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

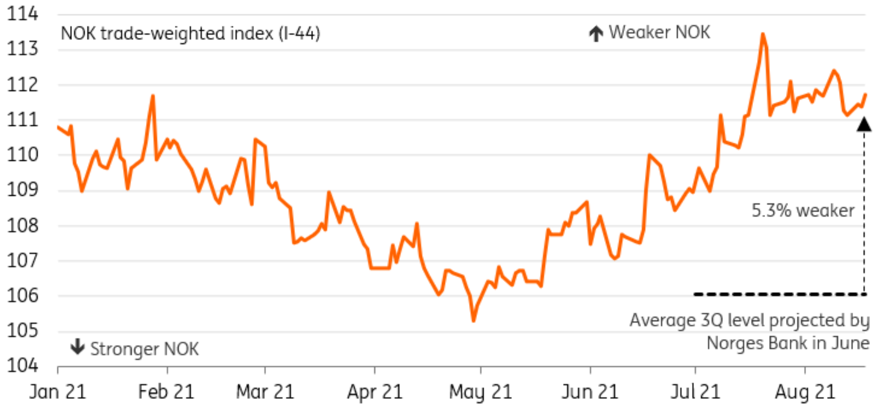
Not for the first time, Norges Bank looks like one of the most hawkish central banks in the developed markets arena (albeit with competition from New Zealand). Policymakers offered only a short statement at its August meeting, but unsurprisingly it contained the important sentence signalling that rates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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Disclaimer