

Norway: Hawkish central bank leaves upside for the krone

The Norges Bank has reiterated its intention to hike rates later this year, and the only question is whether this happens in September or December. Either way, this bodes well for the krone and we look for EUR/NOK to head to 9.80 by year-end



Norges Bank set to lead the pack on tightening

Norway's Norges Bank has once again cemented itself as the hawkish outlier in the developed markets' central bank arena. At the latest meeting, policymakers have reiterated their intention to hike rates before the end of the year, and the only remaining question is whether this happens in September or December.

Of course this partly depends on the main inputs into Norges Bank's fairly mechanical interest rate setting – chiefly oil, but also things like foreign market rates. Assuming oil prices remain supported and the direction of global yields is up, the timing of the rate hike will probably depend on the strength of the recovery in Europe over the summer. Naturally that's intrinsically linked to the Covid-19 situation and whether vaccines are successfully keeping new variants at bay.

For now, we've pencilled in a December move – and that's perhaps supported by some slightly

cautious comments in the latest policy statement on inflation and the risks surrounding the recovery.

NOK: No fireworks today but more gains lie ahead

The Norges Bank meeting had a limited impact on the krone with EUR/NOK largely unchanged. This is not a surprise given no new NB economic forecasts have been presented, and the guidance on policy rates remains the same. That is "the policy rate will most likely be raised in the latter half of 2021."

Looking ahead, we remain upbeat on NOK and expect EUR/NOK to persistently settle below the 10.00 level from summer onwards as the rebound in the eurozone and Norwegian economies, the more synchronised global recovery in the second half of the year and the NB being closer to the start of the tightening cycle all benefit the pro-cyclical NOK. The supportive environment for commodity prices is also good news for the oil-exposed currency. We target EUR/NOK 9.80 by year-end.

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