

Norges Bank hikes and promises one more in December

Norges Bank delivered a well-telegraphed 25bp hike today, but surprised markets by signalling rates will likely be increased again to 4.50% in December and left at that level throughout 2024. Despite the hawkish surprise, EUR/NOK has remained attached to the 11.50 gravity line. This will continue to be the case until the external environment swings



Oslo, Norway. Higher oil prices and the rise in global market rates have convinced Norway's policymakers to add in another rate hike in December

One last hike in December

Norges Bank has hiked rates by another 25 basis points, which won't come as much of a surprise given that this is what it told us it would do back in August.

What's more surprising, perhaps, is that Norges Bank has added an extra rate hike for later this year. Previously, the central bank had been signalling that 4.25%, where rates are at as of today, would probably mark the peak. And since then, the trade-weighted NOK, while weaker than it was, is still stronger than had been assumed in the June projections. Core inflation has been largely as expected too.

Instead, it appears to have been higher oil prices and the rise in global market rates over the summer that has convinced Norway's policymakers to add in another hike for December. Unlike some other central banks, Norway has a history of following through with precommitments, so there's little reason to doubt what has been signalled today. December's rate hike, assuming it comes through, is likely to be the last.

Krone still waits for external cues to rally (or move at all)

This was a hawkish surprise, but the reaction in the FX market was small. EUR/NOK traded lower after the announcement but remains stubbornly tied to the 11.50 mark. This is quite unusual: NOK is the least liquid currency in the G10 and normally one that experiences some of the largest swings.

The collapse in NOK's historic volatility appears to signal that markets are on a holding pattern when it comes to the krone. The still-uncertain risk environment and higher-for-longer promise by the Federal Reserve is not good for the high-beta NOK, but oil is higher, and as we saw today Norges Bank continues to offer support to its currency via tighter monetary policy. Lower FX purchases would be a very welcome development for the krone, but it seems likely those will be kept quite elevated into year-end.

Once the US story and the dollar turn lower, NOK should be at the forefront of the rally in pro-cyclical currencies, and today's hawkish hike by Norges Bank endorses this view. For now, however, 11.50 is the gravity line, and only a change in external conditions seems likely to shake NOK from its low-volatility torpor.

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