



Norwegian krone

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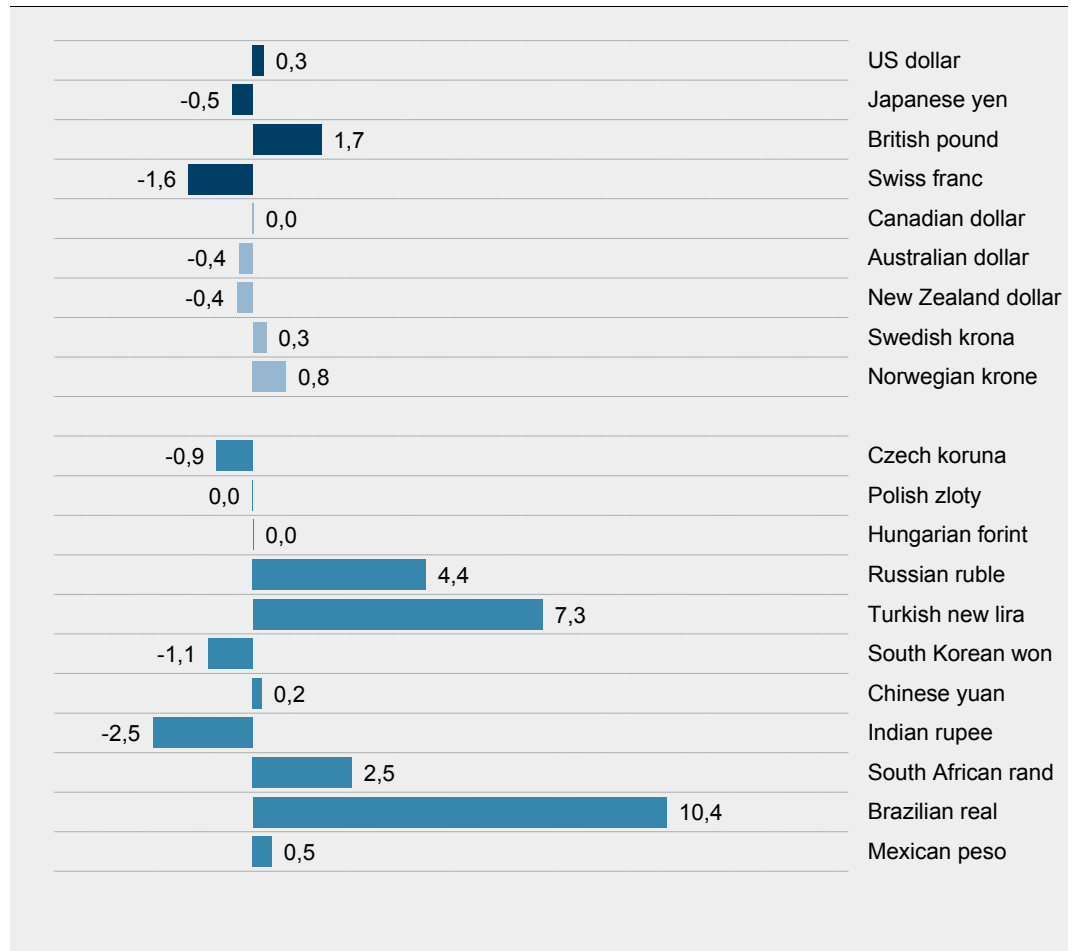
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- In spite of its recent appreciation, the trend in the Norwegian krone has been restrained, since the beginning of the year – even though Norway’s central bank raised its key rate. The economy is growing solidly. The high oil price is helping this energy exporter. The already pronounced yield advantage over the euro will presumably increase further thanks to the monetary policy. As a result, the euro-krone exchange rate will decline noticeably in 2019, at the latest.
- The British pound and the Norwegian krone advanced most recently, the Swiss franc weakened. Most of the emerging market currencies recovered – especially those from Brazil, Turkey, and Russia.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 09/12 to 10/11/18)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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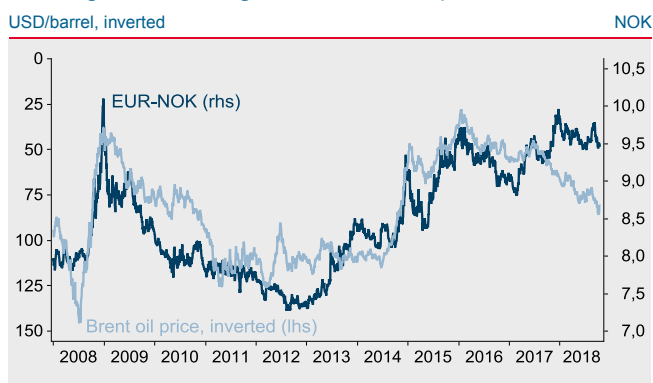
NOK: robust tailwind

The Norwegian krone is not really making headway this year. Although the currency recorded a solid 4 % gain against the euro, it was unable to make up for the losses from the previous year. In 2018, the euro-krone exchange rate was largely in a band between 9.40 and 9.80. Even in the global financial crisis of 2008/09, the exchange rate was only marginally higher.

Favourable fundamental environment

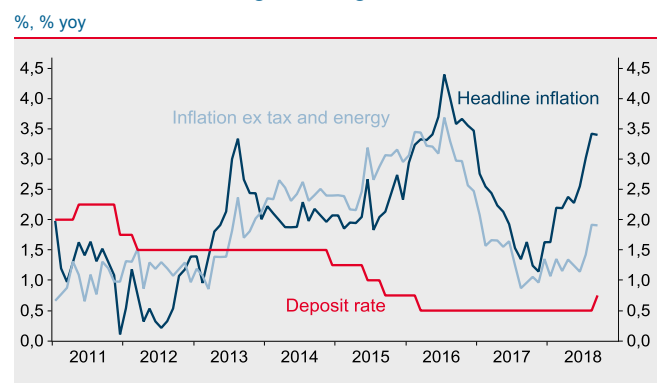
The subdued development of the krone contrasts with the fundamental development: although the Norwegian economy is not without its problems, it is growing very solidly. After several delays, the Norwegian central bank has therefore raised its key interest rate for the first time since 2011, especially since inflation is elevated. In addition, the rise in the price of crude oil is giving Norway a tailwind as a major exporter of energy commodities. Longer-term valuation indicators for the krone also give a green light.

Norwegian krone lags behind the oil price



Sources: Macrobond, Helaba Research

Central bank reacting to rising inflation



Sources: Macrobond, Helaba Research

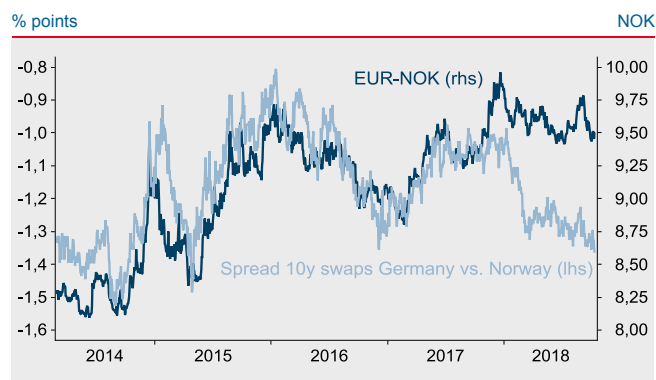
The Norwegian economy will grow by around 2 % in 2018. In addition to government spending, private consumption is the main driver of growth. The labour market remains robust. Concerns about a fall in prices on the residential real estate market have diminished, and house prices have risen again. Overall, companies have been somewhat hesitant. However, investment should improve, as sentiment indicators suggest. Increased spending in the oil sector is also planned for 2019. Norway's gross domestic product is likely to grow slightly more strongly next year than in 2018.

Further interest rate hikes by Norges Bank in sight

Norwegian inflation is elevated, with the overall rate at 3.4% in August. Core rates are lower, but trending upwards. Even if the inflation push from higher import prices will ease, there are significant upside risks to inflation. Wage growth is gradually pointing upwards. After the first interest rate hike since 2011 to 0.75 %, Norges Bank will therefore take further steps. Its – slightly reduced – projections currently point to interest rate hikes at half-yearly intervals. The inflationary environment could further accelerate this course. The central bank is taking the ECB's policy into account. However, since the ECB will also reverse interest rates in the second half of 2019 and Norges Bank also posits that the krone will appreciate in any case, this is not a decisive argument against further interest rate hikes. The krone's yield advantage over the euro has hardly been greater in the last 15 years. Thus, the current yields already point to an appreciation of the krone. A higher interest rate advantage would support this even more.

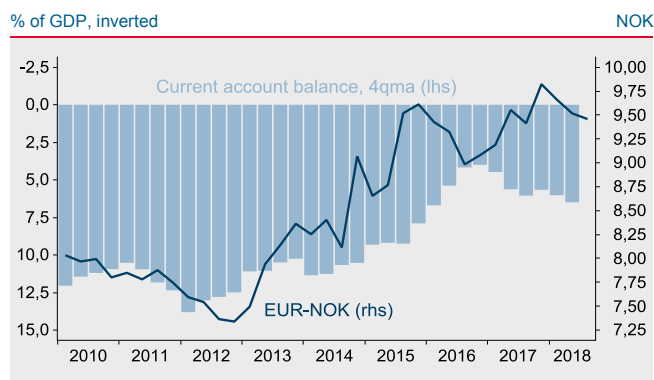
So far, the high price of crude oil has not been reflected in the krone values. Even if oil prices are exaggerated in the short term due to geopolitical conflicts, the overall oil price level argues in favour of the krone. In addition to the positive growth effects that radiate from the oil sector to the economy as a whole, Norway's current account is also improving – not to mention its public finances. In contrast to many other commodity exporters, Norway can shine thanks to its public pension fund of well over 800 billion euros. The krone has not played a role recently as a safe investment haven, but this cannot be ruled out in the future.

Norwegian krone with clear yield advantage



Sources: Macrobond, Helaba Research

Norway's current account surplus growing again



Sources: Macrobond, Helaba Research

Appreciation of the krone
remains likely

The Norwegian krone is less liquid than currencies such as the US dollar, the British pound and the Japanese yen. This may explain the restrained development in the current year. In addition, the central bank has repeatedly delayed its interest rate turnaround in the recent past. Now, however, it is likely that the ice has been broken. If the euro-krone exchange rate should then fall below the 9.40 mark, there is downside potential in terms of technical market data. In the course of 2019, the euro-krone exchange rate should fall visibly below the 9.0 mark.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q4/2018	Q1/2019	Q2/2019	Q3/2019
vs. Euro (vs. Euro, %)							
US dollar	3,6	0,3	1,16	1,15	1,20	1,20	1,25
Japanese yen	4,0	-0,5	130	123	125	125	125
British pound	1,4	1,7	0,88	0,85	0,85	0,85	0,80
Swiss franc	2,0	-1,6	1,15	1,15	1,15	1,15	1,20
Canadian dollar	-0,1	0,0	1,51	1,47	1,51	1,51	1,58
Australian dollar	-5,5	-0,4	1,63	1,60	1,62	1,60	1,60
Swedish krona	-5,5	0,3	10,40	10,20	9,90	9,60	9,30
Norwegian krone	3,3	0,8	9,52	9,30	9,10	8,90	8,80
Chinese yuan	-2,0	0,2	7,96	7,94	8,22	8,16	8,50
vs. US-Dollar (vs. USD, %)							
Japanese yen	0,5	-0,8	112	107	104	104	100
Swiss franc	-1,5	-1,9	0,99	1,00	0,96	0,96	0,96
Canadian dollar	-3,5	-0,3	1,30	1,28	1,26	1,26	1,26
Swedish krona	-8,8	0,1	8,97	8,87	8,25	8,00	7,44
Norwegian krone	-0,1	0,5	8,22	8,09	7,58	7,42	7,04
Chinese yuan	-5,6	-0,6	6,89	6,90	6,85	6,80	6,80
US-Dollar vs. ... (vs. USD, %)							
British pound	-2,1	1,4	1,32	1,35	1,41	1,41	1,56
Australian dollar	-8,8	-0,6	0,71	0,72	0,74	0,75	0,78

*11.10.2018

Sources: Bloomberg, Helaba Research ■