

Norges Bank gives all clear for September rate hike

A largely unchanged statement means the central bank is set to raise interest rates to 0.75% at its next meeting in September. It would now take a major negative surprise to make the Bank change course now



Source: Shutterstock

As expected, the Norges Bank policy statement today is largely unchanged from the June meeting:

"The Executive Board's assessment is that the upturn in the Norwegian economy appears to be continuing broadly in line with the picture presented in June. Underlying inflation is below the inflation target, but the driving forces indicate that it will rise further out. Overall, the outlook and the balance of risks do not appear to have changed substantially since the June Report."

We fully expect Norway's central bank to deliver a hike in September. Having signaled its intentions so clearly, it would take a major negative surprise to make the Bank change course now.

It's very unlikely the domestic economy will dramatically worsen over the next month or so. If the

current turmoil in markets got significantly worse and oil fell into the 60s that might make the Norges Bank think twice. But even then, it's more likely to adjust down the rate path for 2019 than to delay the September hike.

Today's statement has proven a non-event for NOK. The overall risk negative environment over the past few weeks has seen NOK struggle against the euro, and this pattern may well continue in the near term.

But as long as the recovery in the domestic economy stays on track and oil prices hold up, the central bank is likely to remain in tightening mode. This is likely to support the currency, and we'd expect NOK to outperform over coming months.

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