

European Watch

Riksbank review: no more hikes

Riksbank on hold

The Riksbank left its policy rate unchanged at 4%, slightly surprising us. We think the Riksbank's hiking cycle is over and their next move will likely be a rate cut. We now expect three rate cuts in 2024 (vs. four previously) starting in June, hence keep our end-2024 policy rate forecast at 3.25%, which remains below what markets currently price.

A hold may make sense...

Today's decision is justifiable in our view: the economy has been softening, the Swedish October inflation print was encouraging, the global inflation outlook is more promising, most G10 central banks seem done with rate hikes, and SEK is much stronger than in September.

...but may not

But we do not think the Riksbank had "prepared" us enough. Their recent communication was hawkish despite the softer activity data. And today's decision is slightly at odds with their emphasis on upside inflation risks, with ex energy CPIF above their Sep forecast, with them remaining worried about SEK and fearing a greater passthrough (Exhibit 5).

We think rate hikes over, three cuts next year

The Riksbank's policy rate path is little changed (Exhibit 1, Exhibit 2). The Riksbank preserved a hawkish bias near term by keeping its terminal rate at 4.10% but revised slightly lower the back end. It made no changes to its Quantitative Tightening (QT) plan but suggested it may do so at its next meeting. The Riksbank's inflation forecasts show no major changes (Exhibit 3), with the Riksbank expecting ex energy inflation almost at 2% at end-2024. We think the Riksbank slightly underestimates the impact of its tightening on consumers (Exhibit 4), which is partly why we think ex energy CPIF could reach 2% a few months earlier than that. We now think their hiking cycle is over and expect three cuts next year starting in June, in line with our ECB call.

SEK – dovish meeting despite earlier hawkishness

It was a dovish meeting and, with the market pricing around 12bp into it, some SEK weakness was to be expected. We do not think today's decision per se was misplaced — if anything we were concerned the Riksbank could over-tighten. But we suspect today's decision could erode some of the Riksbank's hard-earned credibility, especially in case of fresh krona weakness, down the road. Near term, we think a softer USD and the still slightly short SEK positioning mean the path of least resistance for EURSEK is lower. But in Q1 markets could re-focus back on Sweden's rate sensitivity: we see a symmetric ECB-Riksbank stance next year, while markets expect the Riksbank to cut less than ECB.

23 November 2023

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Exhibit 1: Riksbank November guidance

Little-changed policy rate path

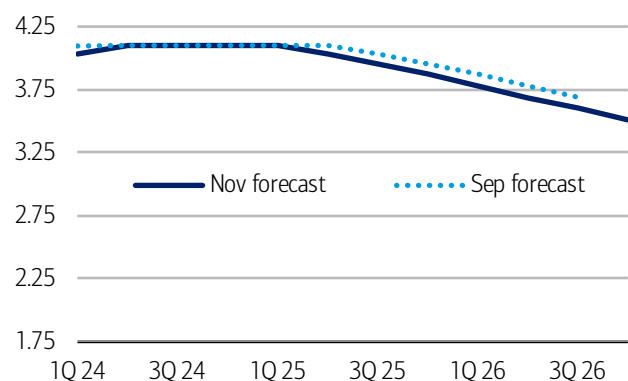
	1Q 24	2Q 24	3Q 24	4Q 24	1Q 25	2Q 25	3Q 25	4Q 25	1Q 26	2Q 26	3Q 26	4Q 26
Nov forecast	4.04	4.10	4.10	4.10	4.10	4.04	3.95	3.87	3.78	3.69	3.60	3.51
Sep forecast	4.09	4.10	4.10	4.10	4.10	4.10	4.04	3.95	3.87	3.78	3.69	

Source: Riksbank (Monetary Policy Report Nov 2023)

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Exhibit 2: Riksbank policy rate path

Terminal unchanged, back end a bit lower

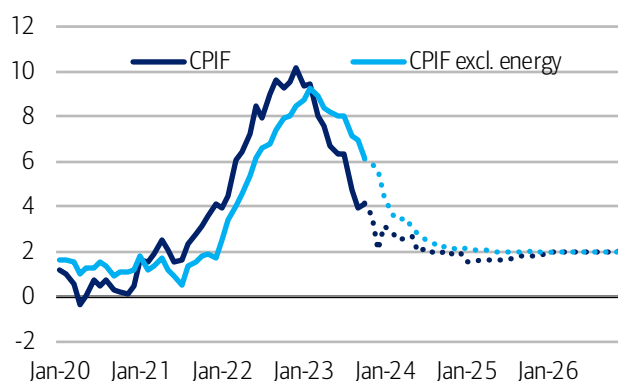


Source: Riksbank (Monetary Policy Report Nov 2023)

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Exhibit 3: Riksbank CPIF and CPIF ex energy forecasts, % y/y

CPIF ex energy inflation close to target at end-2024



Source: Statistics Sweden, Riksbank (MPR Nov 2023). Dotted lines show Riksbank forecasts.

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Exhibit 4: Interest-to-income ratio, percent

Interest-to-income ratio near multi-year highs

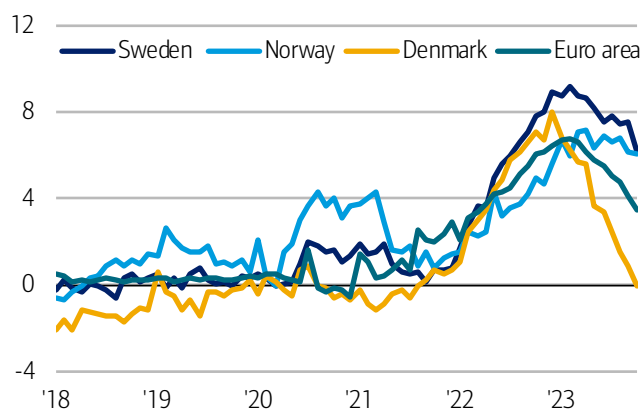


Source: Statistics Sweden, Riksbank (MPR Nov 2023). Dotted lines show Riksbank forecasts.

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Exhibit 5: Goods inflation, %/y

Riksbank suggests FX may partly explain higher inflation



Source: Eurostat via Riksbank (November 2023)

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