

Norway 360: Weekly Markets (Re)View

17 March 2025

Content and summary

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Summary: Rate Market Views

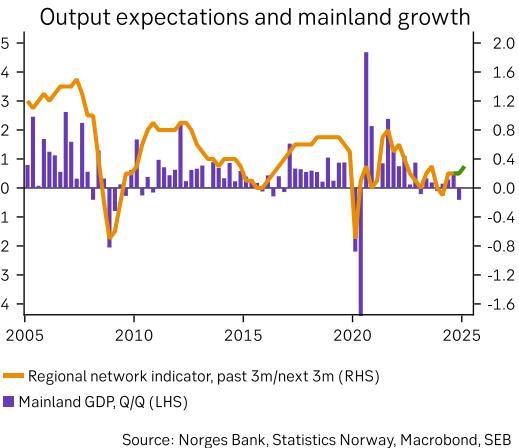
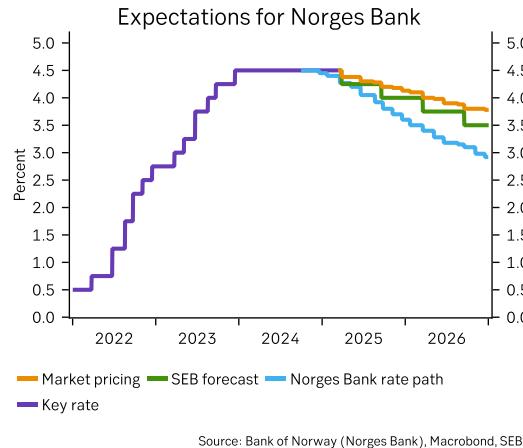
- **The Regional Network Report due Thursday will be decisive for consensus and market's expectations on Norges Bank's upcoming Mar 27th rate decision and MPR.** Absent any surprises to output, capacity utilization and wage growth expectations, we continue to see a March rate cut as the most likely scenario, although the rate path will be lifted notably. We now expect 2 cuts in both 2025-2026, read more [here](#).
- **No real policy tightening?** The market discounts higher real rates in coming years (2Y1Y adj. for inflation target) relative to current real 3M Nibor (adj. for core CPI). This implies that either 1) the market expects a real policy tightening rather than easing in Norway, or 2) the market doesn't believe the inflation target will be achieved. In comparison, the market discounted a real policy easing in USD, EUR and SEK prior to the first rate cut.
- **CTA and trend followers:** Last week's inflation surprise and following repricing have triggered a strong paying signal in NOK rates.
- **Active and current trades:** Keeping rate convergence trades expressed vs. US/Swe & fwd steepener. Still looking to enter 10y10y/5y5y higher by mid April.

Summary: FX Market Views

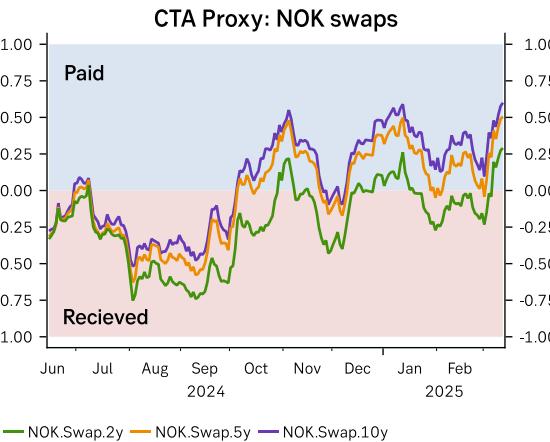
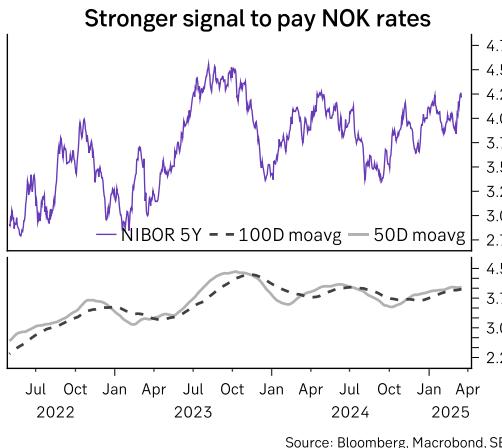
- **NOK overvaluation.** The krone has strengthened on back of high inflation triggering a repricing in the market. The NOK looks stretched according to our short-term fair value model, which is indicating a potential overvaluation in NOK vs. all other G10 currencies in the analysis.
- **Focus is now back on global factors as the rate factor appears exhausted, i.e., energy prices and risk sentiment.** The Trump administration's agenda to increase energy output should put medium term downside pressure on oil/gas prices, capping the upside in NOK.
- **Focus will increasingly turn to trade policies as April approaches,** due to the US trade investigation report. We see NOK as a relative winner since Norway has little exposure to goods tariffs compared to other G10 countries. However, risks are clearly for a (temporary) weaker risk sentiment which would weigh on the NOK.
- **Equity rotation part of Scandie performance,** but defense only constitutes a small share of GDP. NOK has gained some support from positive European equity flows, but commodities remain the primary driver. Recent movements can largely be attributed to rate differentials.

Highlights: Rate Market Views

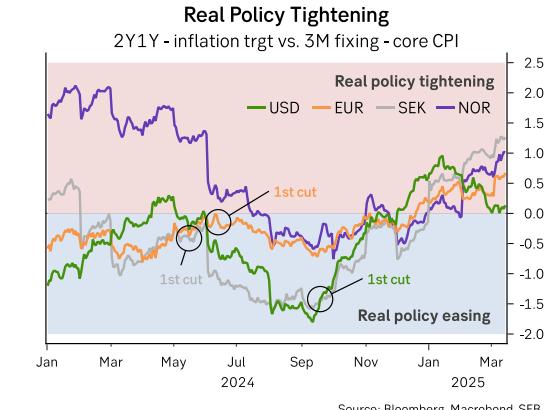
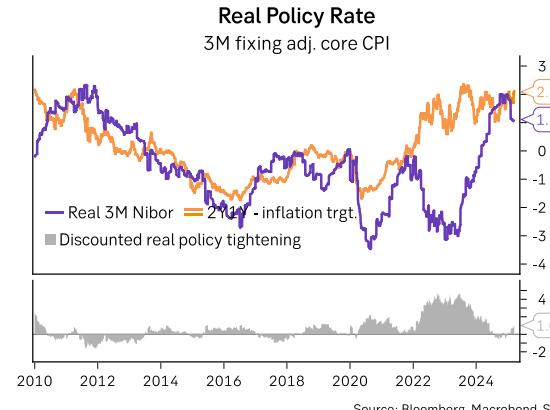
- **Regional Network Report is the last and decisive input ahead of the Mar decision.** Absent any surprises to output, capacity utilization and wage growth expectations, we continue to see a March rate cut as the most likely scenario, although the rate path will be lifted notably. We now expect 2 cuts in both 2025-2026, read more [here](#).



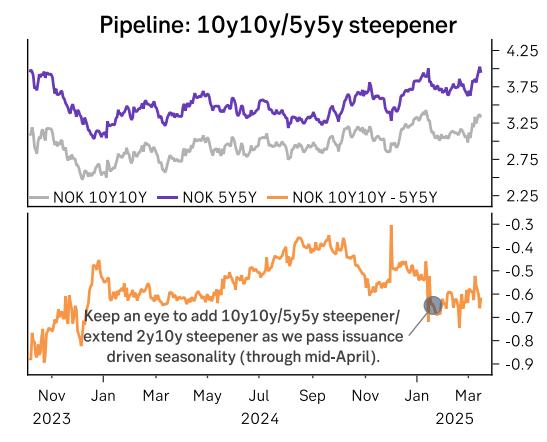
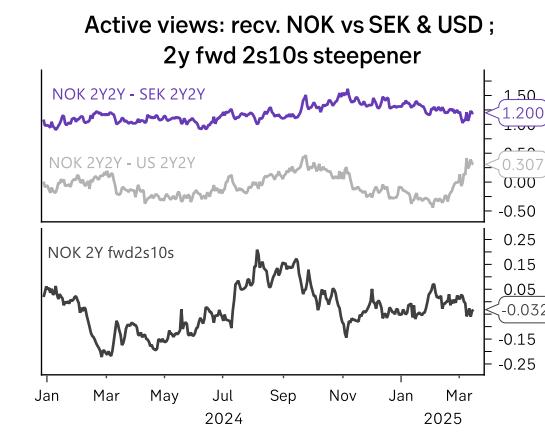
- **CTA and trend followers:** Last week's inflation surprise and following repricing have triggered a strong paying signal in NOK rates.



- **No real policy tightening?** The market discounts higher real rates in coming years (2Y1Y adj. for inflation target) relative to current real 3M Nibor (adj. for core CPI). This implies that either 1) the market expects a real policy tightening rather than easing in Norway, or 2) the market doesn't believe the inflation target will be achieved. In comparison, the market discounted a real policy easing in USD, EUR and SEK prior to the first rate cut.

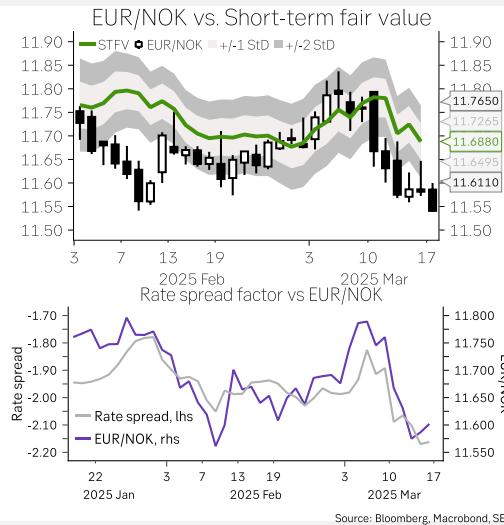
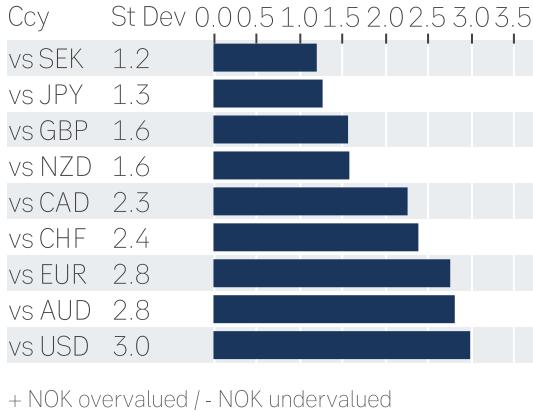


- **Active and current trades:** Keeping rate convergence trades expressed vs. US/Swe & fwd steepener. Still looking to enter 10y10y/5y5y higher by mid April.

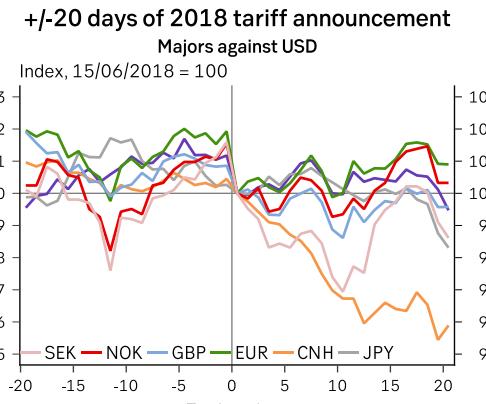


Highlights: FX Market Views

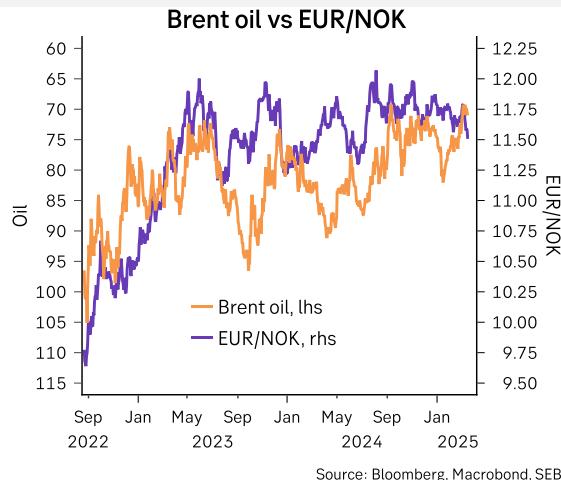
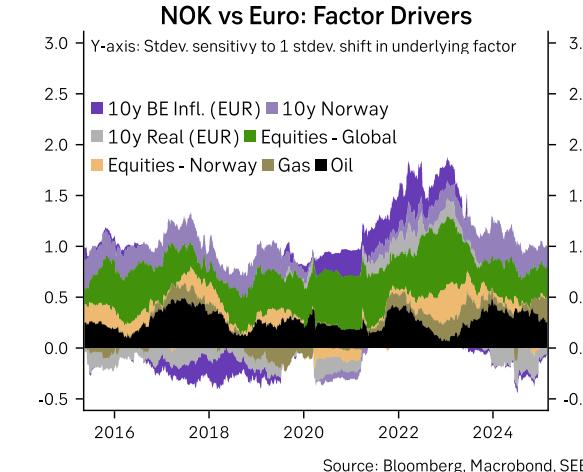
- The Norwegian krone looks stretched** according to our short-term fair value model, which is indicating a potential overvaluation in NOK vs. all other G10 currencies in the analysis.



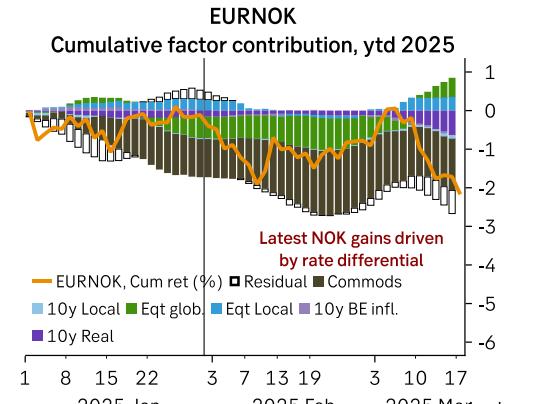
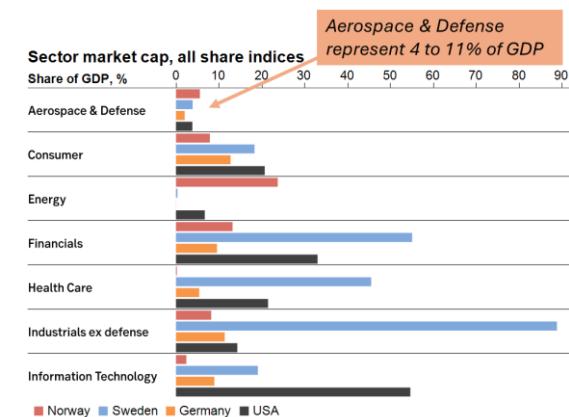
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- Focus is now back on global factors** as the rate factor is exhausted. The Trump administration agenda to increase energy output should weigh on oil/gas prices and the NOK over time.



- Equity rotation part of Scandie performance**, but defense only constitutes a small share of GDP. NOK has gained some support from positive European equity flows, but commodities remain the primary driver. Recent movements can largely be attributed to rate differentials.



Highlights: Upcoming Data & Events

Focal Points:

- The Regional Network Report (Thu) will be the last – and decisive input – ahead of the rate decision. Absent any surprises in growth momentum, capacity and/or wage growth expectations we continue to see a March rate cut as the most likely scenario, although the rate path will be lifted notably, signalling fewer cuts in total.
- Link to Norwegian macro projections and outlook in Nordic Outlook [here](#) (published Jan 28th).
- Auction:** Norway to reopen NOK 4bn in NGB 05/2035 and NGB 05/2039 on wed (11:00).

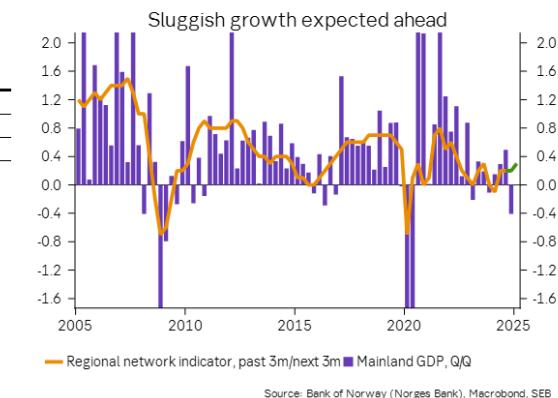
NOR: Regional Network Report

Thursday 20, 10.00

Aggregated output index	Dec-24	Sep-24
Past 3 months	0.2	0.2
Next 3 months	0.3	0.2

Capacity constraints | labour shortages 34% | 24% 34% | 24%

- Contacts expected output to rise 0.2% q/q in Q4, but sequential growth in mainland GDP showed a large downside surprise, declining 0.4% q/q. Annual growth therefore ended 0.3ppt lower than Norges Bank's 0.9% 2024 forecast. In the previous survey, contacts expected output to rise 0.3% q/q in Q1.
- Both capacity constraints and labour shortages were unchanged compared to the previous survey as well as the aggregate outlook on employment.
- The outlook in the network report will be decisive for the upcoming March rate decision. Absent any surprises to growth momentum, capacity and/or wage growth expectations, we continue to see a March cut as the most likely scenario, although the rate path will be lifted notably signalling fewer rate cuts in total.

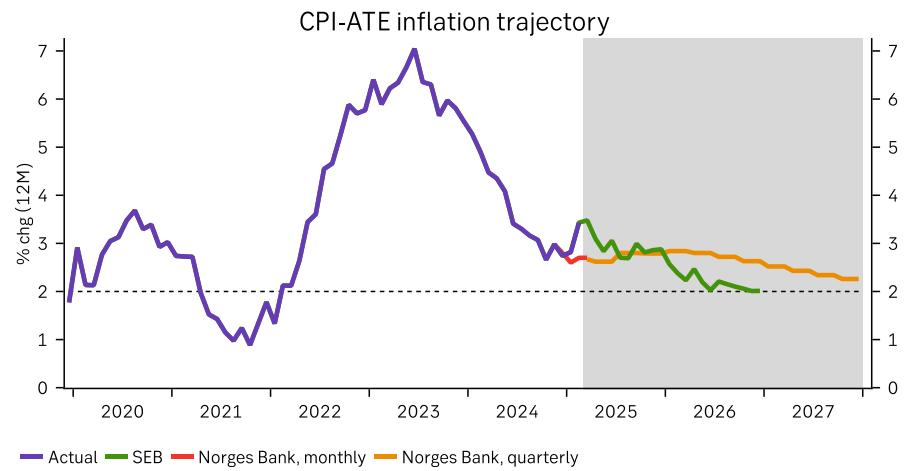
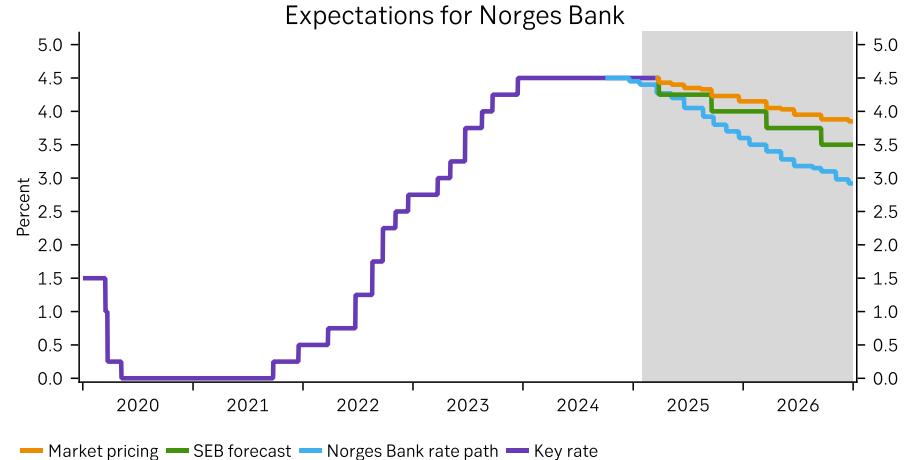


Highlights: Norges Bank Pricing

Norges Bank: The large upside inflation surprise has made a March rate cut more uncertain, despite Norges Bank's clear guidance for a 25bps reduction. We still lean towards a rate cut, noting that the Regional Network Report (due Mar 20th) could be decisive. Nonetheless, the rate path will be revised notably higher reflecting higher-than-expected wage and price growth, higher rates abroad and positive demand impulses from Europe. We have revised our near-term inflation trajectory higher but still see inflation falling faster than Norges Bank in H1 2026.

Norges Bank key rate (2025-03-17)								
Decision date	Market pricing		Norges Bank Dec 2024		SEB forecast		Market vs.	
	Policy rate	chg	Policy rate	chg	Policy rate	chg	NB	SEB
2025-01-23	4.50	0	4.48	-2	4.50	0	2	0
2025-03-27	4.43	-7	4.26	-22	4.25	-25	17	18
2025-05-08	4.40	-3	4.22	-4	4.25	0	18	15
2025-06-19	4.35	-5	4.10	-12	4.25	0	25	10
2025-08-14	4.33	-2	3.88	-22	4.25	0	45	8
2025-09-18	4.23	-10	3.82	-6	4.00	-25	41	23
2025-11-06	4.23	0	3.80	-2	4.00	0	43	23
2025-12-18	4.15	-8	3.73	-7	4.00	0	42	15
2026-01-22	4.15	0	3.58	-15	4.00	0	57	15
2026-03-19	4.05	-10	3.45	-13	3.75	-25	60	30
2026-05-07	4.03	-2	3.42	-3	3.75	0	61	28
2026-06-19	3.95	-8	3.30	-12	3.75	0	65	20
2026-08-20	3.95	0	3.25	-5	3.75	0	70	20
2026-09-17	3.88	-7	3.20	-5	3.50	-25	68	38
2026-11-05	3.88	0	3.15	-5	3.50	0	73	38
2026-12-17	3.85	-3	3.10	-5	3.50	0	75	35

Note: Decision dates in 2025, SEB's assumption thereafter.

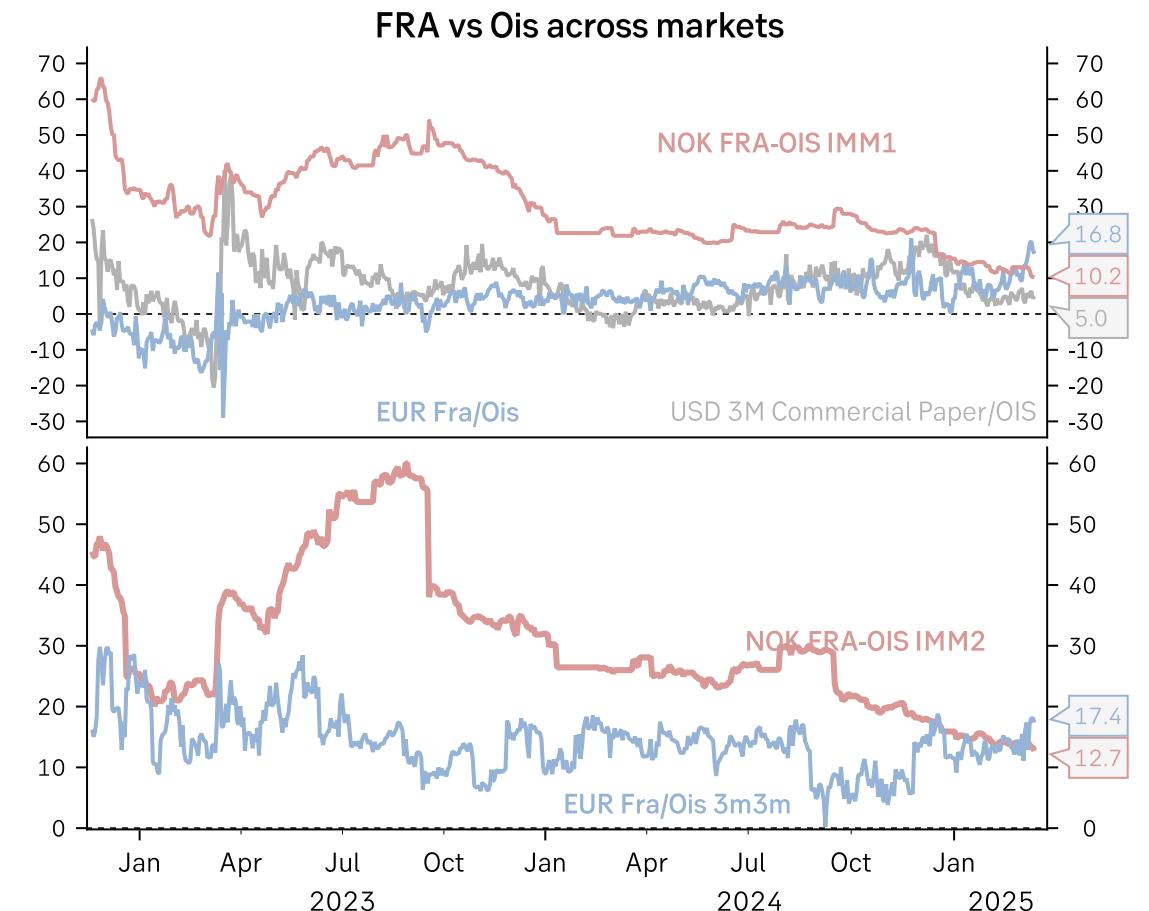
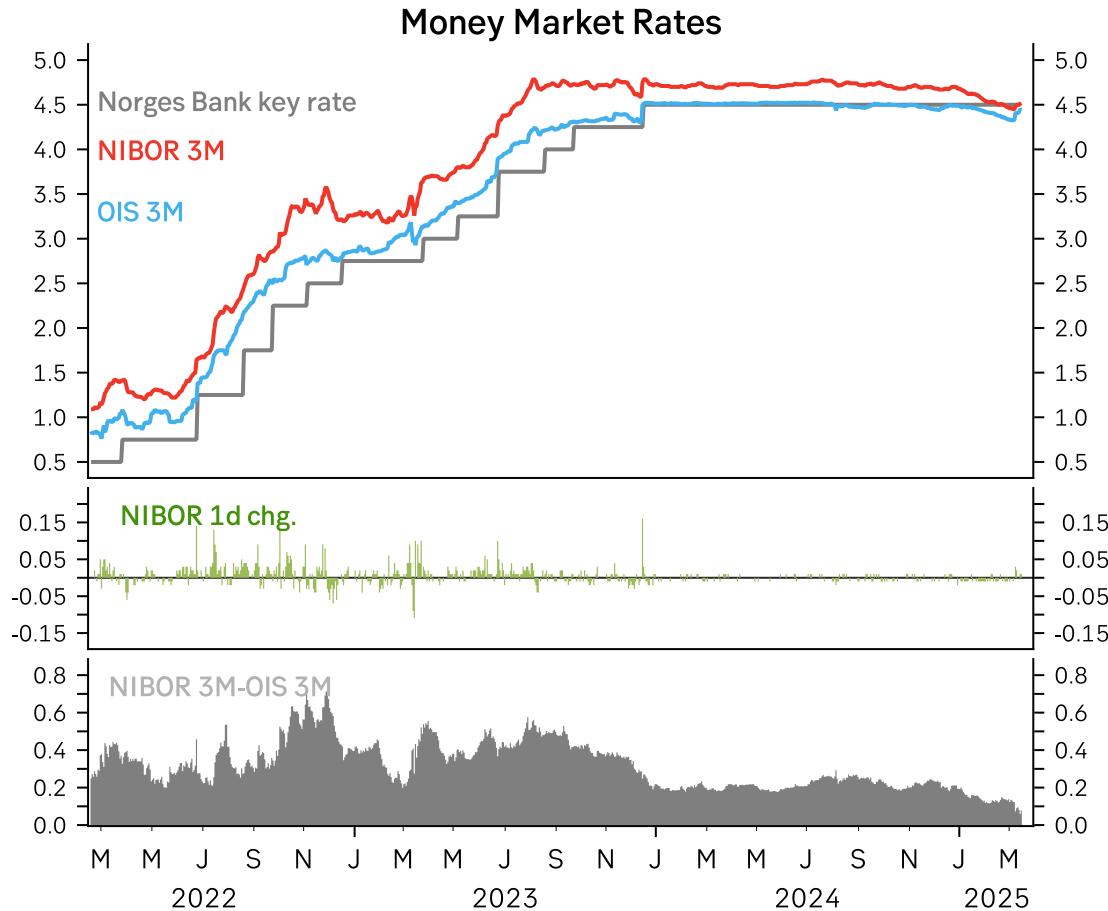


Standardized Market Review Slides

Interest Rates: Nibor & FRA-OIS

- NIBOR vs OIS (NOWA) & Norges Bank Repo Rate (upper)
- NIBOR 1d changes (middle); Nibor-OIS (bottom)

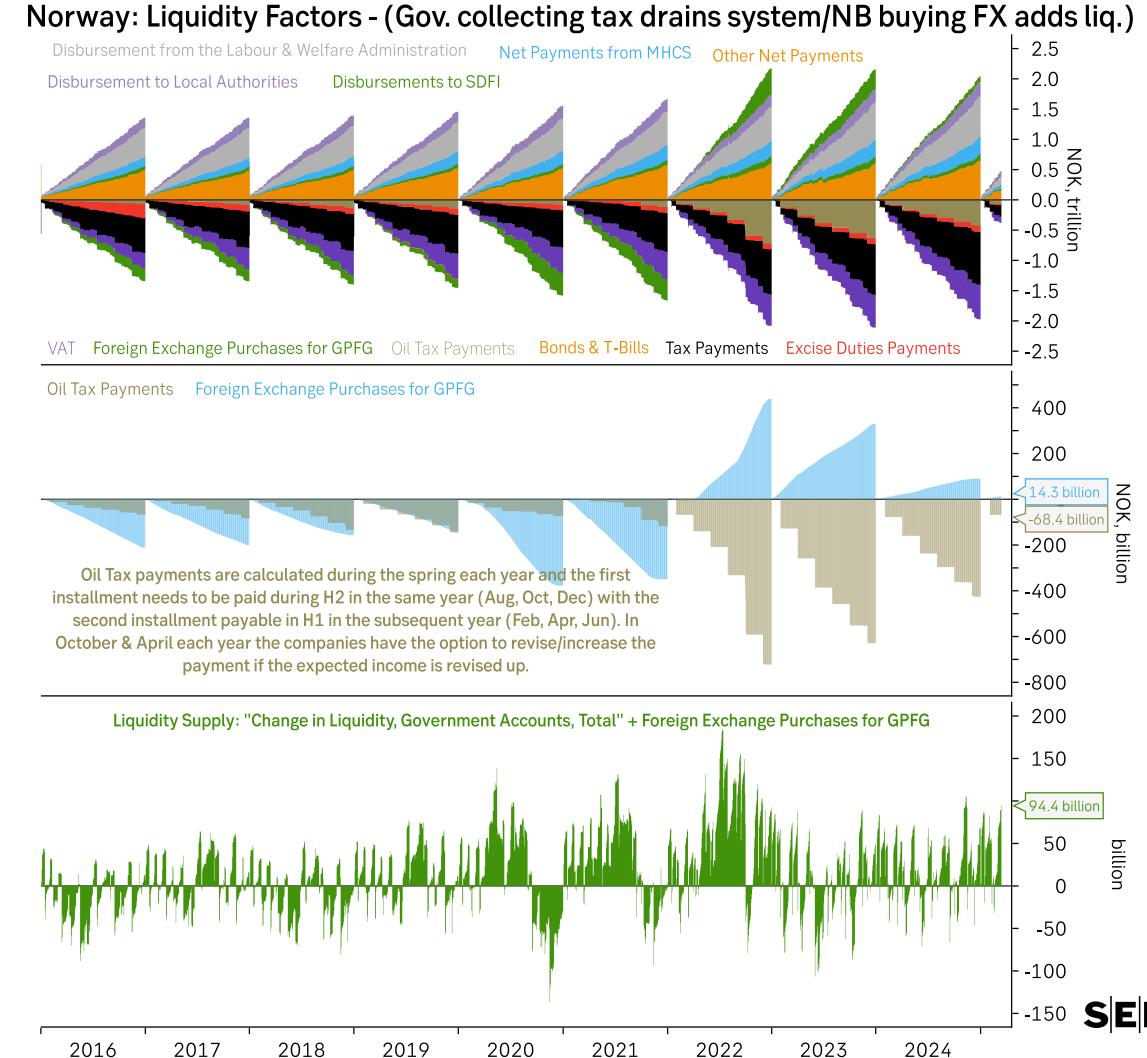
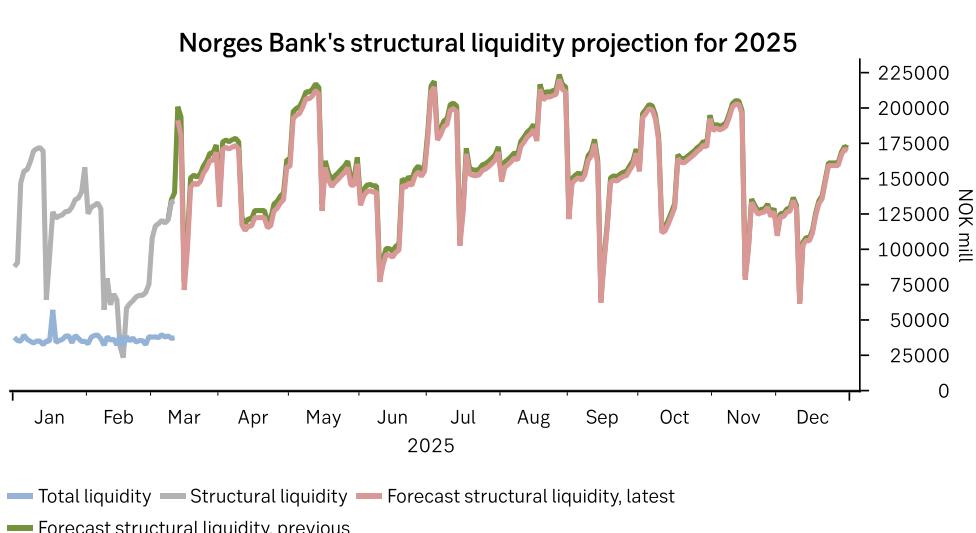
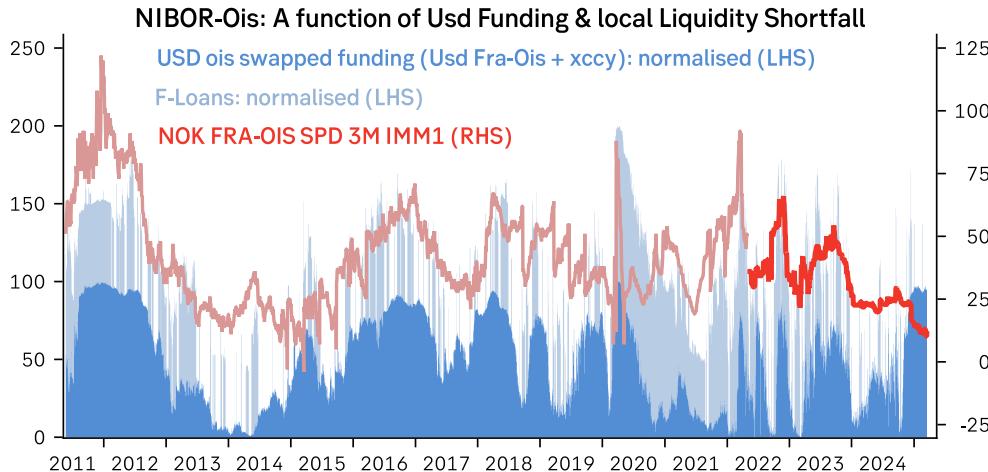
- FRA-OIS 3M cross country (upper) – (3M Commercial Paper vs OIS in US)
- FRA-OIS 3M3M cross country (lower)



Interest Rates: Nibor-OIS & Liquidity Dynamics

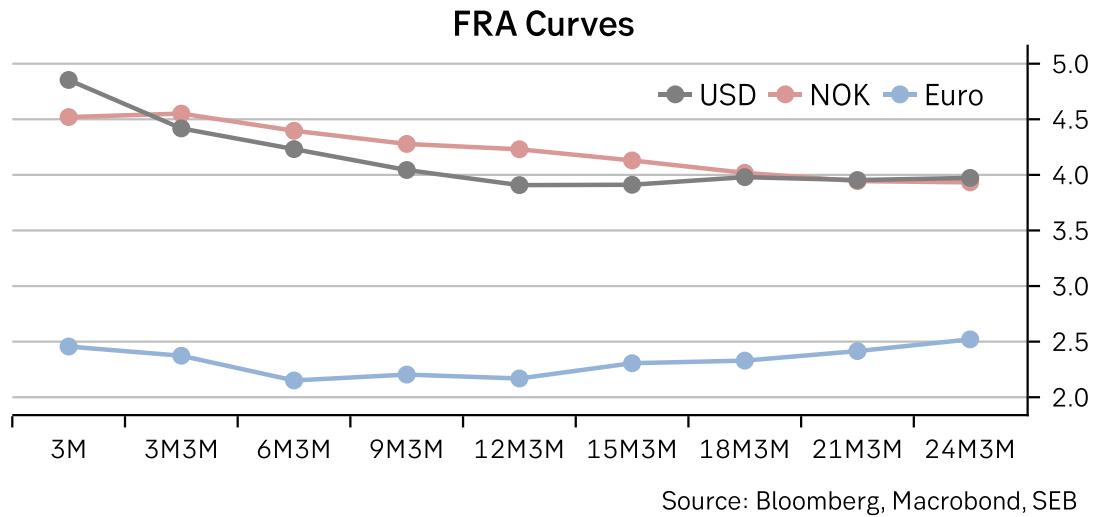
- NIBOR-OIS: Function of swapped USD funding & mmkt liquidity shortfall (F-loans)
- Norges Bank's Structural Liquidity forecast (lower)

- Liquidity supplying factors: Government revenues/disbursements (upper)
- Oil revenues contra FX purchases (middle) and net total liquidity effect (bottom)

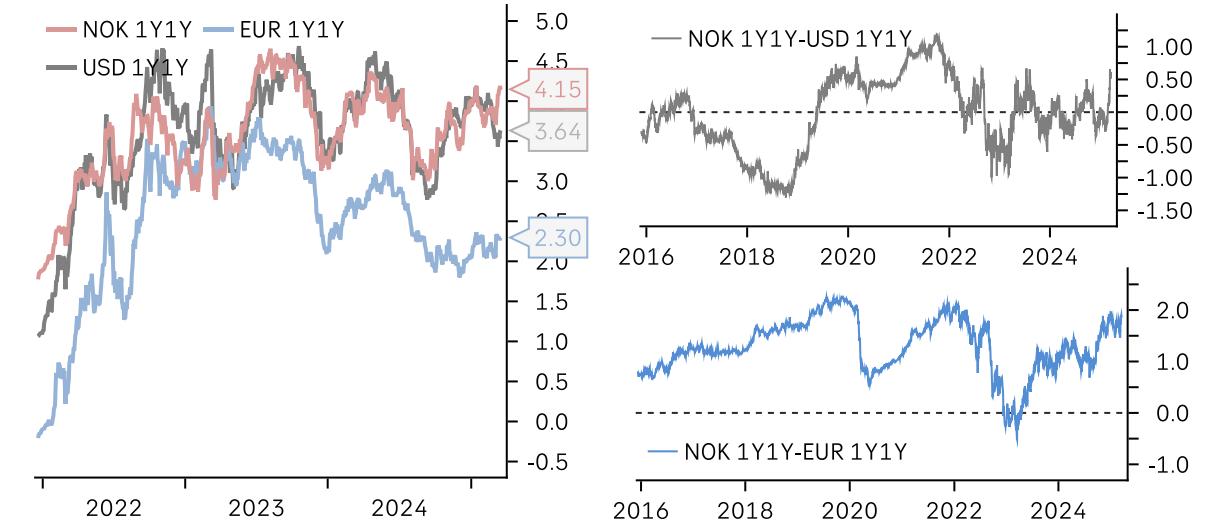


Interest Rates: FRAs & Swap Forwards

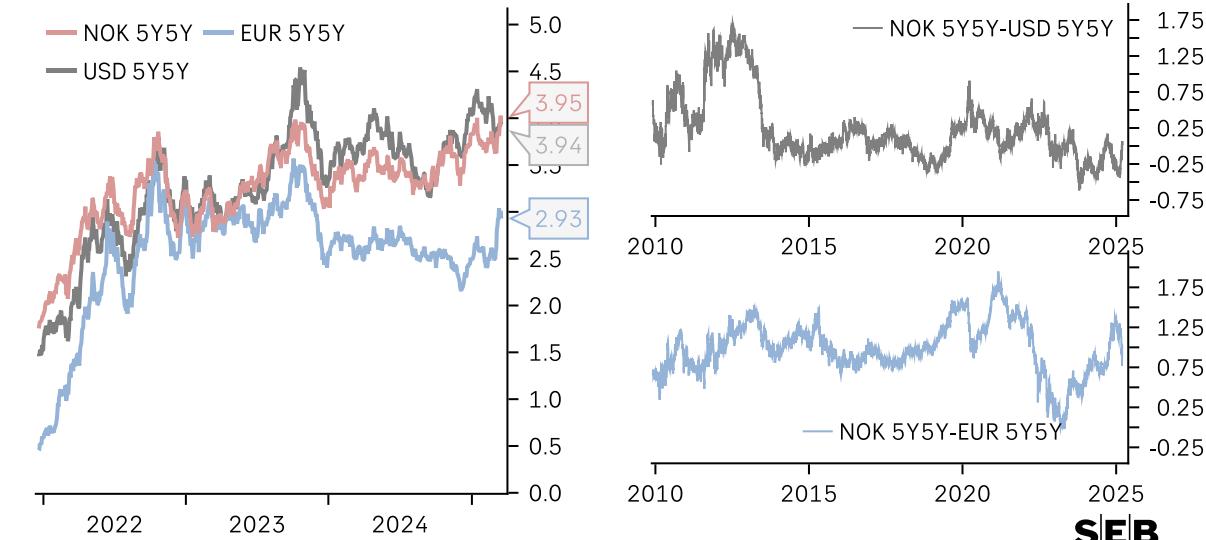
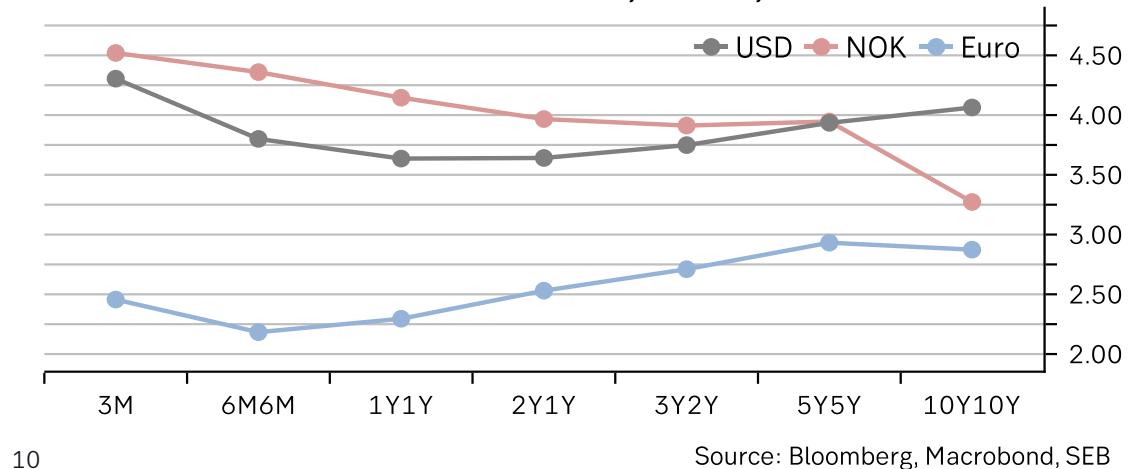
- Forward Curves: Swaps



- Cross country: 5y5y (lower) ; 1y1y (upper)

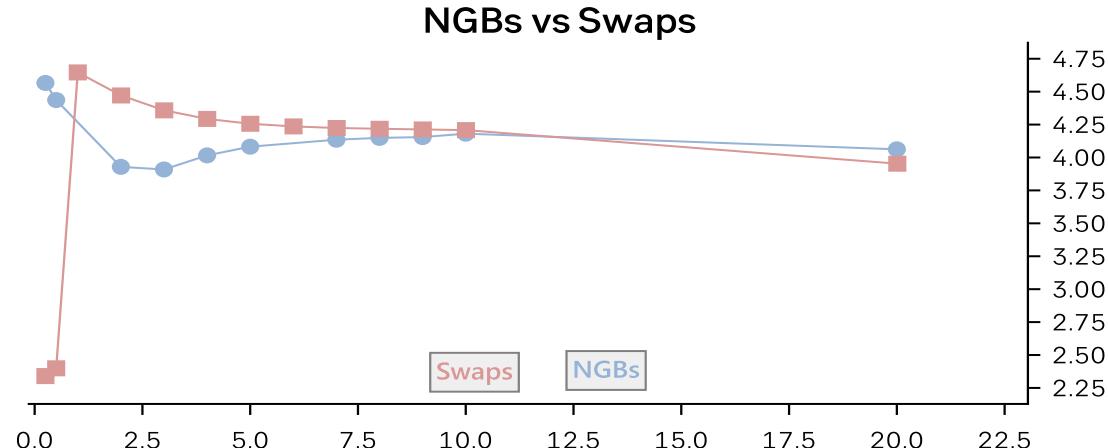


Forward Rates: Nibor, Euribor, SOFR

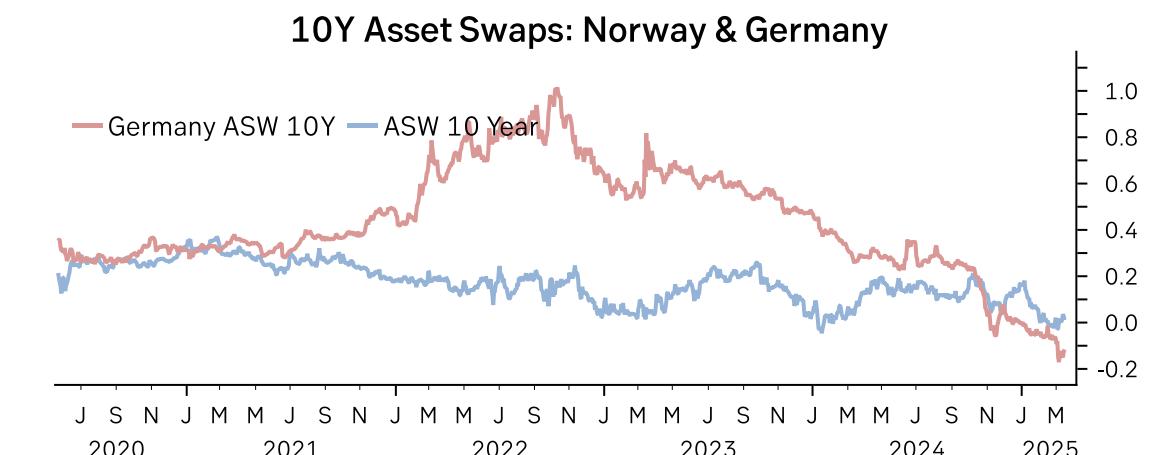
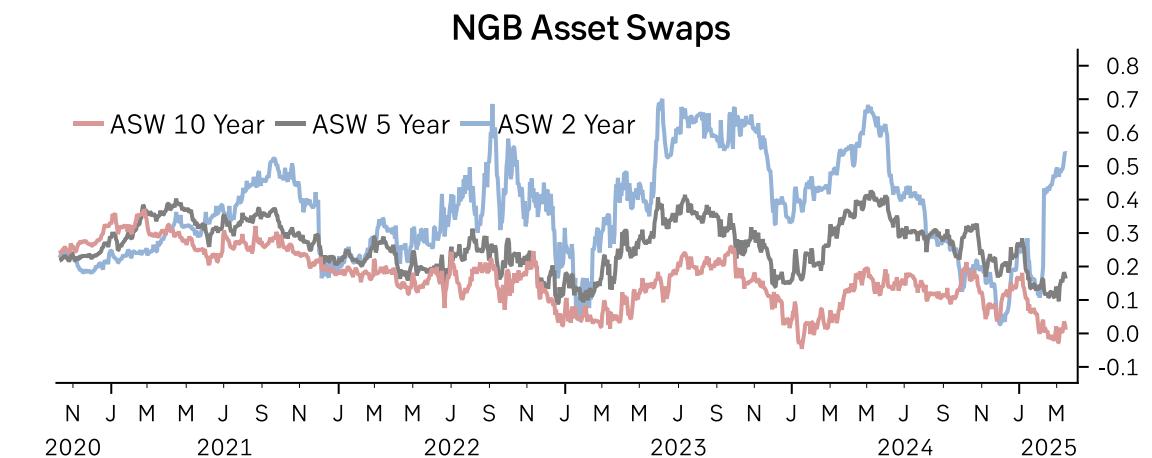


Interest Rates: NGBs vs Swaps

- NGB & NIBOR Yield Curves (upper)
- Asset Swap Term Structure (lower)



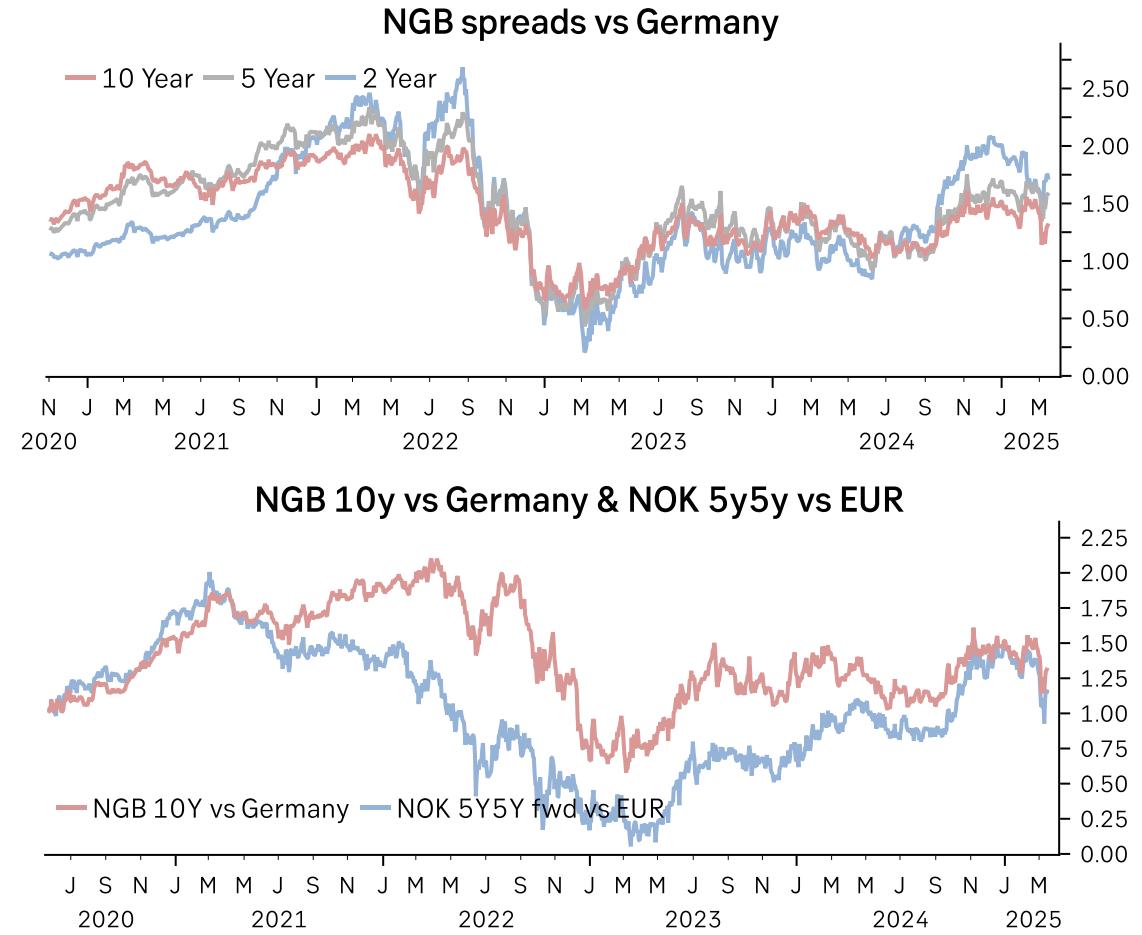
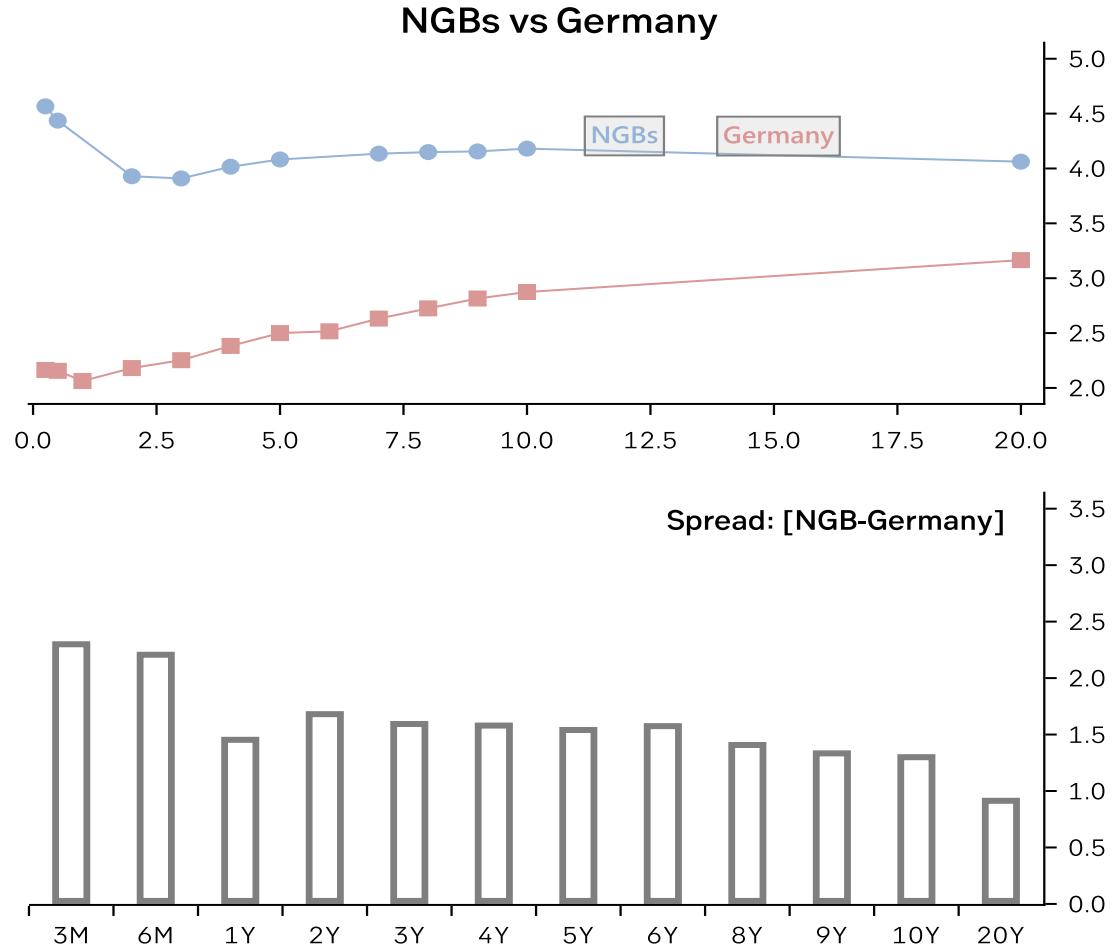
- ASW curve: 2Y, 5Y & 10Y points (upper)
- Norway 10Y ASW vs Germany (lower)



Interest Rates: NGBs vs Germany

- NGB & German Yield Curves (upper)
- NGB vs Germany Term Structure (lower)

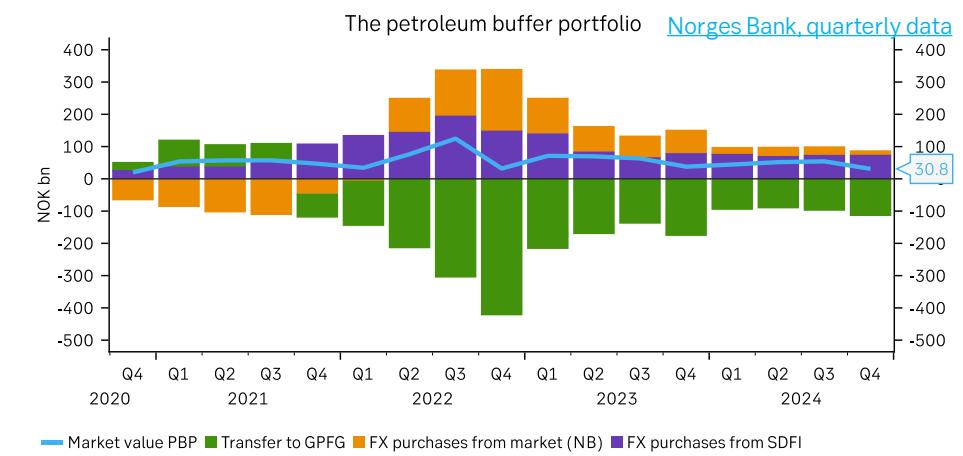
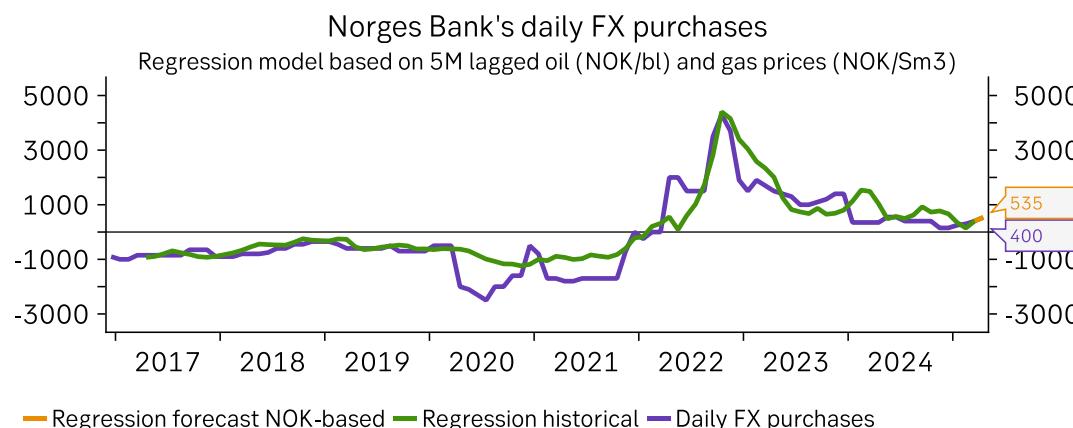
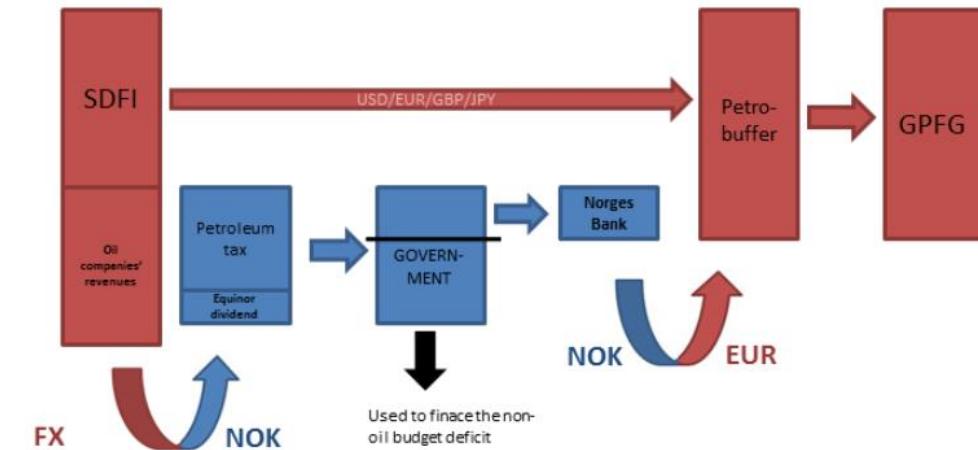
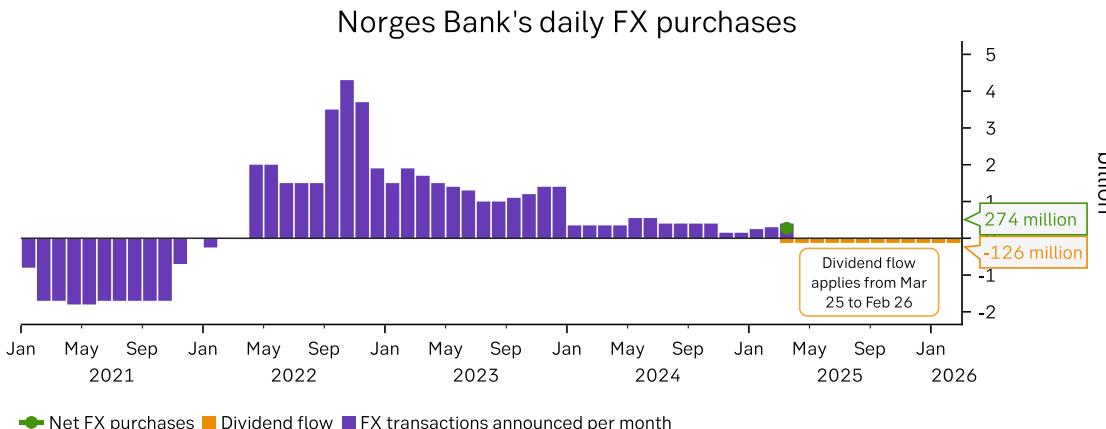
- Spread curve: 2Y, 5Y & 10Y points (upper)
- NGB 10Y vs Germany and NOK 5Y5Y vs EUR



FX: Oil Revenue conversion & Norges Bank Purchases

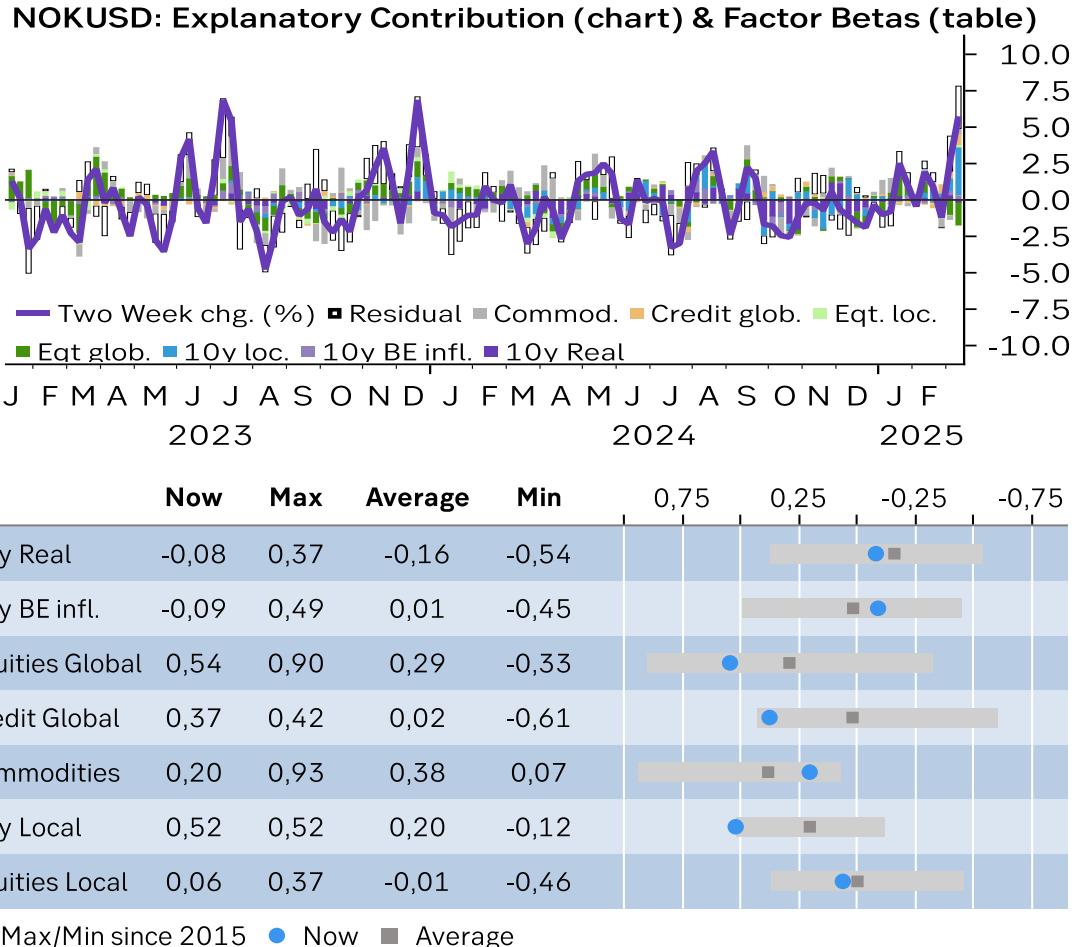
- **Average net FX purchases of NOK 274mn/day in March.**
 - Norges Bank will face 3 different FX transaction flows in 2025; (1) The 2025 budget proposal suggested NOK purchases of around 100mn/day (2) A NOK 82bn transfer from the state account to GPGF suggests NOK sales of around 340mn/day, (3) Funding of the transfer of dividends to the government will be 126mn/day in NOK purchases in the period between Mar25 and Feb26 (fixed amount).

- Current dynamics implies excess tax inflows that need to be converted:
$$FX \text{ purchases} = \text{petroleum taxes} + \text{dividends Equinor} - \text{non-oil budget deficit}$$
$$- \text{expenses SDFI} + \Delta \text{petro-buffer}$$

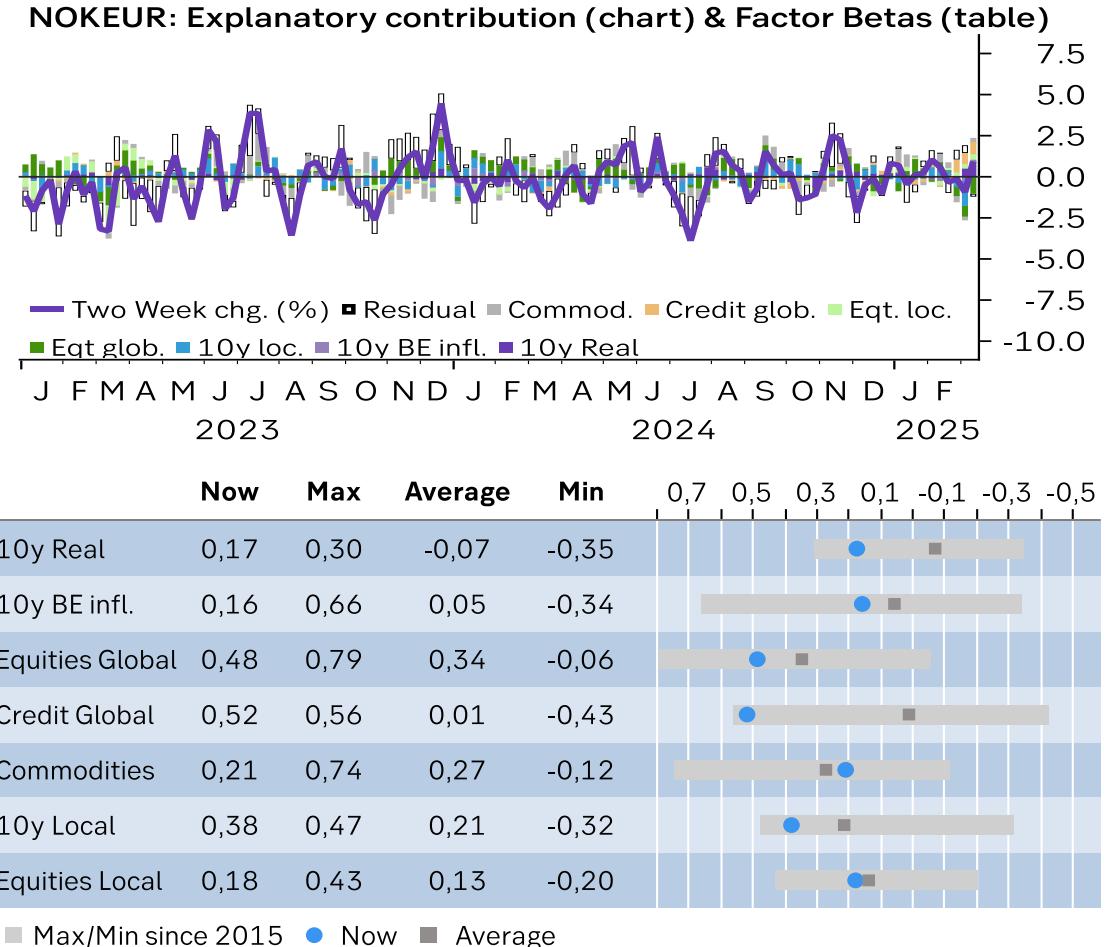


FX: Factor Drivers

- NOK/USD – Explanatory Factor Contribution (upper chart)
- NOK/USD – Factor Betas normalized in standard deviations (lower table)



- NOK/EUR – Explanatory Factor Contribution (upper chart)
- NOK/EUR – Factor Betas normalized in standard deviations (lower table)



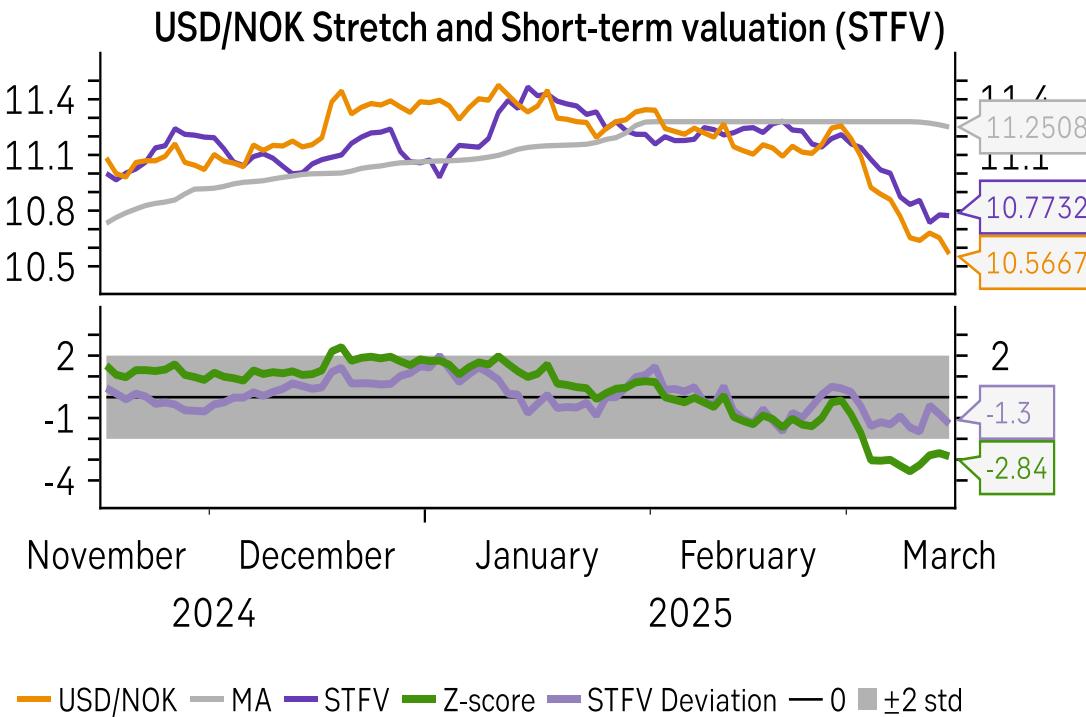
FX: Short-Term Fair Value

- USD/NOK – Short Term Fair Value model:

The framework generates mean reverting signals with a horizon of up to two weeks

- EUR/NOK – Short Term Fair Value model:

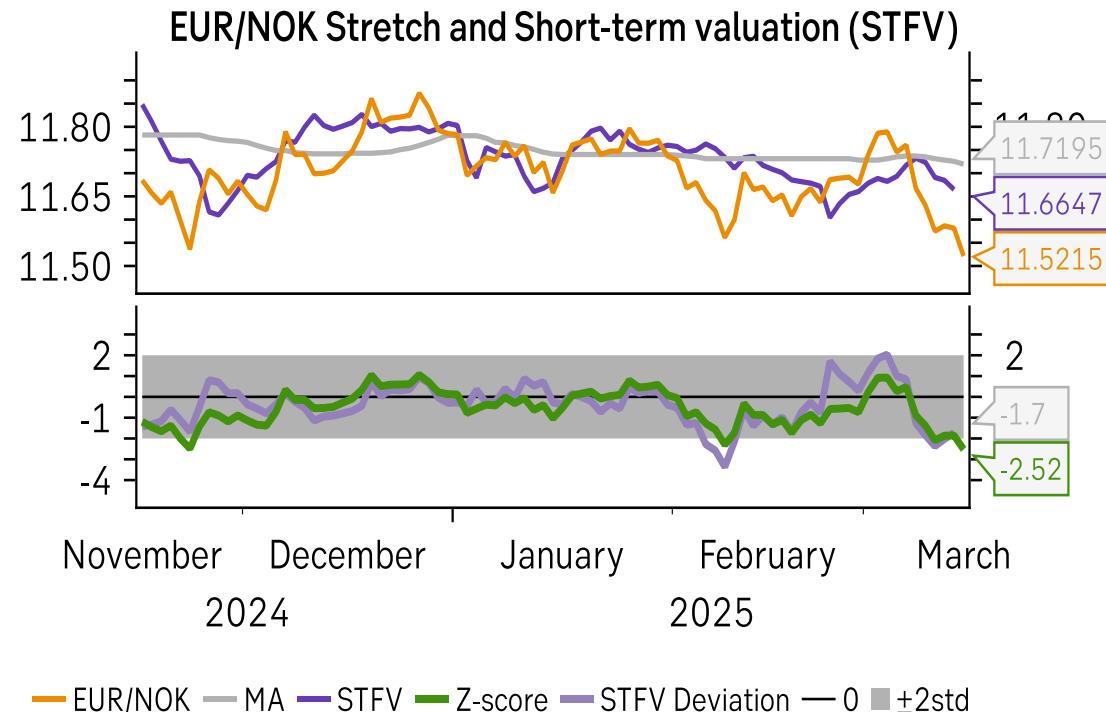
The framework generates mean reverting signals with a horizon of up to two weeks



MA is the 50 day moving average and **Z-score** is how much spot deviates from its MA expressed in a normalized term (i.e. adjusted for volatility)

STFV is the fair value of spot based on three general drivers of the specific currency pair. **STFV deviation** is how much spot deviates from this STFV expressed in a normalized term.

Generally deviations larger than +/- 2 standard deviations tends to be unsustainable

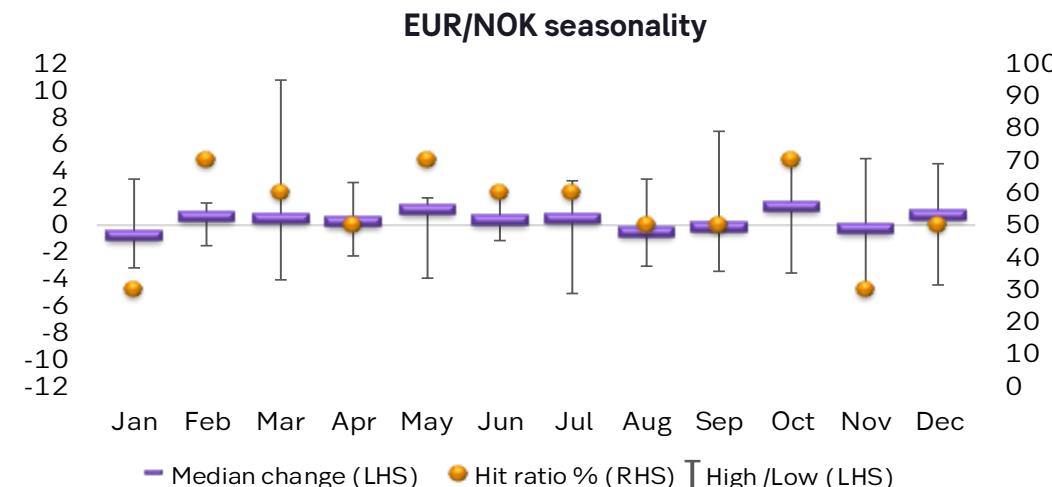
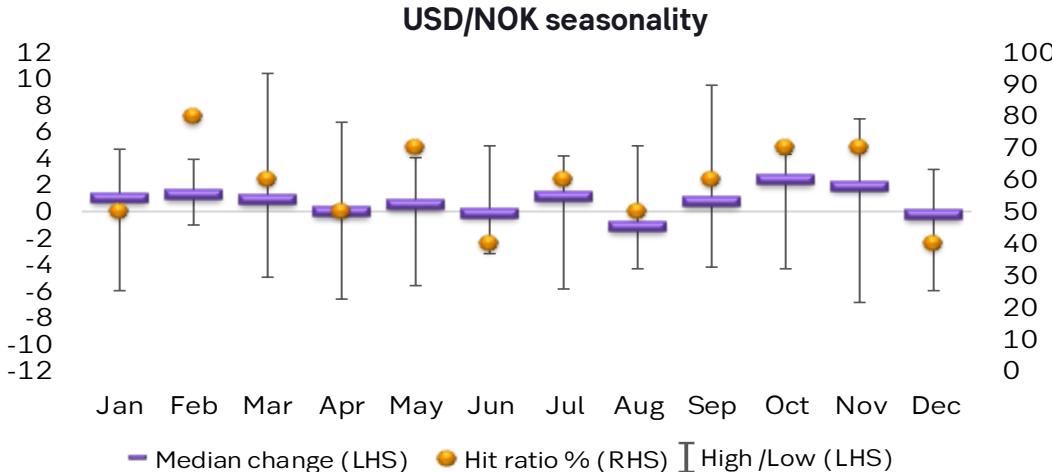


FX: Technicals – Positioning & Seasonality

- Seasonality:

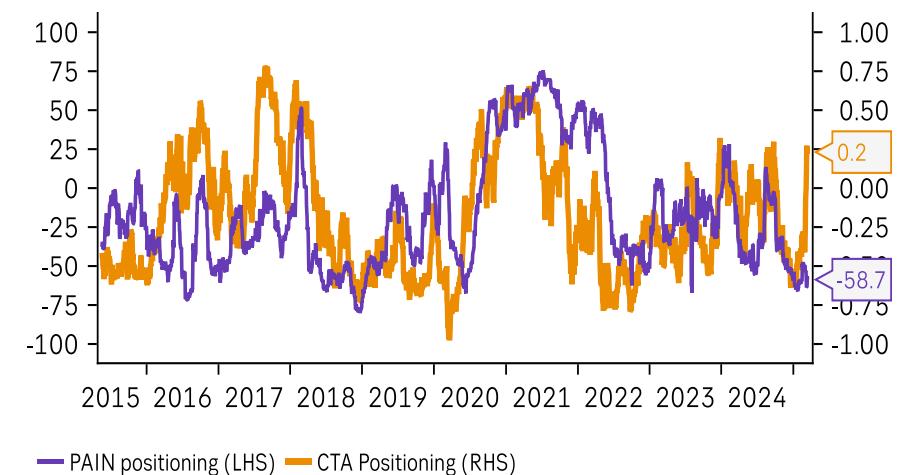
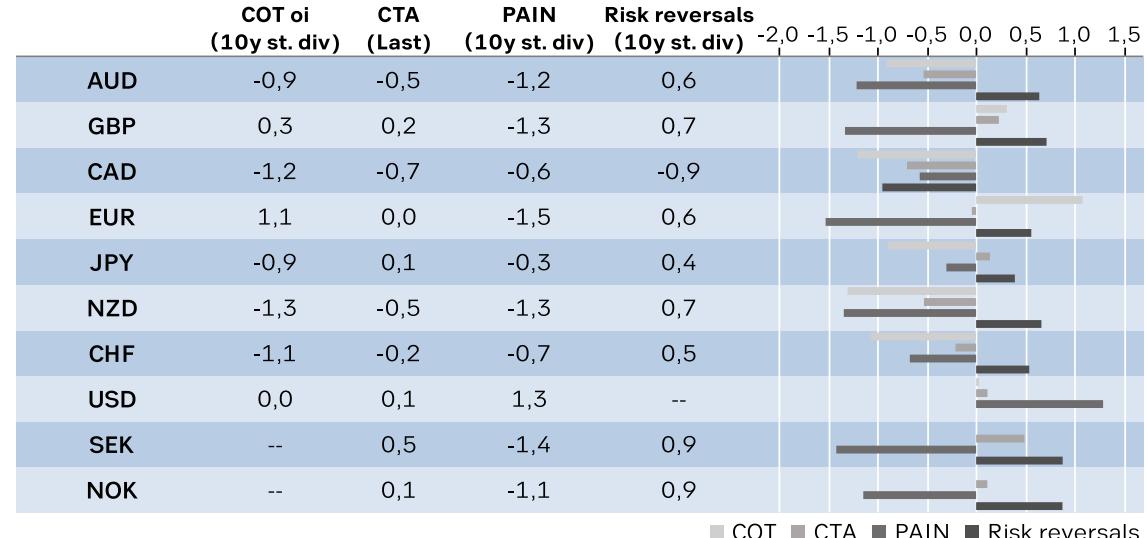
USD/NOK (upper)

EUR/NOK (lower)



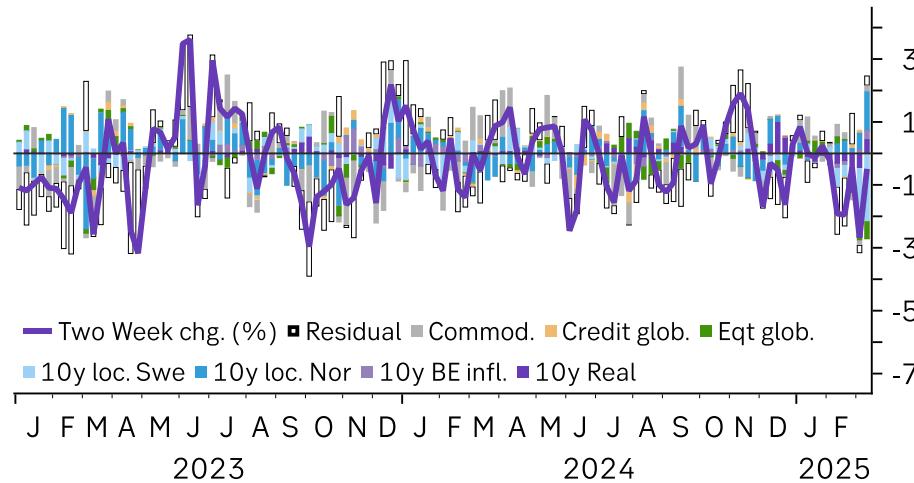
- G10 currency positioning (upper)

- NOK positioning indicators (lower)

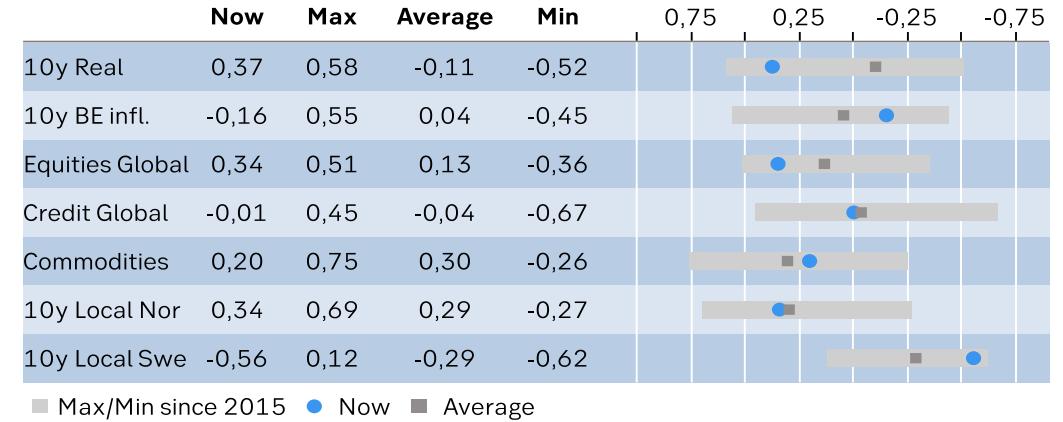


FX: NOK/SEK

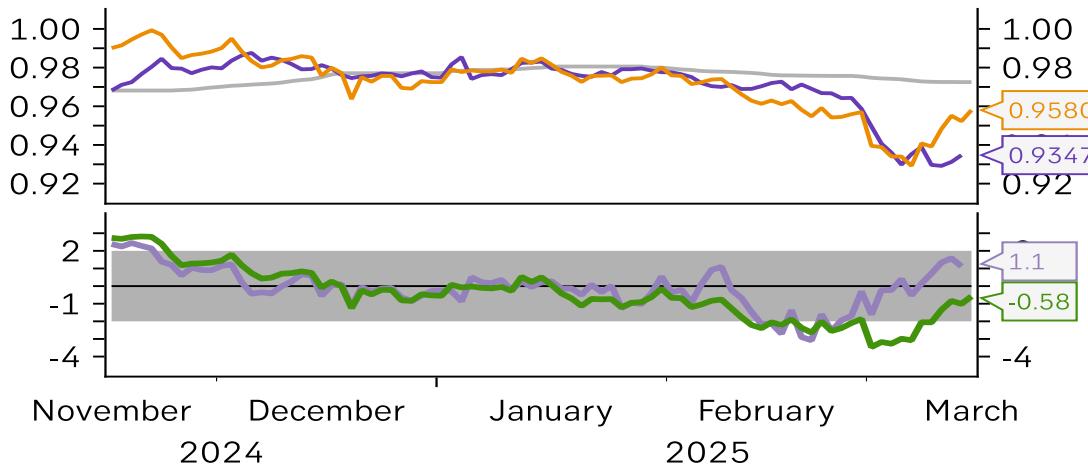
- Factor Drivers: Explanatory Contribution



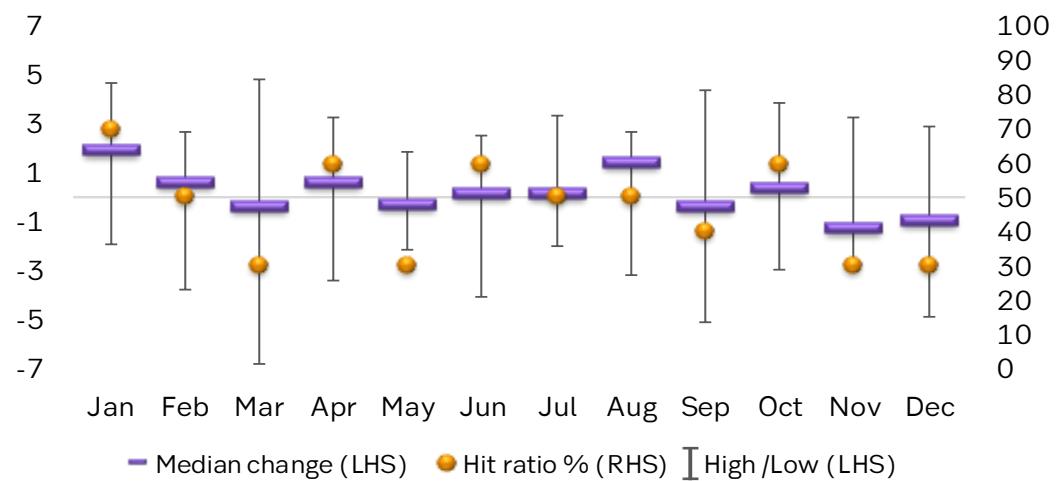
- Factor Sensitivity: (beta in stdev. - 2015 lookback)



- Short-Term Fair Value:



- Seasonality (NOK/SEK):

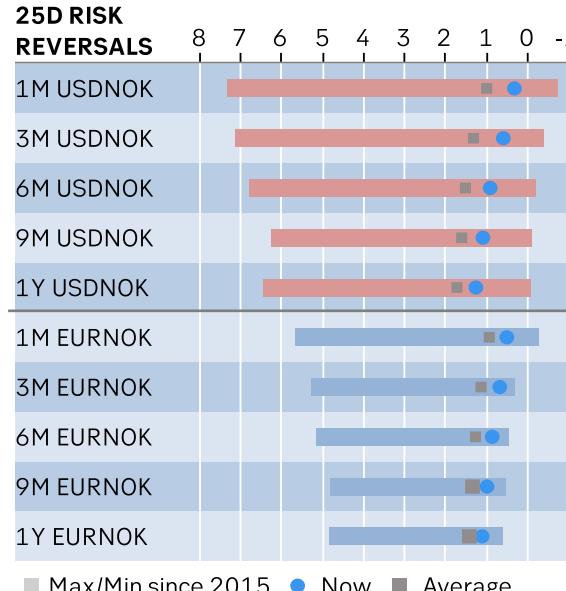
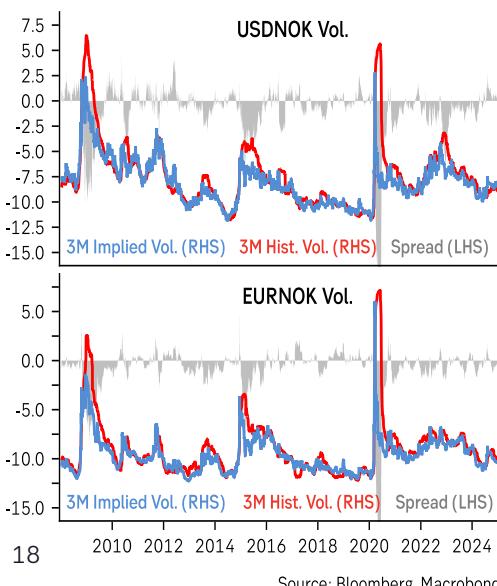


FX: Hedge Optimization - Forward Points

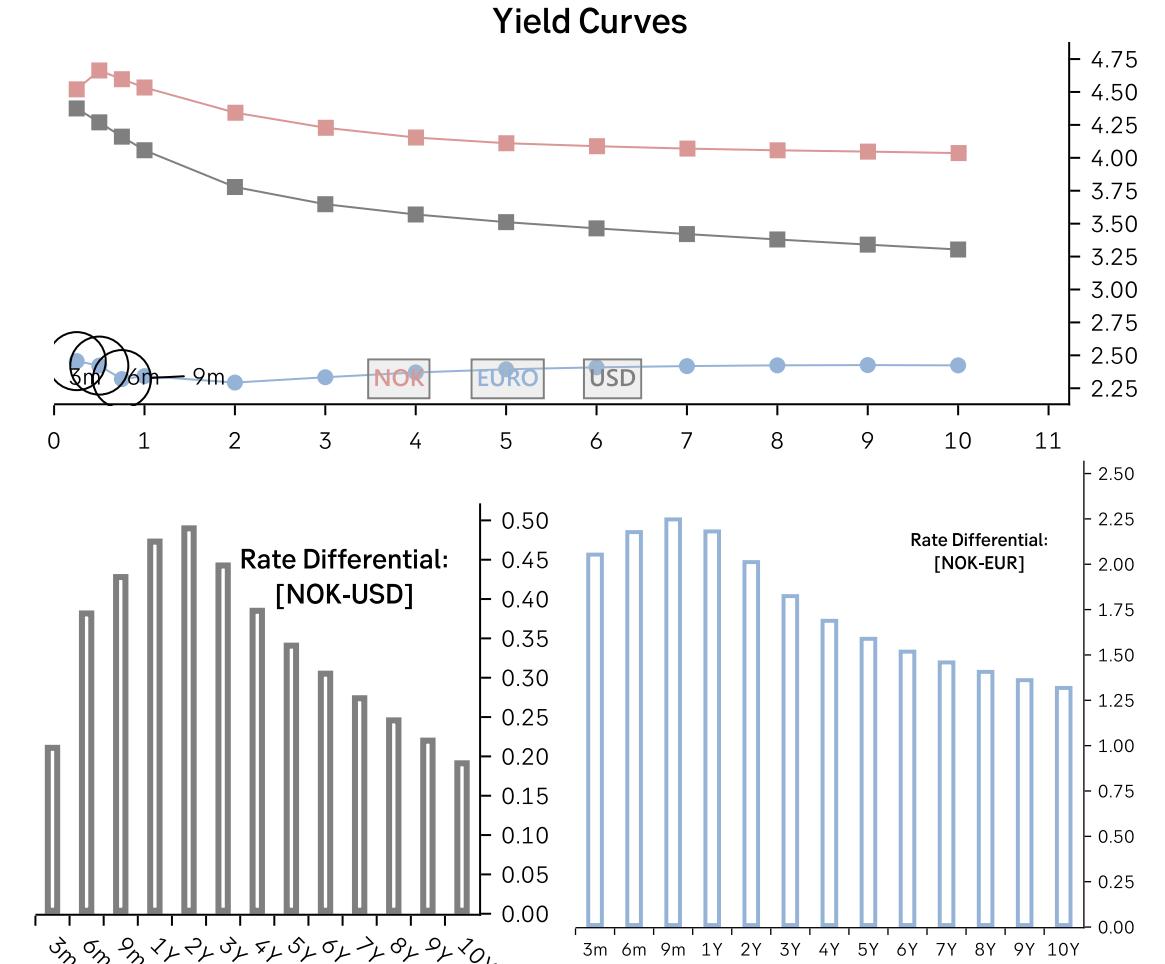
- Forward points premium/discount, implied vol & skew (upper tables)
- Implied vs Hist. Vol. (bottom left); 25D Risk Reversals by tenor (bottom right)

USDNOK	Levels (Points fwd)	Pct from spot (annualized)	Impl. Vol.	25D RR
Spot	10,57	---	0,0	0,0
1m	-4,6	-0,1	10,5	0,3
3m	-6,1	0,0	10,4	0,6
6m	22,1	0,0	10,6	0,9
9m	86,0	0,1	10,9	1,1
12m	158,8	0,2	11,0	1,2

EURNOK	Levels (Points fwd)	Pct from spot (annualized)	Impl. Vol.	25D RR
Spot	11,52	---	0,0	0,0
1m	200,4	2,1	7,0	0,5
3m	579,4	2,0	7,0	0,7
6m	1193,3	2,1	7,3	0,8
9m	1819,0	2,1	7,6	1,0
12m	2434,7	2,1	7,7	1,1



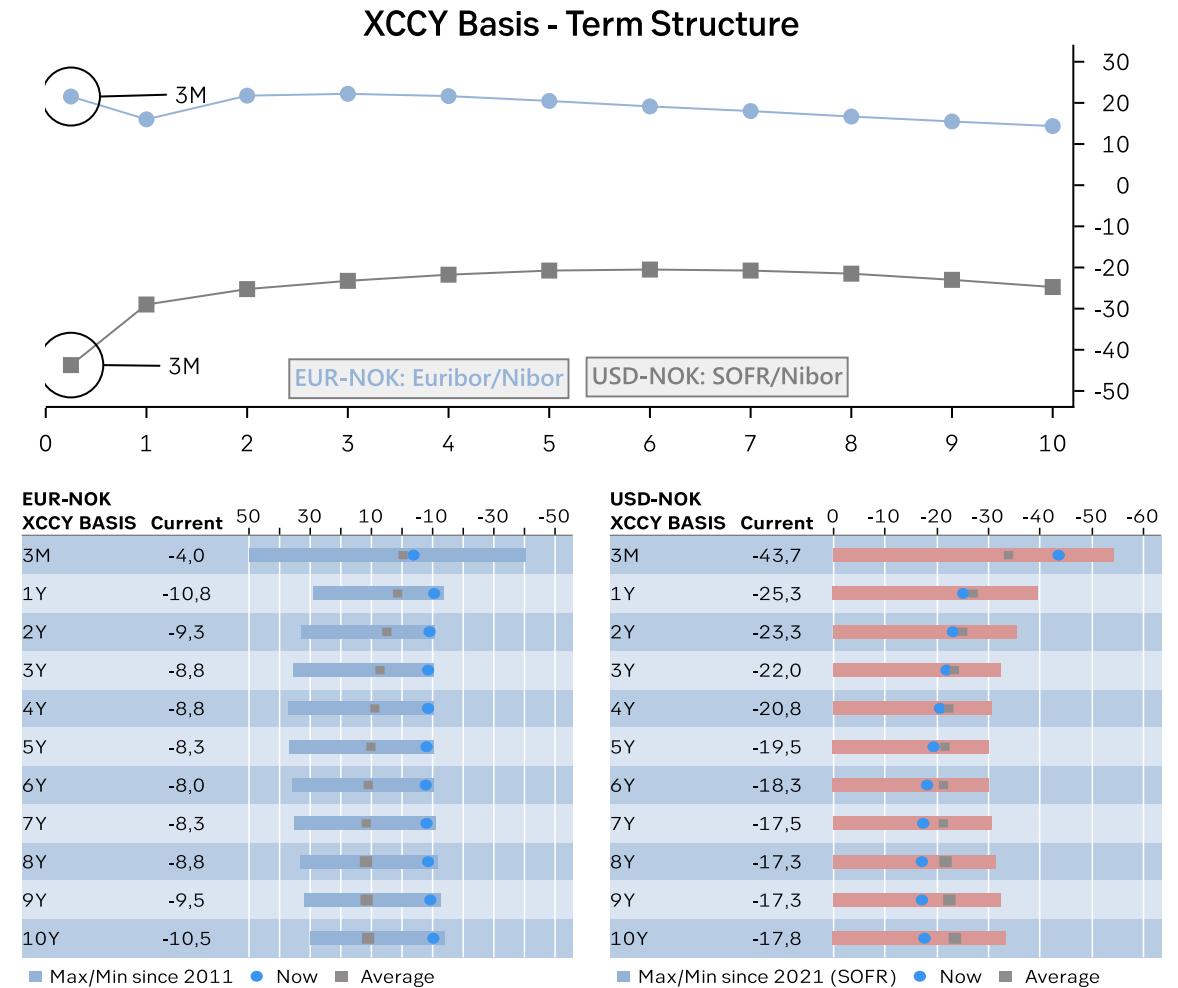
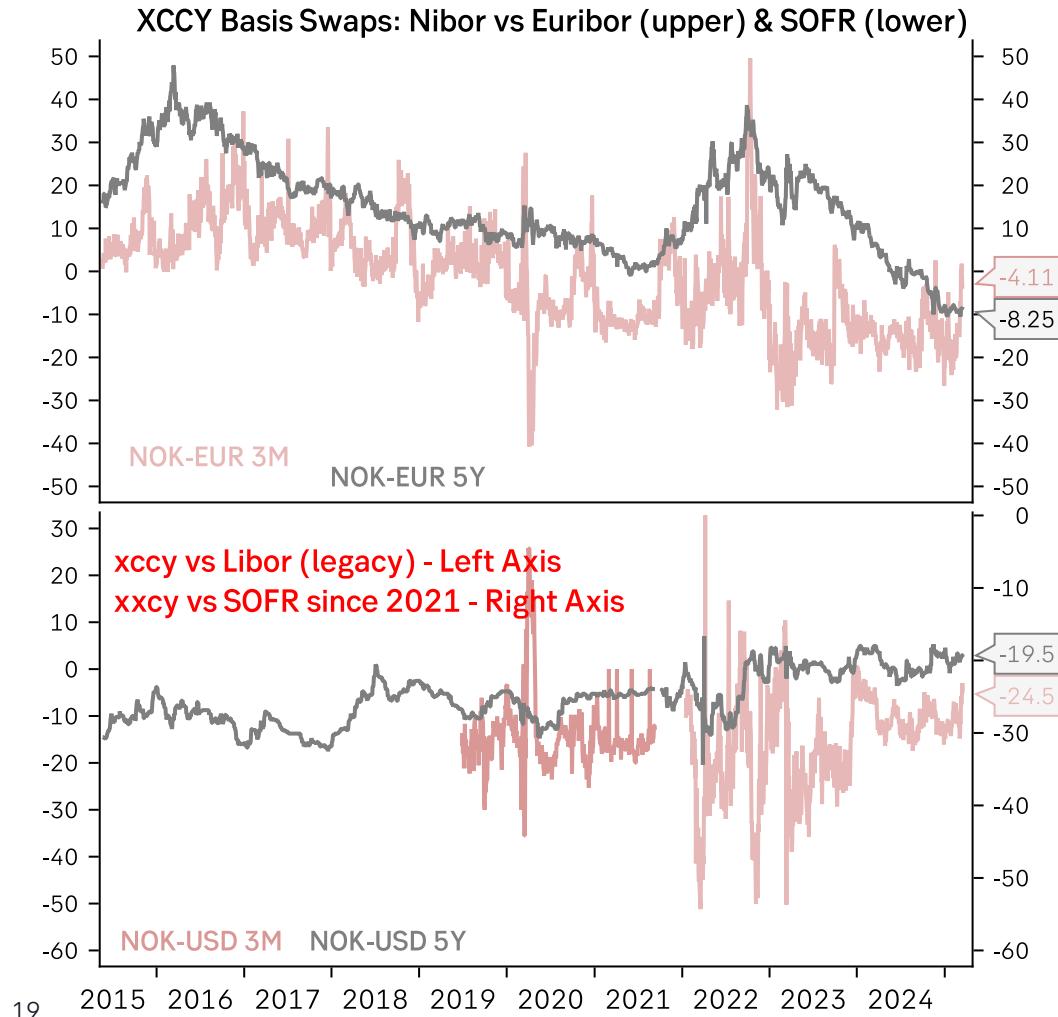
- Yield Curves: Nibor 3M, Euribor 6M, SOFR (upper)
- Rate Differentials (lower)



FX: Hedge Optimization - XCCY Basis

- History of XCCY basis 3M vs 5Y: EUR-NOK (upper) ; USD-NOK (lower)

- XCCY Basis Term Structure (upper)
- XCCY Basis Historic Ranges: EUR-NOK (bottom left) ; USD-NOK (bottom right)



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