



Norwegian krone

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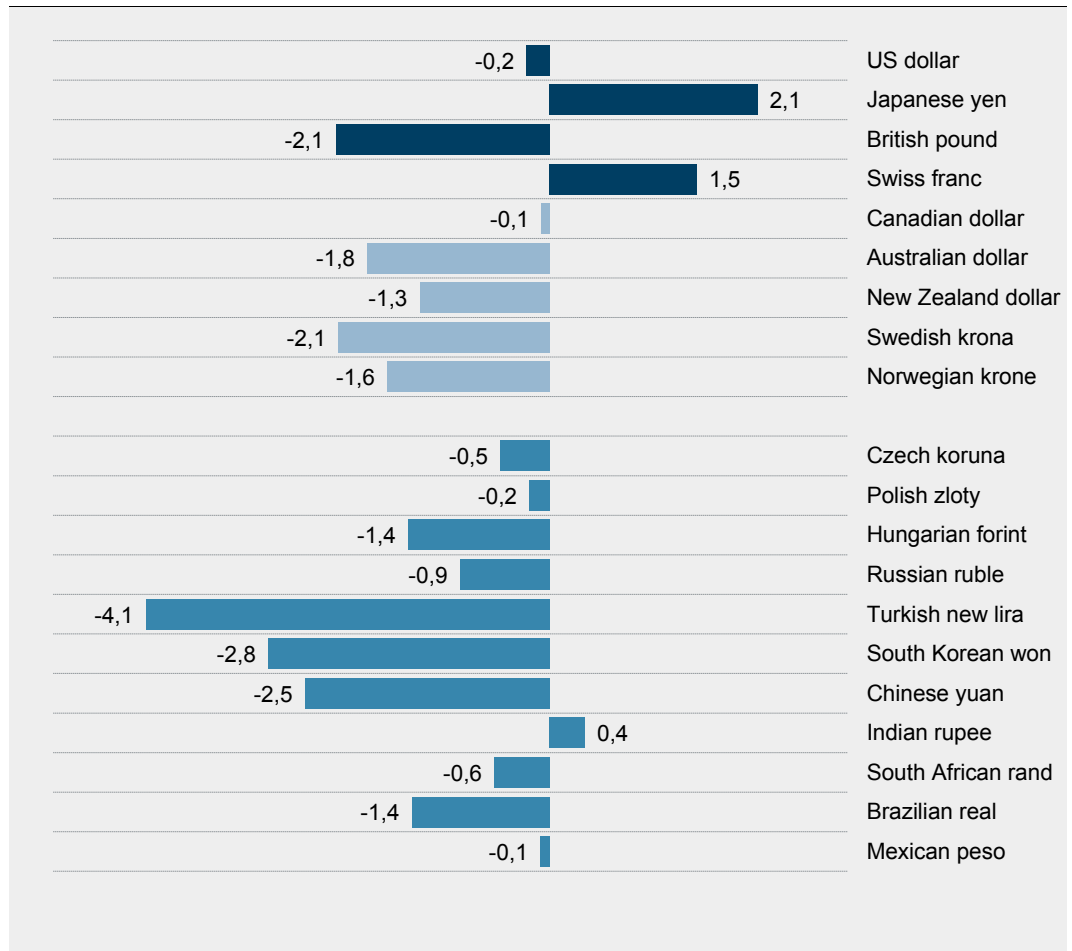
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- The Norwegian krone recovered only slightly from its weak phase at the end of 2018, even though the currency received a tailwind from higher crude oil prices. In addition, the Norwegian central bank raised its key interest rate against the international trend. The yield advantage over the euro clearly speaks for the krone. A higher risk aversion seems to hurt the krone at times. Over the medium term, however, the euro-krone exchange rate should decline noticeably due to the fundamental picture.
- Safe investment havens are in demand, especially the Japanese yen and the Swiss franc gained ground. The Norwegian krone is no longer part of this group and depreciated noticeably against the euro, as so many other currencies.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 04/24 to 05/23/19)



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

Sources: Bloomberg, Helaba Research

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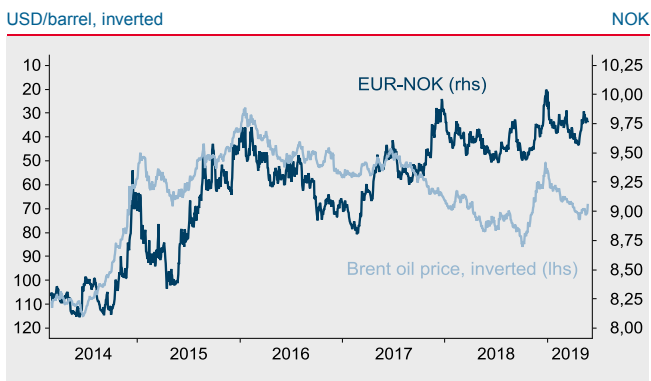
NOK: appreciation potential not called in yet

All central banks in the industrialized countries have stopped their interest rate hike plans in 2019 or are even considering cuts in some cases. All central banks? The Norwegian central bank not only raised its key interest rate in March against the international trend, but is also holding out the prospect of further steps. According to the textbook, rising interest rates – especially relative to the other currencies – should have allowed the Norwegian krone to appreciate noticeably. However, depending on the time of comparison, the currency was rather one of the losers. At just under 9.8, the euro-krone exchange rate is only somewhat below the long-term highs of slightly more than 10. Norway's currency has thus seldom been weaker.

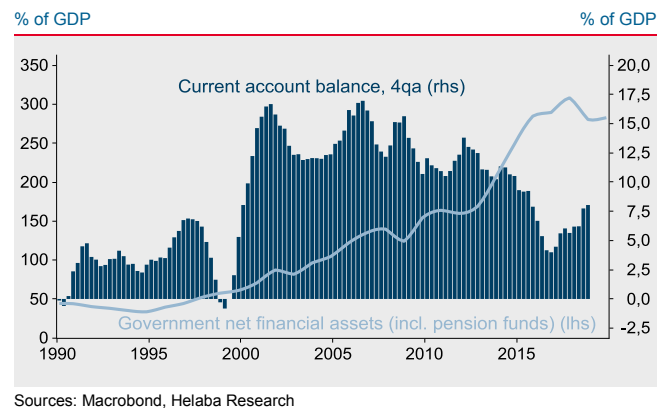
Oil prices not a problem

The Norwegian currency is suffering from a nervous market environment which has been evident – even if only in phases – over the last twelve months. Historically it has not been unusual for the krone to give way under a higher risk aversion. Because of the oil-heavy nature of the Norwegian economy, the krone has the character of a commodity currency. In a more difficult financial market environment, the price of crude oil tends to weaken. At the end of 2018, crude oil became massively cheaper. However, energy prices recovered again and have rarely been higher over the last four years. In a direct comparison, the current crude oil prices even imply a noticeably lower euro-krone exchange rate.

Oil price supports the krone



Norway is awash in money



Beyond the dependency of exports on oil, the krone hardly seems vulnerable: although the surpluses in the current account balance are no longer in the double-digits, they are still in the high single-digits of GDP. The government is awash in money: the budget shows a strong surplus, and thanks to its sovereign wealth fund, which weighs in at almost one trillion euros and is covered by oil revenues, the government has net financial assets of almost 300 % of GDP instead of high debts. During the euro debt crisis, the Norwegian krone therefore also benefited as a safe haven currency.

Solid growth

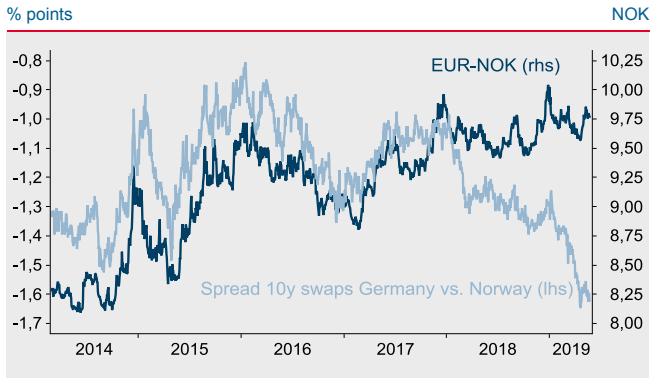
In economic terms, the Norwegian economy is very solid with growth rates of over 2 %. Although volatile offshore activities led to a marginal decline in gross domestic product in the first quarter, growth on the mainland remained stable. Compared with many other European countries, Norway is therefore in a good position. The labour market remains robust and wages are rising. Private consumption is therefore being supported, especially as house prices have stabilised. In the oil sector, investments will pick up significantly in 2019, while they will probably lose momentum in other areas.

Norges Bank on a path of interest rate hikes

Inflation was at an elevated level at nearly 3.0 %, and the core rates are only slightly lower. The solid growth and the higher inflation argue for a further normalization of monetary policy – currently the key rate stands at 1.0 %. As a result, representatives of the central bank have signalled further, careful interest rate hikes. Norges Bank cannot entirely ignore the difficult international

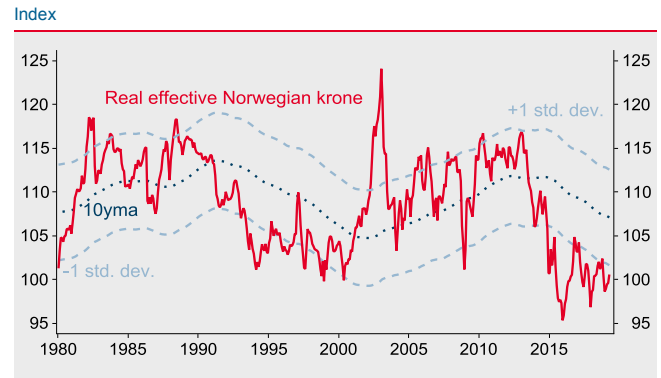
environment, which was dominated most recently by the trade conflict and nervous financial markets. Still, these uncertainties are likely to result at most in a delay in the interest rate hikes. The yield advantage will hardly shrink as a result. Depending on where one draws the line, that advantage is at the highest level since 2003. The interest rate differentials therefore suggest a noticeable appreciation of the krone.

Yield advantage of the krone keeps growing



Sources: Macrobond, Helaba Research

Norwegian krone favourably valued



Sources: Macrobond, Helaba Research

More opportunities
than risks

In addition to oil prices, monetary policy, and yield differentials, a favourable valuation also supports the Norwegian krone. The real effective exchange rate is at a low level, though no longer at a very low level – due to higher inflation in Norway. A higher risk aversion could, but does not necessarily, weigh on the krone. If some political uncertainties recede into the background, risk appetite will presumably even increase, giving the currency a tailwind from this side as well. Basically, the Norwegian krone is a less liquid currency. If larger investors, including domestic investors, sell krone, this can certainly distort the exchange rate. But that doesn't have to be permanent. We assume that the fundamental aspects will prevail over the medium term. The euro-krone exchange rate should then move in the direction of 9.0, albeit later than previously expected.

Helaba Currency Forecasts

| | Performance | | | Forecast horizon at end ... | | | |
|---------------------------------------|--------------|---------|----------|-----------------------------|---------|---------|---------|
| | year to date | 1 month | current* | Q2/2019 | Q3/2019 | Q4/2019 | Q1/2020 |
| vs. Euro (vs. Euro, %) | | | | | | | |
| US dollar | 2,6 | -0,2 | 1,12 | 1,20 | 1,20 | 1,25 | 1,25 |
| Japanese yen | 2,7 | 2,1 | 123 | 128 | 128 | 132 | 132 |
| British pound | 1,8 | -2,1 | 0,88 | 0,85 | 0,80 | 0,80 | 0,80 |
| Swiss franc | 0,3 | 1,5 | 1,12 | 1,15 | 1,15 | 1,20 | 1,20 |
| Canadian dollar | 3,8 | -0,1 | 1,51 | 1,52 | 1,52 | 1,58 | 1,58 |
| Australian dollar | 0,4 | -1,8 | 1,62 | 1,71 | 1,67 | 1,69 | 1,67 |
| Swedish krona | -5,6 | -2,1 | 10,75 | 10,50 | 10,30 | 10,00 | 9,80 |
| Norwegian krone | 1,1 | -1,6 | 9,80 | 9,60 | 9,40 | 9,10 | 9,00 |
| Chinese yuan | 2,0 | -2,5 | 7,71 | 8,28 | 8,28 | 8,50 | 8,50 |
| vs. US-Dollar (vs. USD, %) | | | | | | | |
| Japanese yen | 0,1 | 2,4 | 110 | 107 | 107 | 106 | 106 |
| Swiss franc | -2,1 | 1,7 | 1,00 | 0,96 | 0,96 | 0,96 | 0,96 |
| Canadian dollar | 1,2 | 0,1 | 1,35 | 1,27 | 1,27 | 1,26 | 1,26 |
| Swedish krona | -7,9 | -1,9 | 9,62 | 8,75 | 8,58 | 8,00 | 7,84 |
| Norwegian krone | -1,4 | -1,4 | 8,76 | 8,00 | 7,83 | 7,28 | 7,20 |
| Chinese yuan | -0,5 | -2,7 | 6,91 | 6,90 | 6,90 | 6,80 | 6,80 |
| US-Dollar vs. ... (vs. USD, %) | | | | | | | |
| British pound | -0,8 | -1,9 | 1,27 | 1,41 | 1,50 | 1,56 | 1,56 |
| Australian dollar | -2,1 | -1,6 | 0,69 | 0,70 | 0,72 | 0,74 | 0,75 |

*23.05.2019

Sources: Bloomberg, Helaba Research ■