

## Norges Bank hikes rates and signals a final move in September

Norway's central bank is poised for one final rate hike in September, and with other major central banks either at or close to the peak for policy rates, the impetus to raise rates further is fading. The domestic backdrop continues to improve for the krone



### Norges Bank hikes to 4%

Norway's central bank has hiked rates by 25 basis points to 4%, and is continuing to signal that it has one final move left in the tank for September. None of this will come as a huge surprise, given that since Norges Bank's (NB) larger 50bp hike in June, the krone has appreciated and is currently running 1.5% stronger on a trade-weighted basis than NB had assumed in its most recent projections. Inflation has also come in broadly in line with its expectations, and importantly has tentatively begun to come down from the 7% peak reached by underlying inflation in June.

The latest statement points to an increasingly neutral bias for rates, with policymakers hinting at additional hikes if krone weakness returns, or earlier/steeper rate cuts if the economy starts to creak. While we don't get a new rate projection this month, the last set of forecasts saw the policy rate peaking at 4.25% later this year and there's little reason to doubt that. With other central banks likely to have either finished hiking already (Federal Reserve) or getting close (ECB), the

impetus to keep hiking beyond September is likely to fade.

## More good news for the krone

NOK is moderately stronger after the Norges Bank announcement, largely due to markets having underpriced the chances of more rate hikes beyond August. External factors are set to remain dominant for the illiquid NOK, but a period of stabilisation in risk sentiment can make domestic drivers emerge and dramatically increase the attractiveness of the krone.

We remain constructive about a broad-based rally in the undervalued NOK before the end of the year and in early 2024, and the commitment to more tightening by Norges Bank likely limits the scope of any large corrections. We expect the 11.00 level in EUR/NOK to be tested before the end of the year.

### Authors

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

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