Norway's central bank signals a Christmas rate hike

Rising oil prices mean that the Norges Bank is on track to deliver a December rate hike and most likely three further 25bp increases during 2022. With little room for more hawkish re-pricing before the December meeting, we argue that the moderately overvalued NOK runs the risk of correcting lower in the short-term.

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

Norges Bank hiked rates back in September and hinted at the time that another was pretty much nailed-on before the end of the year. True to form, policymakers have used their 'in-between' meeting this week to formally signal that a pre-Christmas rate hike is on the way.

More importantly, the central bank has forecast a further three rate rises next year, and there's little reason to doubt that right now. Higher oil prices are an obvious hawkish factor for policymakers, even if this is somewhat offset by a NOK rally that has eclipsed official forecasts from September.

The recent repricing of other central banks means Norges Bank is no longer the hawkish outlier it appeared to be only a few weeks ago. But evidence from 2019 suggests that Norway, where central bankers hiked several times at a time where the Fed was cutting, indicates that Norges

Bank is still likely to be among the most rapid rate-hikers in the G10 space through 2022.

FX: NOK faces moderate downside risks before the December meeting

The Norges Bank statement was fully in line with expectations, giving markets no reasons to question their current Norges Bank rate expectations. NOK, which we argue is modestly overvalued (by around 2%) in the short term, is still running some risk of correcting lower before the 16 December NB meeting, in our view. The trigger for a correction is, however, likely to come from some deterioration in external factors (risk sentiment or oil prices) - the domestic picture remains robust and the NB appears to be quite credibly delivering on its tightening plans.

With not much more room for hawkish re-pricing to further lift NOK, the hawkish NB stance should play out as a currency-positive only by raising NOK's carry attractiveness, which should only offer support in the longer run. We continue to target 9.70 in EUR/NOK for the end of this quarter.

Author

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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com