



Source: Norges Bank

Again though, none of this should come as a big surprise. The surge in energy prices is a boon for Norway's energy-intensive economy, though interestingly the central bank points out that this time it may be less consequential for growth than in the past decade, where tax changes meant we saw considerable investment in the energy sector.

The increase in interest rate expectations elsewhere, notably for the Federal Reserve, is also a clear hawkish factor for Norway – and in fact, the monetary policy report reveals that at least one of those three additional hikes now being pencilled in by Norges Bank is exclusively because of higher swap rates overseas.

For now, there's very little reason to doubt these projections. There is an outside chance of an even faster adjustment in rates, though experience from the 2018/19 hike cycle and indeed over the past few months, suggests policymakers are more comfortable hiking rates in 25 basis point increments.

EUR/NOK still likely to trade below 9.50

Despite a mildly negative reaction from Norway's krone - which had rallied into the meeting - we think that the hawkish projections by Norges Bank all but reinforce the rate outlook for the krone.

With gas prices back on the rise, NOK remains an attractive currency, unlike the euro, and we therefore expect EUR/NOK to slip back below 9.50 in the near term and approach the 9.41 2018 lows.

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