

European Watch

Riksbank preview: 50bp and nearly done

Terminal of 3.75% reached in June

We expect the Riksbank to hike 50bp at its policy meeting next week then a further 25bp in June for 3.75% terminal. The Riksbank is locked into another jumbo hike by its hawkish language and focus on the exchange rate. The Riksbank also meets relatively infrequently compared to other central banks so in a hiking cycle it needs to move in larger increments. All this points to another 50bp hike.

Can slow after June

The Riksbank has hiked the repo-rate 225bp in 6 months. This rapid tightening will not have been fully felt in the real economy yet. Meanwhile headline inflation peaked some months ago and core will we think have peaked in February. Inflation is running well in excess of Riksbank forecasts, hence more hikes, but we think slowing inflation will allow the Riksbank to step down its hiking pace in June, to a 25bp rate hike. After June the next meeting is September, at which point we expect inflation to have approximately halved from its peak and core inflation (CPI ex-energy) to have fallen nearly 300bp. We think this, combined with the weak real economy, will allow the Riksbank to pause. Risks skew to another jumbo hike in June, given the wait until the next policy meeting (September).

Inflation expectations have been well-behaved in our view. 1y remains elevated at 4.0% but 2y and 5y are close to the 2% inflation target. The two-year wage deal, which sets a benchmark, at 7.4% also relieves some pressures on the central bank, by allowing more time for inflation to slow before the next negotiation.

We continue to expect four 25bp rate cuts from the Riksbank in 2024. In our view, with inflation expectations well behaved, a very interest sensitive property market, and the real economy weak, we think the Riksbank faces once of the least severe risks from persistent inflation among the developed market economies and will be able to ease policy as inflation falls.

SEK – Riksbank likely a non-event

While the Riksbank is unlikely to disappoint markets, we also think it is unlikely to help SEK meaningfully next week given market pricing.

We stay bearish on SEK through 3Q, worried about Sweden's weakness, seen particularly in retail sales and the housing market, and risks around commercial real estate.

The Riksbank (and SEK) could also be caught between a rock and a hard place if Eurozone inflation proved stickier, given Sweden's higher rate sensitivity and tighter fiscal stance.

(Continued on next page.)

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But not all is “doom and gloom”: we find the two-year wage agreement and the well-behaved inflation expectations to be positive developments, and we are also encouraged by some early (hopefully, not premature) signs of stabilisation in the housing market.

Still, the worst for SEK is unlikely to be over until inflation starts falling meaningfully (similarly to our base case), and even if risk sentiment remained favourable all along (which we doubt). Therefore, we remain bearish on SEK until at least September.

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