

Norges Bank turns even more hawkish amid high energy prices

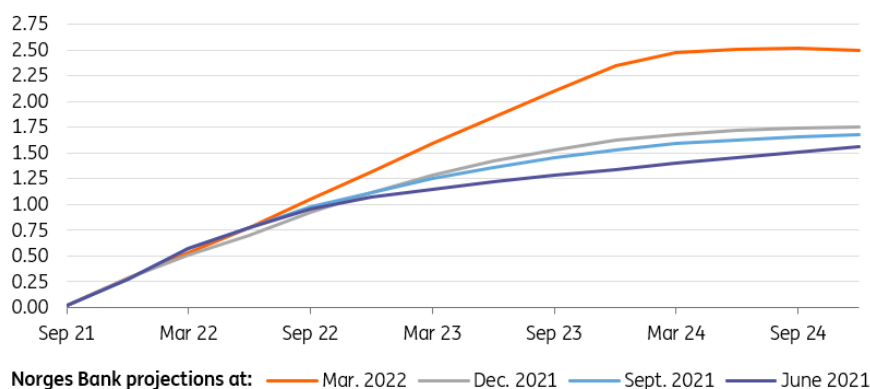
Norway's central bank has hiked rates again, but more importantly now sees three more hikes by the end of 2023 than it had previously envisaged. There's no reason to doubt this and we expect at the very least, three more hikes this year. EUR/NOK still looks likely to trade sustainably below 9.50 in the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

Authors

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 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>.