

## European Watch

## Riksbank preview: last hike

**Riksbank to hike next week...**

We continue to expect the Riksbank to hike next week, but our call has become finely balanced after the slightly softer than expected October CPI print and the stronger SEK.

**...but not an easy decision...**

We think the upcoming Riksbank decision will not be easy despite the non-committal September meeting (Exhibit 1). On the dovish side, the October CPI print was slightly more encouraging than we were expecting (at 4.2% and 6.1% y/y, both headline and ex energy CPIF were 10bp below our expectations) and largely across the board. Second, the Swedish krona (SEK) strengthened further in recent days and is around 4% stronger (in trade-weighted terms) than into the Riksbank's September meeting. Third, the Swedish activity and sentiment data have been soft. On the hawkish side, ex energy CPIF y/y inflation in October was 18bp above the Riksbank's forecast (Exhibit 2). And all Riksbank speakers have been hawkish, emphasising significant concern about the krona—although we have not heard from them since the October CPI print.

**We expect 4 rate cuts in 2024**

But with the Riksbank likely hiking further into a recession we continue to expect four 25bp cuts from mid-2024, taking the end-2024 policy rate to 3.25%.

**FX: Riksbank & softer USD to help SEK near term**

Our (finely balanced) Riksbank call suggests in isolation upside risks for SEK given the current market pricing (of around 11bp for next week). Of course, the Riksbank guidance will likely be at least as important, while we will also pay attention to the vote split.

SEK has been the strongest-performing G10 currency since the Riksbank's September meeting amid hawkish Riksbank talk, the Riksbank's FX hedging (and hopes of local asset managers following suit), and a softer USD in recent weeks, also given (the still slightly short) SEK positioning. We think the Riksbank has probably already hiked rates enough given the soft activity data—we have argued more Riksbank hikes could mean some pain down the road. But, in our view, a hold decision next week could somewhat lower the Riksbank credibility in case of fresh SEK weakness. Either way, in the near term a softer USD will likely help SEK. But challenges remain given Sweden's high rate sensitivity, so Q1 may not be as easy for SEK as Q4.

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**Exhibit 1: Riksbank September guidance**

Riksbank revised up terminal by 11bp in Sep

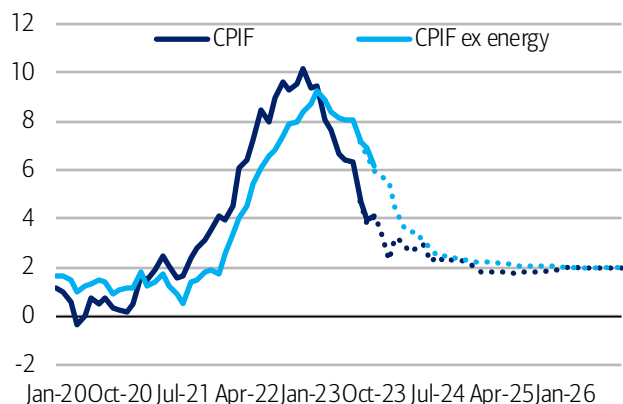
	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25	Jan-26	Apr-26	Jul-26
Sep forecast	3.75	4.03	4.09	4.10	4.10	4.10	4.10	4.10	4.04	3.95	3.87	3.78	3.69
Jun forecast	3.75	3.99	4.05	4.05	4.05	4.05	4.05	4.05	4.00	3.92	3.83	3.75	

Source: Riksbank (Monetary Policy Report Sep 2023)

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**Exhibit 2: Riksbank CPIF and CPIF ex energy projections, % y/y**

Ex energy CPIF was 18bp above Riksbank's Sep forecast

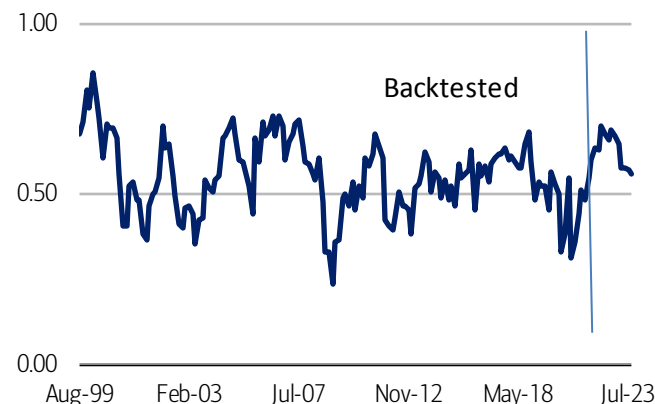


Source: Statistics Sweden, Riksbank (Monetary Policy Report September 2023). Dotted lines are Riksbank forecasts.

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**Exhibit 3: BofA Riksbank mood indicator (Riksheard) (back-tested)**

Riksheard at 0.56 in the Sep minutes, roughly stable over 2023



Source: BofA Global Research. Note: Riksheard is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in each publication. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as Riksheard is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This economic indicator was not created to act as a benchmark. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. For more details, please see European Viewpoint: Riksheard: doves without a tool.

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