

## Norway's central bank gives green light for September rate hike

Norges Bank says it's likely to raise rates in September, and we can expect another one in December and probably two more in 2022. But for this to start benefitting the krone, we need to start seeing some improvement in the global growth outlook and risk sentiment



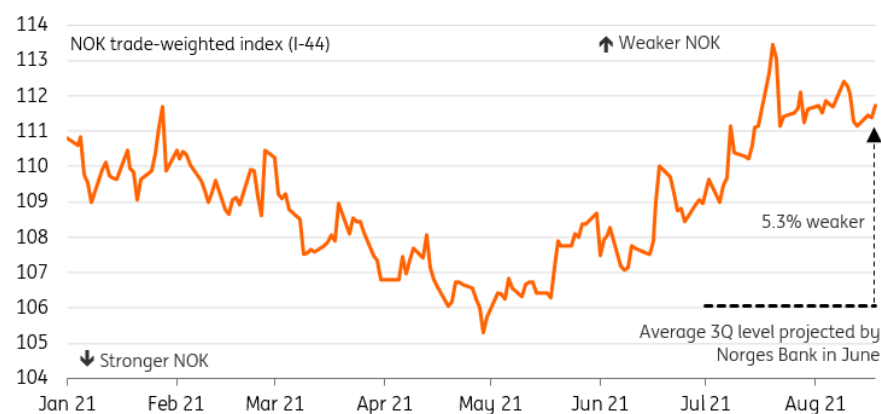
Not for the first time, Norges Bank looks like one of the most hawkish central banks in the developed markets arena (albeit with competition from [New Zealand](#)). Policymakers offered only a short statement at its August meeting, but unsurprisingly it contained the important sentence signalling that rates will "most likely" go up in September.

This is really just a reiteration of what Norges Bank was pencilling into its formal rate projection back in June, and since then little has changed that could throw policymakers off course. While Covid-19 cases have risen again (though by less than some other countries in Europe), and oil prices have slipped, the currency is trading a fair amount weaker than the central bank had forecast a few weeks ago. This in isolation is a fairly hawkish factor for Norges Bank which, don't forget, tends to set its monetary policy much more mechanically than some of its peers.

The question now is whether policymakers will also follow through with a rate hike in December and March, as the June projections envisage. And for now, we don't see why not, assuming of course that Covid-19 doesn't pose serious issues over the winter. After all Norges Bank has a history of being more hawkish than elsewhere, having raised rates three times back in 2019, at a time when the Fed was adding stimulus.

We, therefore, expect a rate hike in September, December, March, and potentially another later on in 2022.

## NOK has been weaker than Norges Bank predicted in June



Source: Norges Bank, ING

## NOK: Monetary tightening overshadowed by unstable sentiment

Norges Bank's confirmation that rates will be raised in September failed to have any positive impact on NOK, signalling that markets were already fully pricing in the 2021 tightening embedded in the Bank's rate-path projections.

While the prospect of the NB tightening cycle is set to boost NOK's rate attractiveness, domestic factors are clearly playing a very secondary role at the moment for it and other pro-cyclical currencies, given the high instability in global risk appetite.

For NOK to start benefitting from the NB hawkishness, we will need to see some improvement in sentiment surrounding global growth and risk appetite. The Delta variant's spread continues to cloud the outlook and adds a high degree of uncertainty when we could see sentiment stabilise. We are still inclined to think this could happen in the last quarter of 2021, and we see room for EUR/NOK to move back to the 10.20 level as a hawkish NB stance could eventually start to pay dividends for NOK.

### Author

#### 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)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an

investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).