

Norges Bank signals September rate hike

Once again, Norway's central bank leads the pack on interest rate hikes, and the clear hawkish central bank bias should help the krone outperform other cyclical G10 currencies. We continue to see EUR/NOK testing 10.00 over the coming months



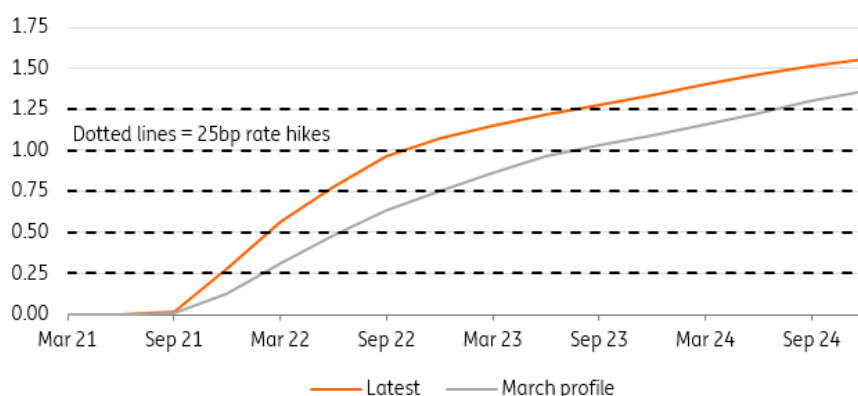
Four hikes by the end of 2022 in Norway

Norway's central bank has once again cemented itself as a hawkish outlier in the G10 policymaker arena. Norges Bank is now pencilling in its first rate hike in September, and its rate projection indicates that may well be followed by another in December and March of next year. In total there are four hikes in by the end of next year, and another couple by the end of 2024.

In a sense none of this is too surprising. The Norges Bank had already been signalling at least one hike this year, and in effect the latest rate path just adds in one additional hike over what was in the March profile. The bounceback in Norwegian activity, coupled with slightly higher oil prices and a weaker NOK (relative to what the central bank says it would expect given energy price levels), all contributed to the higher rate path.

At this stage, there's little reason to doubt that these rate hikes will materialise, barring further Covid-19 surprises. But does this tell us much about what other central banks might do? We suspect it doesn't. Remember back in 2019, the Norges Bank hiked interest rates three times, while the Fed was busy cutting.

Norges Bank interest rate projection: Now vs. March



Source: Norges Bank

NOK: Hawkish NB but the Fed matters more

While the central bank cemented its place as the most hawkish central bank in the G10 FX space, the positive spill over into NOK was rather brief, and the krone gains short-lived this morning. We see the NB's signal to start its hiking cycle in September as a positive for NOK, but at this point, the external environment driven by the hawkish Fed matters more. Hence, the limited EUR/NOK decline in response to the meeting. Were it not for the Fed yesterday, EUR/NOK would have been below 10.00 today, in our view.

Still, the clear hawkish bias should help NOK outperform other cyclical G10 currencies in the coming months.

As per the [Fed review](#), we think it may be too early to wave a white flag for carry trades going into the summer and with NOK likely to benefit from the highest implied yield in the G10 space by the year-end, the currency should stay supported over the summer, particularly against the euro which looks likely to be used as a go-to funding currency this summer. We continue to see EUR/NOK testing 10.00 in the coming months

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