

## Norges Bank confirms September rate hike

As expected, the Norwegian central bank reiterated its intention to raise interest rates in September. This shows the NB is on a more hawkish path than most other European central banks



Norges Bank's policy statement today confirmed that "the key policy rate will most likely be raised in September 2018", a more explicit line than the previous intention to raise interest rates "after the summer".

The interest rate path now shows an average of 0.53% in 3Q, consistent with a September rate hike, and 0.76% in 4Q, indicating some chance of another hike already in December. Further out, the rate path shows an average of two hikes per year in 2019-21.

The NB's GDP and output gap forecasts are largely unchanged from March, while the headline inflation forecast has been revised up for 2018 but down in 2019, while the core inflation forecast is revised down throughout the forecast period. This is largely due to higher energy prices and some downside surprises in core inflation this spring.

The key factors driving the upward revision of the interest rate path are the higher oil price since March and the weaker-than-forecast krone exchange rate.

Today's announcement reinforces our view that the Norwegian central bank is in a more hawkish mode than its fellow central banks in western Europe. Importantly, today's announcement demonstrates clearly that the NB is not tied to the ECB's policy path in the way that the Riksbank and Swiss National Bank are: the ECB's dovish surprise last week has not led the NB to revise its stance.

It is also notable that weaker core inflation has not prompted the NB to revise its interest rate path lower (though it does push down on the NB's rate path calculation). This is in clear contrast to the Riksbank, which revised its rate path down in April after several months of negative surprises in core inflation.

So long as the recovery in the domestic economy stays on track and oil prices hold up, the NB is likely to remain in tightening mode. We fully expect the NB to deliver a hike in September and see the next hike after that most likely coming in March 2019.

This suggests further upside in NOK. The krone has strengthened materially on the back of the NB's announcement and EUR/NOK is currently testing the 9.40 level. While the krone is held back by the overall risk negative environment in the near term, the NB's stance is likely to provide a substantial tailwind.