

European Viewpoint

Nordics monthly: chasing the ECB

Sweden recession, Norway avoids

We continue to expect a mild recession in Sweden but we no longer expect a recession in Norway. Higher headline inflation in Sweden, driven in part by food prices, is squeezing real income more while households are sensitive to interest rate hikes. Business surveys remain weaker in Sweden, and consistent with recession.

All the focus turns to inflation and currencies

Both Norges and Riksbank have raised the importance of their currencies in their reaction functions recently. We doubt currency weakness is the key reason for recent inflation strength, but it will have contributed to some degree. And both central banks in any case now appear highly sensitive to currency developments. By far the biggest change in recent months, in our view, has been the Riksbank's substantially increased hawkishness as inflation has surprised on the upside.

Faster Riksbank hikes mean higher terminal

The focus on currencies is one reason we raised our Norges terminal rate call to 3.5% (25bp hikes in May and June). We continue to see Riksbank hiking to a higher terminal, however, of 3.75% (50bp hike in April, 25bp in June). The Riksbank seems almost locked into another jumbo (50bp) hike in April, and if it is going to hike faster than Norges it opens up higher terminal in our view. We see the hiking cycles as having a natural end once headline inflation falls convincingly, which we expect through 2Q and particularly into the second half of this year. Especially in the Riksbank's case, where the real economy is weaker, we think it will be hard to justify further rate hikes once headline inflation convincingly slows. Fewer Norges hikes and a stronger real economy means we expect them to hold at terminal for longer. We look for two 25bp rate cuts from Norges in 2024 but four from the Riksbank. That said a continued intense focus on currencies could provide upside risks to our terminal rate calls.

FX: NOKSEK to move higher

We continue expecting NOKSEK higher this year. We still like NOK for the year but remain very skeptical on SEK, at least for the next six months or so.

We can justify NOK's weakness from October until mid-February but its recent weakness seems overdone. We expect risk sentiment and FX vol to continue driving NOK near term (until the Fed rate cuts for this year are priced out) but we stay constructive on it for the year counting on a softer USD, stabilised risk sentiment and higher oil prices in H2, and on Norges doing its part. The Riksbank's hawkishness is good news for SEK near-term and longer term, but we are concerned about harder landing and property-market risks.

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Growth: Sweden more exposed

We see Sweden as more exposed to the global shocks and tighter monetary policy than Norway, in part because of the latter's energy sector and because of the former's sensitivity to interest rate hikes. As a result, real household income should fall more in Sweden than Norway, and the same applies to house prices (Exhibit 16). We forecast recession in Sweden but assume Norway will narrowly avoid that.

Business surveys have dropped sharply in Sweden (Exhibit 7) and GDP appears to be tracking them down. House prices are falling rapidly in Sweden (Exhibit 10), which will likely cut consumer confidence and housing investment. Norges Bank's regional network survey suggests growth slowed close to zero (Exhibit 6) and oil price falls should weigh on Norway's manufacturing PMI (Exhibit 4).

We tweak our forecasts for revised GDP data. For Sweden we cut our 2023 growth forecast to -0.9% from -0.8%. We continue to expect GDP to grow 0.5% in 2024, unchanged from our previous forecast. We leave our 2023 forecast unchanged for Norway, at 1.4% and raise 2024 10bp to 0.7%.

Exhibit 1: Sweden GDP and Riksbank forecast (percent)

Riksbank expects recession this year



Source: BofA Global Research, Statistics Sweden, Riksbank

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Exhibit 2: Norway GDP and Norges Bank forecast (percent)

Norges expects to avoid recession

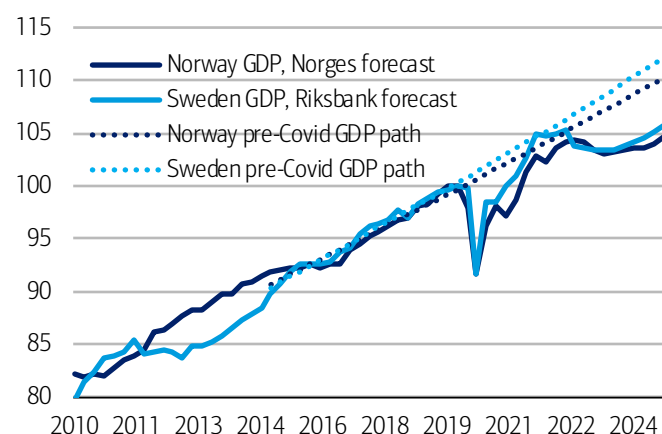


Source: BofA Global Research, Statistics Norway, Norges Bank

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Exhibit 3: Riksbank and Norges GDP forecasts, 4Q 2019 = 100

Both Riksbank and Norges expect GDP losses relative to pre-Covid trend

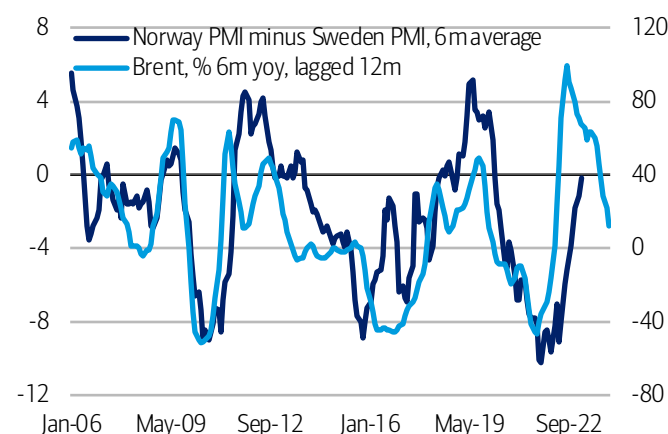


Source: BofA Global Research, Statistics Sweden

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Exhibit 4: Norway vs. Sweden PMI and Brent

Oil price falls likely to weigh on Norway PMI in coming months

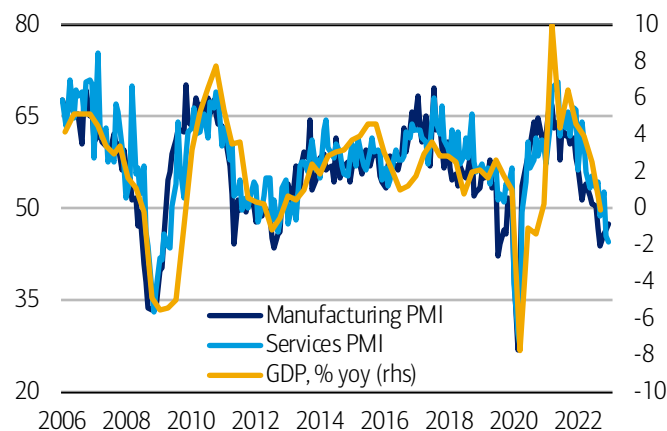


Source: BofA Global Research, Bloomberg, Swedbank, Statistics Norway

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Exhibit 5: Sweden PMI and GDP

PMIs suggest Swedish economy in recession

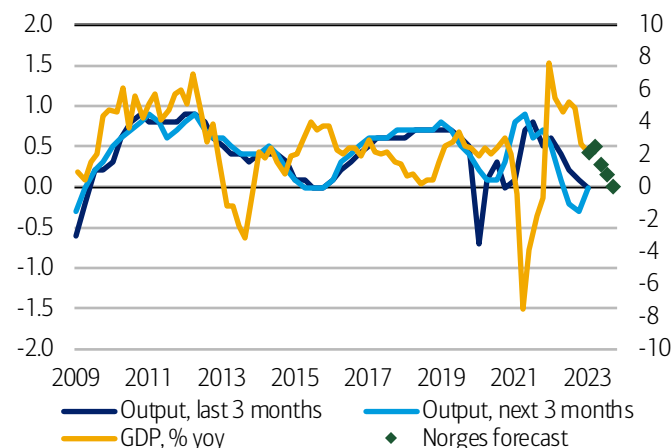


Source: BofA Global Research, Statistics Sweden, Swedbank

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Exhibit 6: Norges Bank Regional Network Survey and GDP

Norges business survey suggests growth weakening

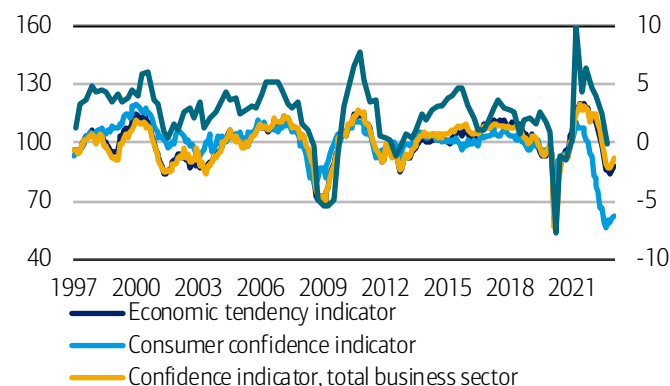


Source: BofA Global Research, Statistics Norway, Norges Bank

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Exhibit 7: Sweden economic confidence and GDP

Consumer confidence stabilised at very weak levels

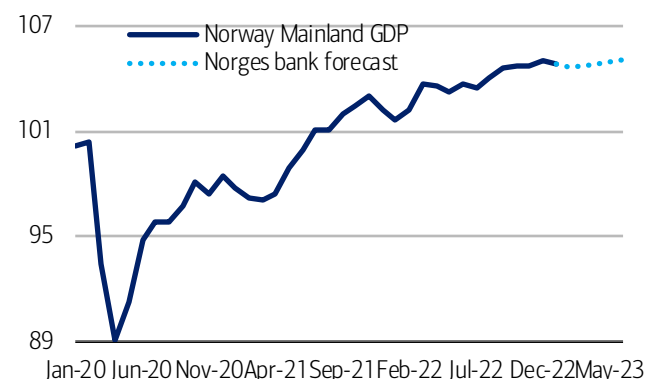


Source: BofA Global Research, National Institute of Economic Research, Statistics Sweden

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Exhibit 8: Norway monthly GDP and Norges forecast

Norges expects flat GDP in coming months

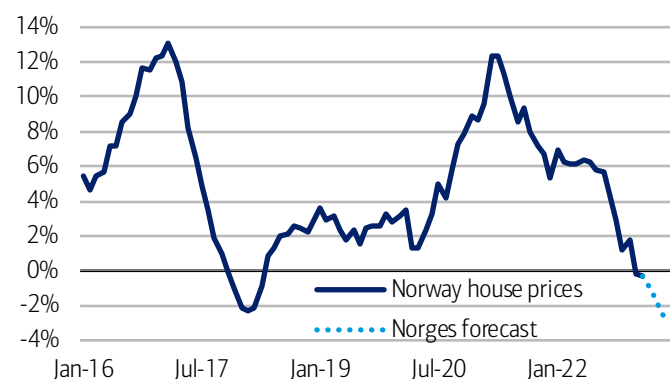


Source: BofA Global Research, Statistics Norway, Norges Bank

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Exhibit 9: House prices, Norway, % four-quarter change

House price inflation stronger than Norges expected, but slowing

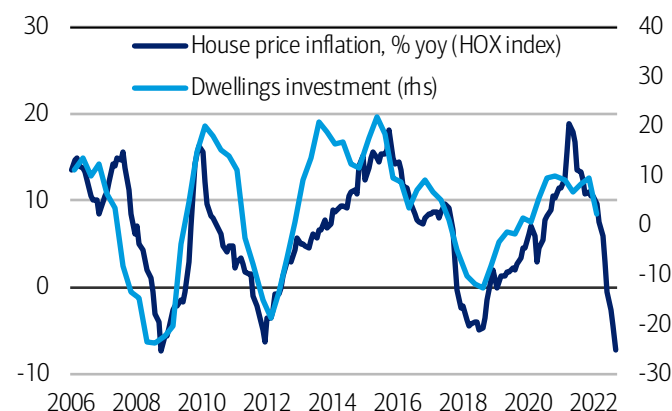


Source: Eiendomsverdi, Finn.no, Real Estate Norway and Norges Bank. Dotted lines show Norges Bank forecasts.

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Exhibit 10: Sweden house prices and investment

Dwellings investment likely to fall sharply



Source: Valueguard and Riksbank (Monetary Policy Report November 2022).

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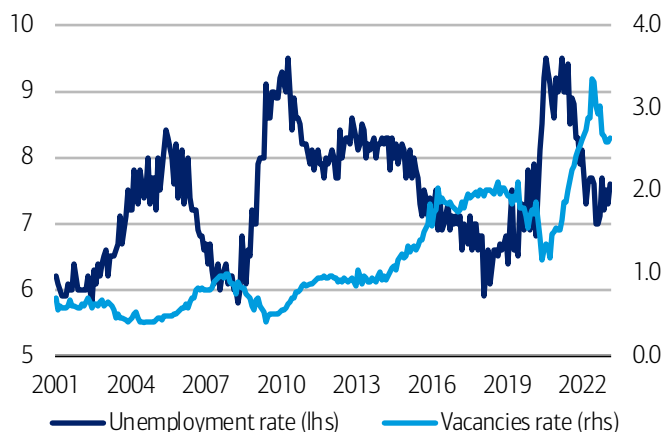
Labour market: easing in Sweden

The labour market has begun responding to weaker growth in Sweden. Vacancies have fallen from their peak and unemployment stabilised. PMIs point to stalling employment growth (Exhibit 15). The labour market remains very tight but seems to be easing.

Norwegian vacancies were still rising late last year but more up-to-date signals suggest the labour market has begun to ease. Norges Bank reports that new job vacancies, rather than the stock, have been declining. The Regional Network Survey also shows labour supply constraints continuing to ease.

Exhibit 11: Sweden unemployment rate and vacancies

Swedish labour market loosens

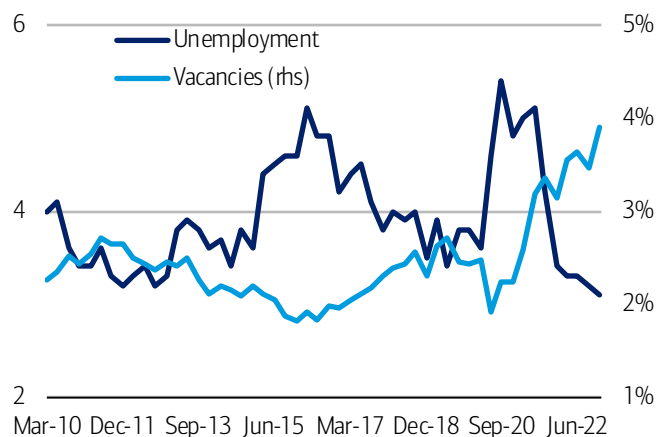


Source: BofA Global Research, Statistics Sweden.

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Exhibit 12: Norway unemployment and vacancy rate

Vacancies still rising in Norway and labour market remains very tight

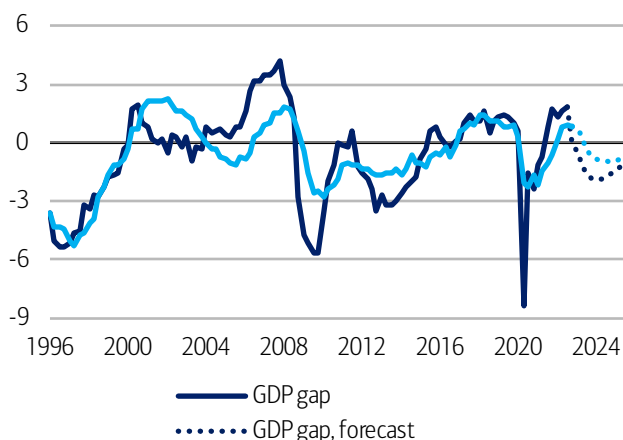


Source: BofA Global Research, Statistics Norway.

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Exhibit 13: Sweden capacity constraints

Riksbank expects capacity constraints to ease soon

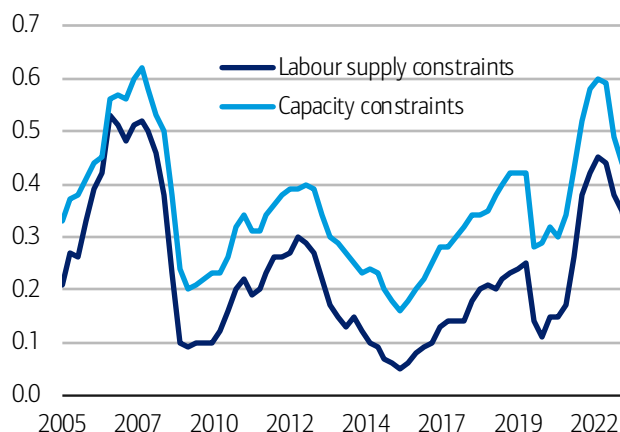


Source: Statistics Sweden, Riksbank (Monetary Policy Report November 2022). Dotted lines show Riksbank forecasts

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Exhibit 14: Norges Bank Regional Network Survey

Labour supply and capacity constraints continue to ease

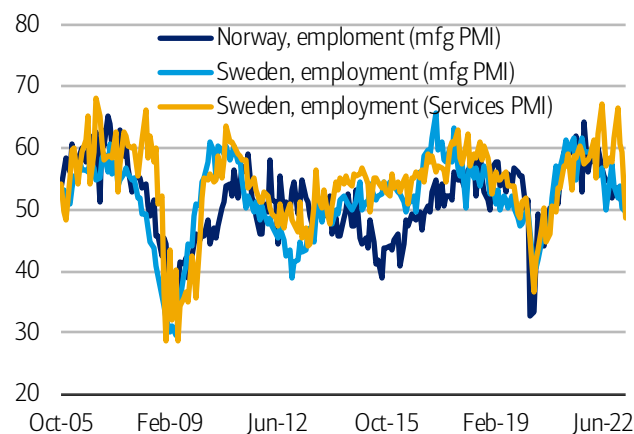


Source: Norges Bank.

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Exhibit 15: PMI employment

PMI services job growth falls sharply in Sweden

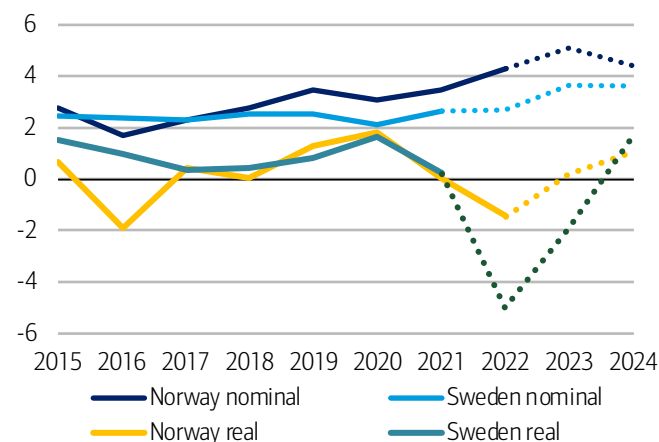


Source: Swedbank, DNB

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Exhibit 16: Nominal wage growth (percent)

Real wages expected to fall sharply in Sweden



Source: Swedish National Mediation Office, Statistics Sweden, Riksbank, Statistics Norway, Norges Bank. Note: Dashed lines show Norges Bank (dark blue) and Riksbank (light blue) forecasts
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Inflation: More persistence in Norway

Inflation continues to exceed central bank forecasts and is far higher in Sweden than Norway. That reflects much stronger food and goods inflation in Sweden (Exhibit 22, Exhibit 29, Exhibit 30).

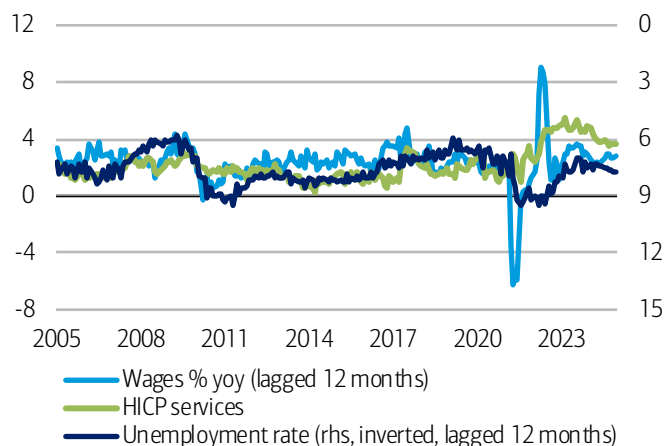
The weakening exchange rate in both countries has likely contributed to higher inflation, but we doubt it has been a key explanation (Exhibit 23, Exhibit 24). Other measures of domestic inflation pressure and signals of inflation persistence seem softer in Sweden. Wage growth has strengthened less, the labour market appears to be loosening, services inflation is a little softer. Inflation expectations are also falling at all horizons in Sweden, and medium-run expectations seem well anchored. Norway continues to see rising inflation expectations, however.

We adjust our Sweden inflation forecasts for recently higher than expected inflation. We look for CPI inflation of 8.0% in 2023 and 2.4% in 2024, up 130bp and 70bp respectively. For CPIF (CPI inflation excluding interest rate changes) we expect 6.3% and 2.1%, 100bp and 40bp higher than our previous calls respectively.

For Norway we expect CPI inflation of 4.9% and 2.9% in 2023 and 2024 (+20bp and 10bp from our previous forecast), and CPI-ATE of 5.0% and 2.6% (+20bp and -20bp). In short, we expect inflation to slow more in Sweden than Norway over the next couple of years, but Sweden has much higher inflation to start with driven in large part by very rapid food price inflation.

Exhibit 17: Sweden wages and services inflation, BofA forecast

Wage growth boosted by labour market tightness and inflation

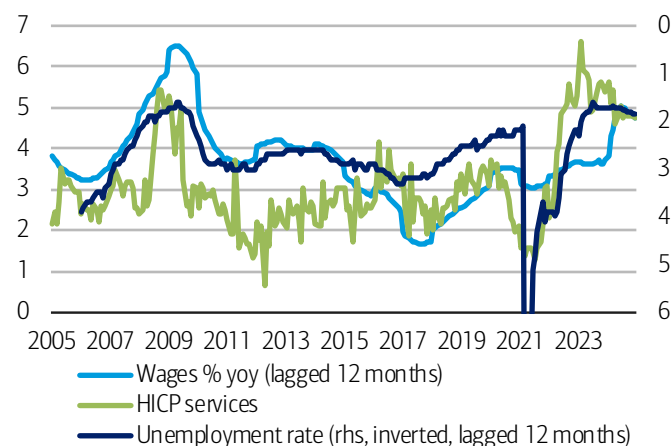


Source: BofA Global Research, Statistics Sweden

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Exhibit 18: Norway wages and services inflation, BofA forecast

Wage growth potentially adding to persistence of services inflation

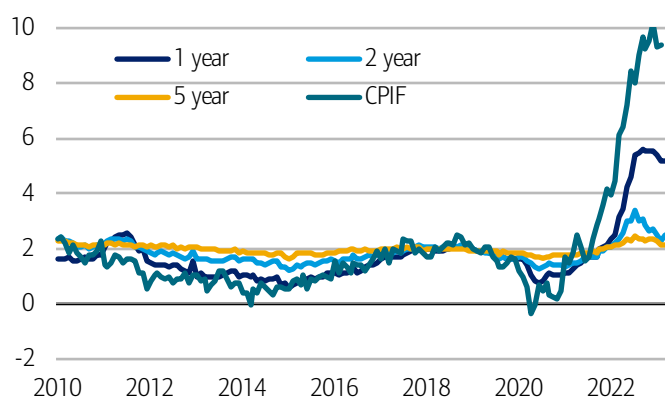


Source: BofA Global Research, Statistics Norway

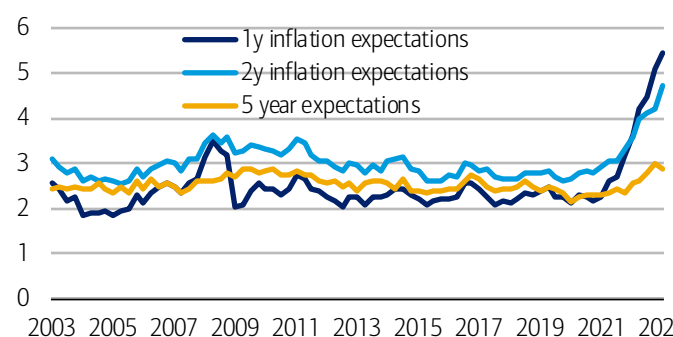
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Exhibit 19: Sweden inflation expectations (percent)

Expectations falling at all horizons in the "small" Prospera

Source: Prospera, Statistics Sweden. Note: We use the monthly survey data ("Small Prospera").
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Shorter-term expectations surge, but 5y expectations more anchored



1y and 2y expectations are the average of economists', households', firms' and social partners' expectations. 5y expectations are the average of economists' and social partners' expectations.

Source: Norges Bank

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Exhibit 21: Norges regional survey and inflation (percent)

Wage growth rose further in Norges regional survey

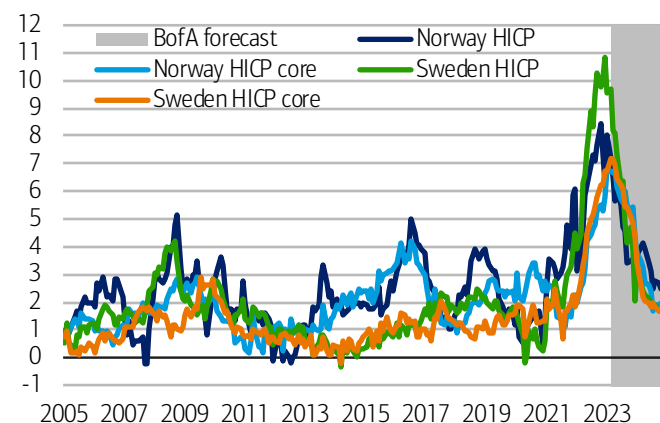


Source: Norges Bank, Statistics Norway

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Exhibit 22: Norway vs. Sweden CPI inflation (percent)

Sweden seeing larger inflation spike, driven by food and goods

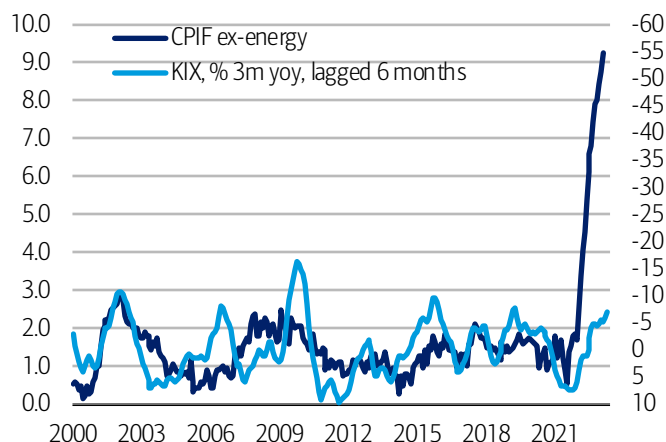


Source: BofA Global Research, Eurostat

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Exhibit 23: Swedish ex-energy inflation and KIX

Currency likely explains small part of Sweden inflation surge



Source: BofA Global Research, Statistics Sweden, Bloomberg

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Exhibit 24: Norway inflation and Norges forecast (percent)

Currency likely explains small part of inflation rise

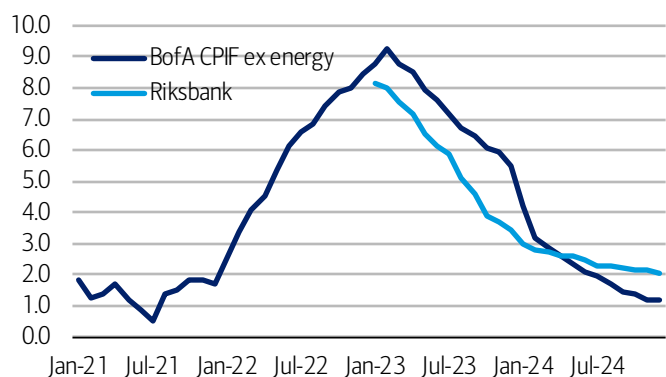


Source: BofA Global Research, Statistics Norway, Norges Bank. Note: We use Norges Bank projections for both CPI ex energy and the effective exchange rate

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Exhibit 25: Riksbank and BofA core inflation forecast (percent)

Core inflation peaked in our view

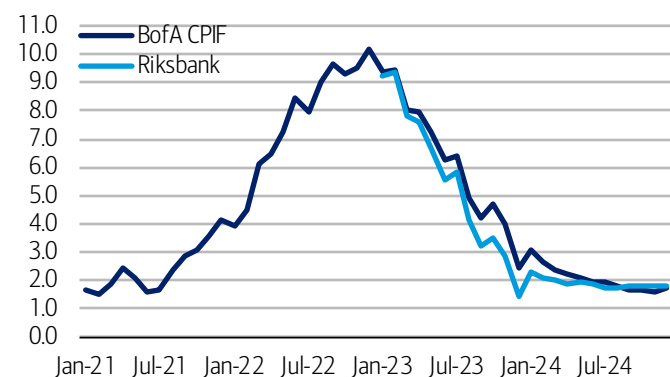


Source: BofA Global Research, Riksbank

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Exhibit 26: Riksbank and BofA inflation forecast (percent)

Inflation likely to drop sharply 2H 2023 as energy inflation eases

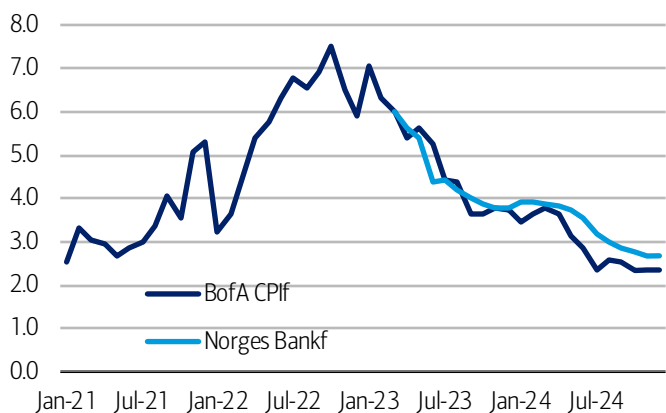


Source: BofA Global Research, Riksbank

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Exhibit 27: BofA and Norges Bank inflation forecasts

Headline inflation peaked in Norway

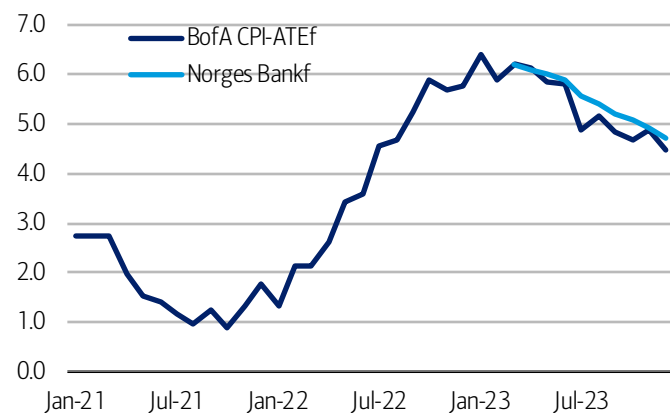


Source: BofA Global Research, Norges Bank, Statistics Norway.

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Exhibit 28: BofA and Norges Bank inflation forecasts

We expect core inflation to be stickier than headline, but also to have peaked

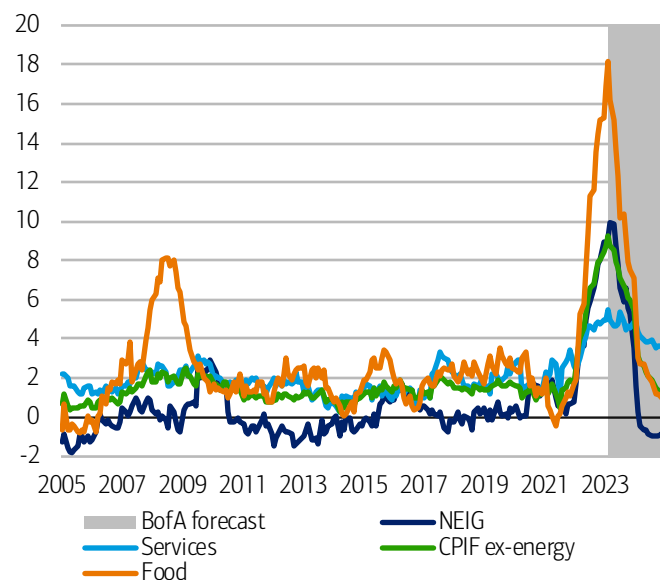


Source: BofA Global Research, Norges Bank, Statistics Norway.

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Exhibit 29: Sweden HICP components and BofA forecast

Swedish inflation heavily driven by global factors, but services strong

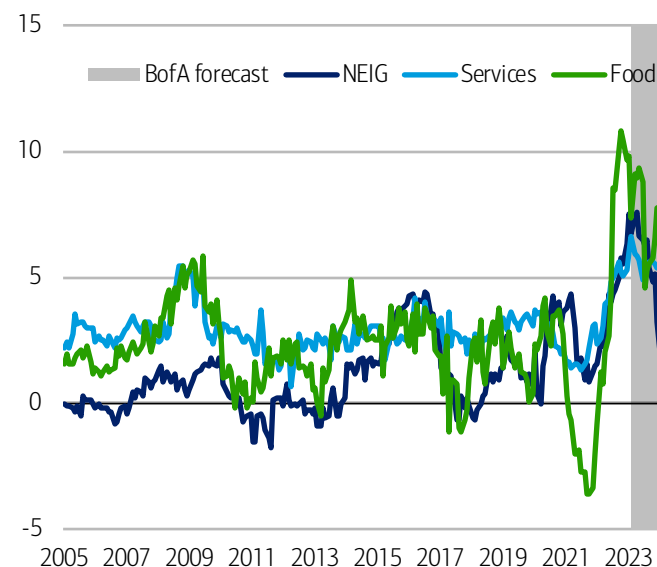


Source: BofA Global Research, Statistics Sweden.

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Exhibit 30: Norway HICP components and BofA forecast

Food and energy make large inflation contribution, but services risen



Source: BofA Global Research, Statistics Norway

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Policy: Data vs the central banks

Our policy calls need to balance the data flow, which in our view points to faster easing inflation pressure in Sweden than Norway, against the central banks' reaction functions. Both have focused more on their currencies as a key driver of policy recently, pinning some of the inflation pressure on recent depreciations. But by far the biggest change over the past few months for our outlook has been the hawkish shift from the Riksbank in response to upside inflation surprises.

Given high inflation the Riksbank seems to us more open to larger rate hikes than Norges, with the former hiking 50bp in its latest meeting and the latter 25bp. If the Riksbank is going to move in larger increments we think it can reach a higher terminal. We the Riksbank to hike 50bp in April and 25bp in June, to a terminal rate of 3.75%. If Norges continues to hike in 25bp increments we suspect it will be 'stopped out' at a lower terminal than Riksbank because of the likely path of inflation. 25bp hikes in May and June, as per our call, seems like the upper bound to us, given by August we expect headline and core inflation to have slowed materially and the ECB to have stopped hiking.

Meanwhile for Riksbank, if they hike 50bp in April as we expect we see 3.75% terminal as the minimum. Not only would slowing from 50bp hikes to holding from one meeting to the next seem to us less likely than tapering off rate hikes with a final 25bp, but the Riksbank's laser focus on the krona means it may be more inclined to follow the ECB or even keep hiking after the ECB stops (which we expect after June).

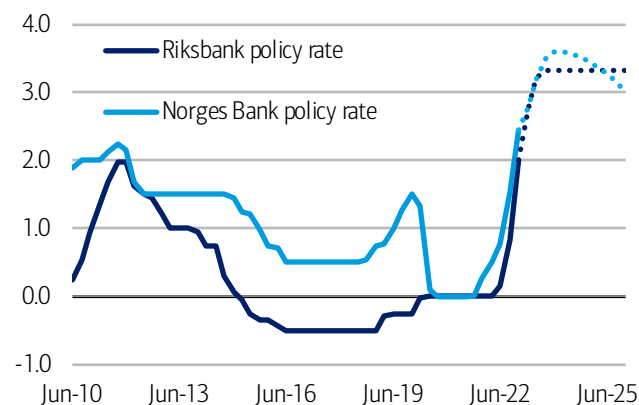
We continue to think both central banks will stop their hiking cycles in around May to June because we expect headline inflation to fall sharply through late Spring and into the second half of the year, first on energy and goods base effects then for the Riksbank in particular falling food price inflation. Our proprietary central bank mood indicators support this view. Both the Riksbank and Norges appear to be well past peak hawkishness and returning towards a neutral stance (Exhibit 32, Exhibit 35, Exhibit 36).

Especially in the Riksbank's case, where the real economy is weaker, we think it will be hard to justify further rate hikes once headline inflation convincingly slows. We expect a slower inflation decline in Norway given the stronger real economy, but Norges seems

prepared to keep moving gradually. Fewer Norges hikes and a stronger real economy means we expect them to hold at terminal for longer. We look for two 25bp rate cuts from Norges in 2024 but four from the Riksbank.

Exhibit 31: Policy rates

Riksbank now projects a similar terminal rate to Norges

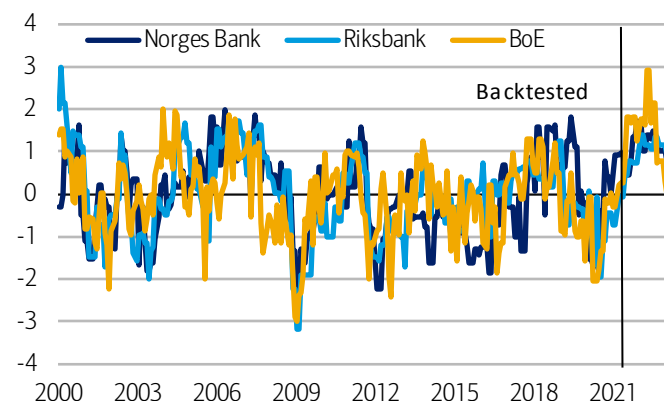


Source: Riksbank, Norges Bank

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Exhibit 32: BofA central bank mood indicators, standard deviations from average (Back-tested)

Central banks well past peak hawkishness

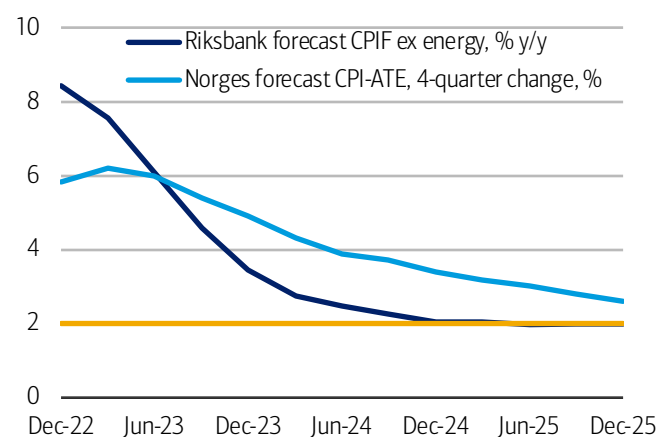


Source: BofA Global Research, Norges Bank, Riksbank, Bank of England. NORBI/Riksbank/BoEMI are scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. In the chart we show the raw mood score converted into standard deviations from average. The indicator identified as NORBI/Riksbank/BoEMI 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.

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Exhibit 33: Riksbank vs Norges inflation forecasts

Riksbank expects inflation to return to target faster than Norges

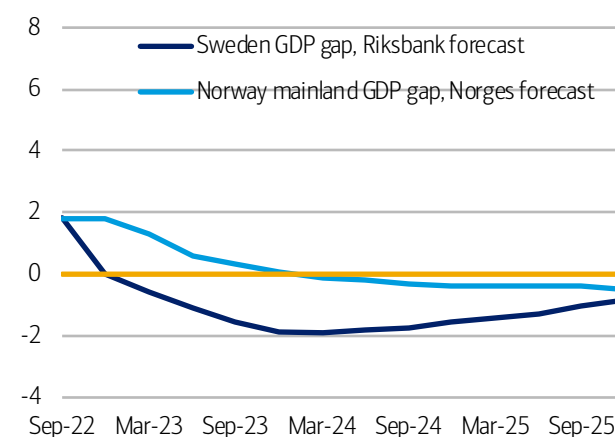


Source: Riksbank, Norges Bank

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Exhibit 34: Riksbank vs Norges output gap forecasts

...due to a more negative output gap

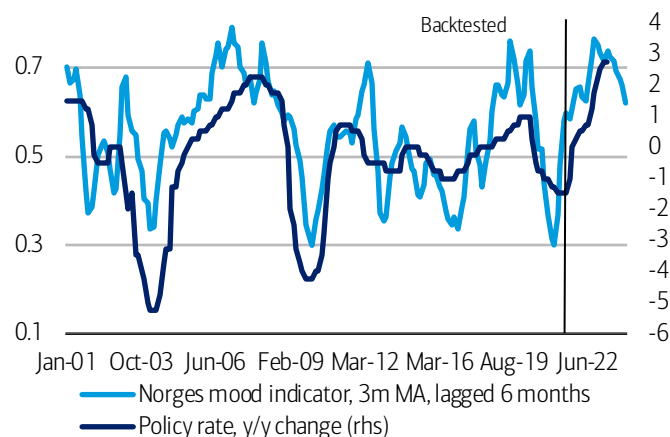


Source: Riksbank, Norges Bank

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Exhibit 35: BofA Norges Bank mood indicator (NORBI)

NORBI suggest Norges past peak hawkishness (Back-tested)

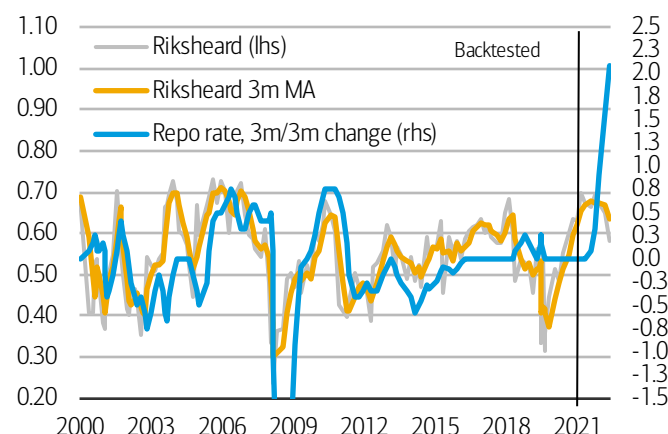


Source: BofA Global Research, Norges Bank. NORBI is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as NORBI is intended to be an indicative metric only 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: Assessing Norges Bank's hawkishness](#)

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Exhibit 36: BofA Riksbank mood indicator (Riksheard)

Riksheard waited longer to react to hawkishness, now catching up (Back-tested)

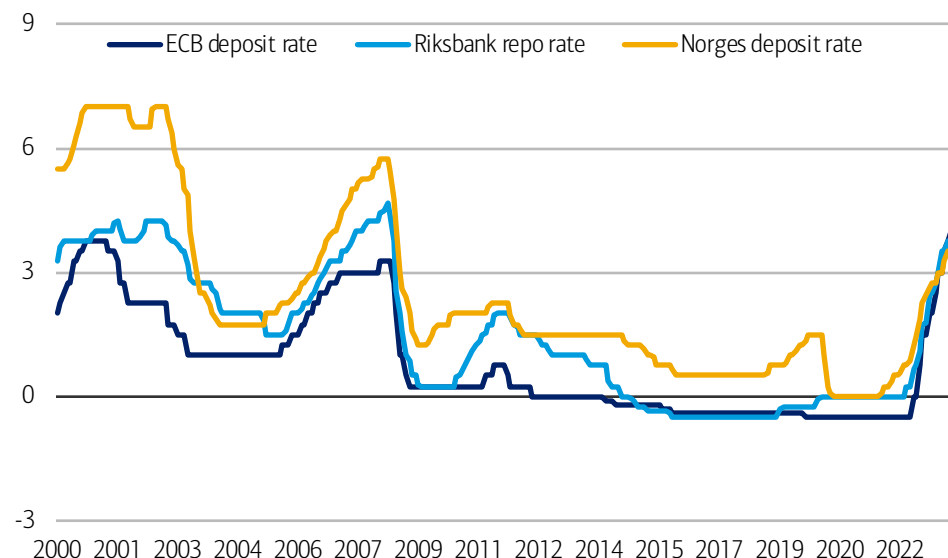


Source: BofA Global Research. Note: Riksheard is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in each publication. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as Riksheard is intended to be an indicative metric only and may 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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Exhibit 37: BofA ECB, Riksbank and Norges policy rates

Our forecasts put Norges policy rate below the ECB by June, unusually



Source: BofA Global Research, ECB, Riksbank, Norges Bank

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NOKSEK to move higher

We continue expecting NOKSEK higher this year (Exhibit 38). We still like NOK for the year, but we remain skeptical on SEK, at least for the next six months or so.

We can justify NOK's weakness from October until mid-February, but we find its weakness since overdue. We expect risk sentiment and FX vol to continue driving NOK in the near term (and until the Fed rate cuts for this year are priced out) but we remain constructive on it for the year counting on a softer USD, stabilised risk sentiment and higher oil prices in H2, and on Norges doing its part.

The Riksbank's focus on inflation is SEK-positive both near term and longer term, but we remain concerned about harder landing risks and property-market risks.

Relative to consensus, we are more bullish on NOK but more bearish on SEK, particularly until Q3. We expect NOKSEK to move to 1.06 after Q1 while consensus expects it to peak at 1.04 in Q3.

Our Scandies forecasts factor in: (1) Our more positive USD view vs consensus—unlike consensus, we see USD upside in 1H, and we see less USD downside in 2H (see EUR: the rest of the year ahead 30 Mar 23). (2) Our more constructive oil outlook vs consensus.

Exhibit 38: Latest Scandies FX forecasts

We continue expecting NOKSEK higher this year

	Jun-23	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
EUR/NOK	10.80	10.60	10.30	10.20	10.10	10.10	9.80
USD/NOK	10.29	9.91	9.36	9.27	9.18	8.78	8.52
EUR/SEK	11.40	11.20	10.80	10.70	10.60	10.50	10.30
USD/SEK	10.86	10.47	9.82	9.73	9.64	9.13	8.96
NOK/SEK	1.06	1.06	1.05	1.05	1.05	1.04	1.05
EUR/USD	1.05	1.07	1.10	1.10	1.10	1.15	1.15

Source: BofA Global Research

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Norges cares about NOK and seems willing to do its part

We expect risk sentiment and FX vol to continue driving NOK in the near term. But we remain constructive on NOK for later this year.

NOK in line with history until mid-Feb but its recent weakness overdue

NOK's performance from end-Q3 until mid-February was well in line with its past performance, accounting for: (1) demand- and (2) supply-driven oil-price changes, (3) 2y swap spreads, and (4) 3m implied vol spread. But we should flag this followed 5-6% underperformance through 2Q and 3Q last year.

However, its weakness after mid-February seems overdue to us—we find NOK c. 3% weaker in trade-weighted terms than we would expect (Exhibit 39).

Looking ahead: we remain constructive on NOK

We remain constructive on NOK for the year, counting on:

- (1) More stable risk sentiment and a softer USD in 2H, and after the Fed rate cuts for this year are priced out (see EUR: the rest of the year ahead 30 Mar 23).
- (2) Higher oil prices: our commodities team expects Brent at \$90/bbl in 2H assuming the financial turmoil is contained and China's reopening gains steam into 2H (Oil, money, and banks 20 Mar 23). In fact, in 1H March Chinese international/regional traffic rose to just 17% of 2019 levels (High frequency air travel reads across China and Asia 20 Mar 23). We reiterate that demand-driven oil-price changes can be particularly positive for NOK—we find their effect around three times as important as that of supply-driven ones. Lower oil volatility could also contribute to a lower implied vol spread (Exhibit 40).

(3) Norway's relatively strong fundamentals & Norges Bank. Norges surprised markets hawkishly in March, with the weaker NOK a key factor behind its higher projected rate path (Exhibit 41). While oil prices and risk sentiment are typically more important drivers for NOK, rate differentials also matter. In fact, Norges' hawkishness likely contributed to the higher 2yr swap spreads, with swap spreads almost flat for the year until then (Exhibit 42, Exhibit 43).

The bottom line is Norges cares about NOK and seems willing to do its part to help avoid more and/or persistent NOK weakness. We reiterate slower does not necessarily mean lower and, even if it did, it could mean fewer rate cuts further out. Sooner or later, we expect Norway's relative fundamentals to come into play.

Positioning: long but not stretched, driven by Real Money

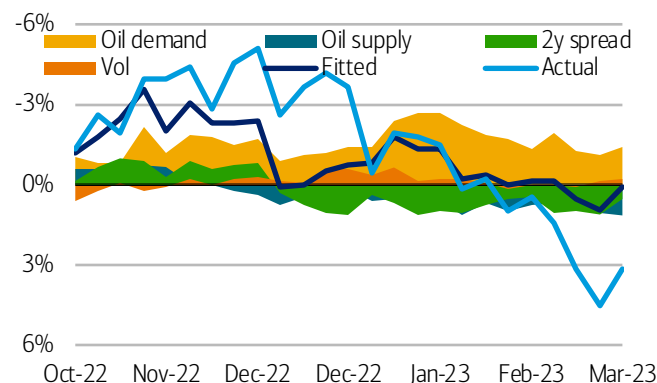
NOK positioning remains long but not stretched. It is a little lighter than at the start of the year largely because of Hedge Funds cutting their slightly long exposure (Exhibit 44). But Real Money clients remain long NOK.

Forecasts: no changes. Risks: risk sentiment, oil & China, Norges v ECB

We continue to expect EURNOK at 10.30 by year-end and NOKSEK at 1.05-1.06. Key risks remain around (1) risk sentiment and the USD (Financial turmoil, Fed re-pricing & the USD 29 Mar 23), with NOK's low liquidity a potential source of vulnerability (March FX liquidity could have been worse 28 Mar 23). (2) Energy prices, the war and the impact of China. (3) And around the relative Norges Bank stance, especially vs. the ECB.

Exhibit 39: Fitted vs. actual NOK I-44 (inverted values)

NOK was in line with history until mid-Feb, but its recent weakness overdone

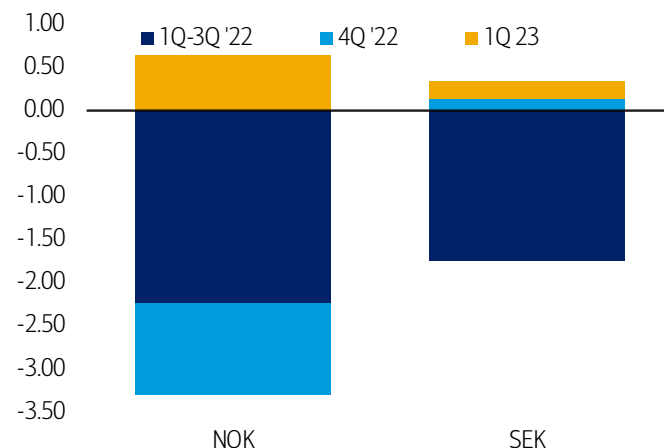


Source: BofA Global Research, Bloomberg, Federal Reserve Bank of New York, Oil Price Dynamics Report, https://www.newyorkfed.org/research/policy/oil_price_dynamics_report.html. Lower values of the import-weighted krone index (NOK I-44) show a stronger NOK. Weekly data through Mar 24. Regression estimates are for Jan 2018- Sep 2022. We regress changes in (log) NOK I-44 (Norges's import-weighted krone index) on: demand-driven and supply-driven changes in (log) Brent crude spot prices as per the New Fed Oil Price Dynamics Report data; changes in Norway's 2-year trade-weighted swap spread; and changes in the idiosyncratic NOK implied-vol spread.

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Exhibit 40: Idiosyncratic 3-month implied volatility spreads

Lower oil volatility could also contribute to a lower implied vol spread

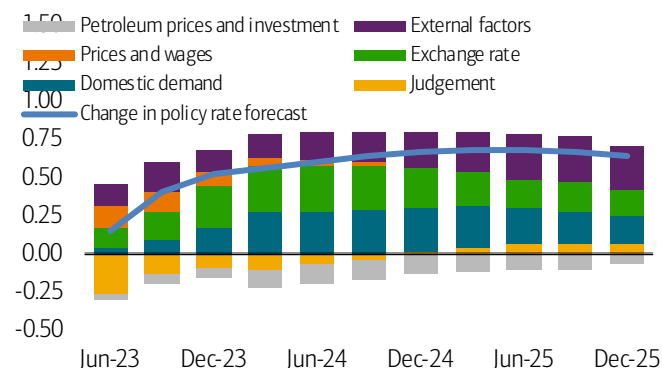


Source: BofA Global Research, Bloomberg. Note: We define the idiosyncratic NOK (SEK) implied volatility spread as that between the equally weighted average of the 3-mth EUR/NOK and USD/NOK (EUR/SEK and USD/SEK) implied volatilities and the equally-weighted average of the 3-mth EUR/USD, USD/JPY, EUR/JPY and EUR/CHF implied volatilities. Data weekly through Mar 24.

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Exhibit 41: Decomposition of changes in Norges Bank's rate path

Weaker NOK was a key factor behind Norges' higher projected rate path

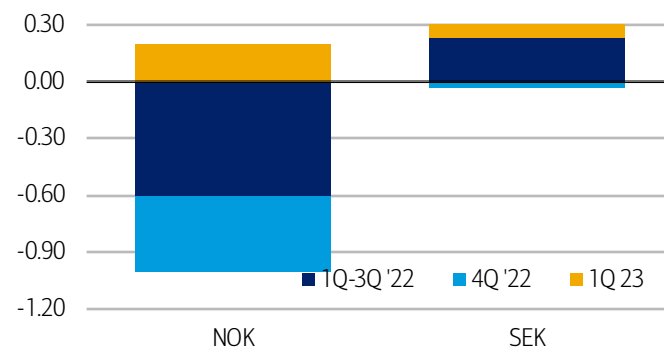


Source: Norges Bank, MPR 1/23, BofA Global Research. Note: Judgement is the difference (residual) between the rate-path changes and the cumulative contribution of the remaining five components.

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Exhibit 42: Change in 2yr trade-weighted swap spreads (percent)

Norges' hawkishness likely contributed to the higher 2yr swap spreads...

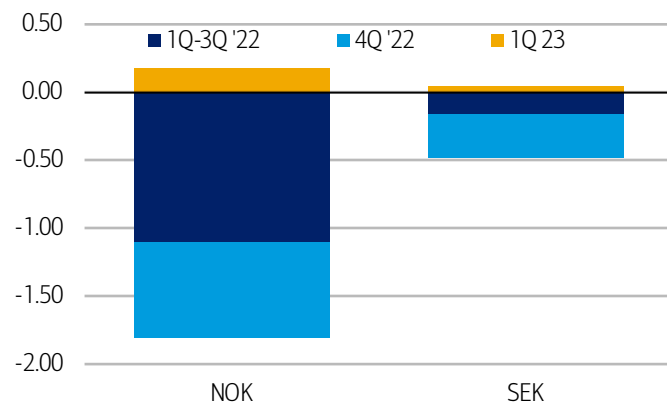


Source: BofA Global Research, Bloomberg. Note: The 2-year NOK swap spread is with respect to Norway's 9 largest trading partners as per the, import-weighted, NOK I-44 index. The 2-year SEK Spread is with respect to Sweden's 11 largest trading partners as per the, trade-weighted, krona index ("KIX"). Data weekly through March 24.

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Exhibit 43: Change in 2yr swap spreads vs EUR (percent)

...including vs. the EUR

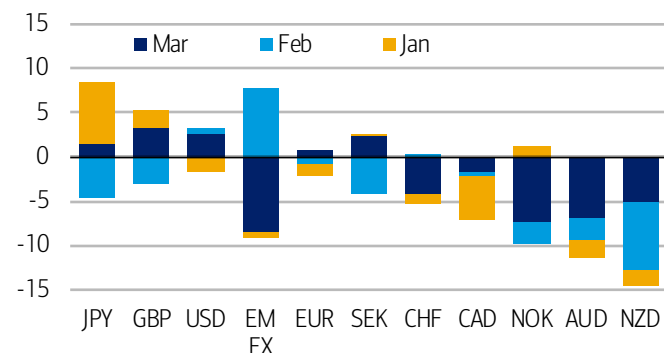


Source: BofA Global Research, Bloomberg. Data weekly through March 24.

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Exhibit 44: Aggregate positioning changes by month this year

NOK positioning a little lighter, but still long and driven by Real Money



Source: BofA Securities, Bloomberg. We show changes in aggregate positioning by month. Currencies ranked on their year-to-date positioning change. +50 (-50) represents a max long (short) positioning level relative to early 2012.

BofA GLOBAL RESEARCH

Riksbank unlikely to compromise on inflation but this won't be costless

We remain bearish on SEK for the next months—despite finding it much undervalued from a longer-term perspective—on concerns around consumers and property markets.

Looking back: Riksbank has likely prevented more SEK weakness

The hawkish Riksbank has likely bought SEK some time and, without it, SEK would have likely been even weaker (Exhibit 45). In fact, the strong misalignment between the actual and the fitted SEK values, and between EURSEK and EURUSD is slightly lower after the Riksbank's February meeting (Exhibit 46), with the Riksbank's focus on SEK (and indirectly the ECB) helping SEK's "high beta" status to EUR get restored. Moreover, the Riksbank's focus on inflation is also positive for SEK in the long term.

SEK's resilience during the recent financial market turmoil was noteworthy. We would attribute it, partly to the resilience of Swedish rates (Exhibit 47) given the upside surprise in the February ex-energy inflation print, and partly to positioning.

Looking ahead: bearish on SEK, largely on property markets concerns

But we remain concerned on SEK in the medium term. In our economists' base case (and similarly to the Riksbank), we assume Sweden's highly leveraged households and their debt's "highly floating" nature will help inflation fall fast in the next months. Assuming

any issues around property markets prove manageable and with some help from a softer USD and better risk sentiment in 2H, SEK could start recovering towards the year-end.

But, at least until then, we remain bearish on SEK:

(1) We remain concerned global inflation will prove stickier than thought and expect the Fed rate cuts for this year to be priced out, which could undermine risk sentiment and support USD.

(2) Swedish ex energy CPI is yet to peak. We do not think the Riksbank will compromise on inflation, which we do find sensible from a long-term perspective, but this also suggests higher chances of a harder landing in case inflation proves overly sticky and/or the ECB overly hawkish.

Even if this year's wage rounds offer some relief to the Riksbank, next year's rounds cannot be taken for granted, which the Riksbank is well aware of. So, unless inflation falls fast enough, the Riksbank could be faced with no easy trade-offs.

Positioning: somewhat less short than at the start of the year

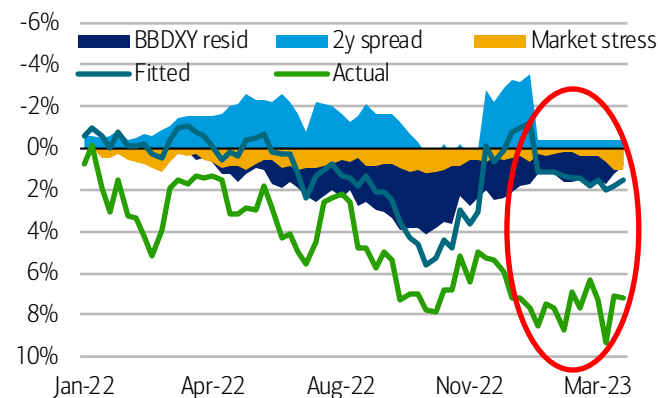
Investor SEK flows have been positive this year, by both Hedge Funds and Real Money (Exhibit 48). Positioning remains short for both investor groups, but it is not stretched.

Forecasts: no changes. Risks: inflation stickiness, property markets, ECB

We remain bearish on SEK, expecting EURSEK to test its recent highs by mid-year. We turn more constructive on SEK towards the year-end, but risks are for prolonged SEK weakness. We would be encouraged from a medium-term perspective if Swedish inflation started falling fast and/or property markets showed signs of relief. Meanwhile, we think a more hawkish ECB stance could prove a double-edged sword for SEK.

Exhibit 45: Fitted vs. actual Swedish krona index

The Riksbank has likely helped bring closer actual and fitted SEK values

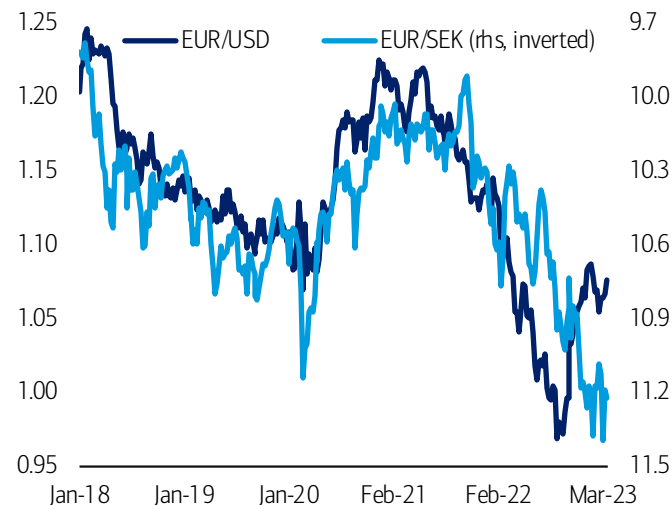


Source: BofA Global Research, Bloomberg. Lower values of the trade-weighted krona index (KIX) show a stronger SEK. Weekly data through Mar 24. Fitted values are based on regression estimates for 2018-2021. We regress changes in log KIX (trade-weighted krona index) on 1) residual changes in the (log) Bloomberg Dollar Index (see below for details); 2) changes in the trade-weighted ten-year SEK swap spreads; 3) changes in the first principal component of VIX, the MOVE Index and the US Corporate BAA 10-year spread, which we interpret as a proxy for market stress. The residual changes of the Bloomberg Dollar Index are changes in the Bloomberg Dollar Index unaccounted for by changes in market stress conditions.

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Exhibit 46: EURUSD vs EURSEK

EURUSD and EURSEK slightly less misaligned

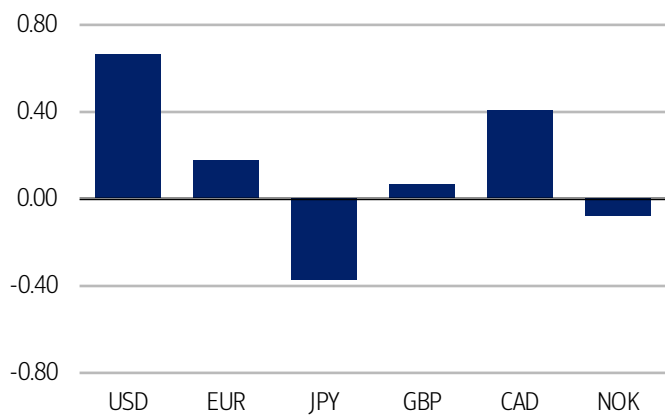


Source: Bloomberg. Weekly data through Mar 24.

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Exhibit 47: Change in 2y SEK/XXX swap spreads, 3-24 March

SEK rates have shown resilience, also on the back of upside core CPI surprises

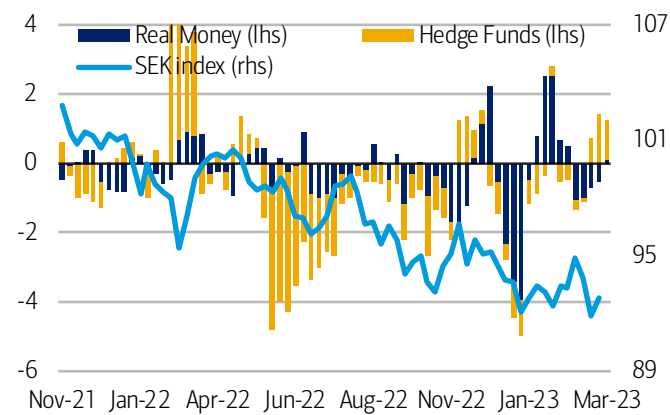


Source: BofA Global Research, Bloomberg

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Exhibit 48: BofA investor 4-week flows (z-score) and SEK TWI

Investors have somewhat pared back their SEK shorts this year



Source: BofA Securities, Bloomberg

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Annex: economic forecasts

Exhibit 49: BofA Sweden inflation

Updated forecasts

	HICP					CPI				
	NEIG	Energy	Unprocessed food	Processed food, alcohol, tobacco	Food	Services	Headline	Core	CPI	CPI ex energy
Jan-22	1.69	23.79	2.66	1.79	1.93	2.37	3.91	2.06	3.69	3.92
Feb-22	2.75	20.06	6.34	2.96	3.54	2.71	4.44	2.73	4.29	4.49
Mar-22	3.69	34.43	8.28	4.63	5.26	3.00	6.31	3.31	5.97	6.12
Apr-22	3.60	33.16	10.22	4.91	5.83	3.83	6.61	3.73	6.36	6.44
May-22	4.93	32.73	12.25	6.64	7.60	4.16	7.52	4.51	7.27	7.25
Jun-22	5.59	40.33	13.96	8.43	9.38	4.62	8.87	5.04	8.68	8.47
Jul-22	5.93	27.04	15.77	10.31	11.25	4.62	8.32	5.17	8.49	7.98
Aug-22	6.63	37.78	13.51	11.21	11.60	4.46	9.48	5.42	9.83	9.00
Sep-22	7.07	38.45	17.19	12.74	13.50	4.74	10.26	5.79	10.84	9.66
Oct-22	7.85	27.60	18.82	13.55	14.46	4.85	9.79	6.21	10.85	9.28
Nov-22	8.00	29.18	19.20	14.31	15.16	4.72	10.10	6.21	11.46	9.53
Dec-22	8.91	31.80	17.86	14.71	15.25	4.97	10.84	6.76	12.34	10.17
Jan-23	8.75	14.74	19.47	16.45	16.96	5.01	9.59	6.75	11.68	9.34
Feb-23	9.19	9.69	23.41	17.13	18.16	5.49	9.70	7.19	11.95	9.42
Mar-23	9.94	-2.20	21.02	15.31	16.24	4.96	8.17	7.16	10.45	8.02
Apr-23	9.87	0.84	18.09	14.59	15.14	4.64	8.14	6.97	10.42	7.97
May-23	8.70	-1.09	18.07	12.82	13.67	4.67	7.32	6.47	9.61	7.26
Jun-23	7.78	-7.11	16.13	11.61	12.33	4.77	6.22	6.19	8.43	6.24
Jul-23	6.60	-0.52	16.97	8.84	10.18	5.33	6.41	6.07	8.31	6.39
Aug-23	5.84	-10.97	18.48	8.72	10.33	4.91	4.83	5.44	6.51	4.92
Sep-23	6.65	-14.95	18.64	7.28	9.16	4.45	4.10	5.44	5.53	4.24
Oct-23	5.57	-6.12	16.66	6.21	7.94	4.66	4.70	5.09	5.67	4.73
Nov-23	5.24	-11.19	18.57	5.35	7.53	4.54	3.86	4.86	4.66	4.03
Dec-23	3.56	-21.25	19.05	4.69	7.06	4.87	2.07	4.32	2.85	2.41

Source: BofA Global Research, Statistics Sweden

BofA GLOBAL RESEARCH

Exhibit 50: BofA Norway inflation

Updated forecasts

	HICP					CPI				
	NEIG	Energy	Unprocessed food	Processed food, alcohol, tobacco	Food	Services	Headline	Core	CPI	CPI-ATE
Feb-22	2.45	16.98	2.41	1.09	1.26	2.58	3.54	2.51	3.66	2.12
Mar-22	2.25	35.03	1.61	0.64	0.76	3.09	4.68	2.67	4.54	2.12
Apr-22	2.42	43.34	1.87	2.03	2.00	3.92	5.87	3.17	5.39	2.64
May-22	4.33	34.50	3.15	2.59	2.66	4.10	6.22	4.21	5.74	3.44
Jun-22	3.99	41.54	6.56	3.86	4.25	4.83	6.97	4.41	6.33	3.61
Jul-22	4.34	30.50	9.90	8.30	8.54	4.98	7.33	4.66	6.79	4.55
Aug-22	4.47	26.09	9.14	8.38	8.50	5.09	7.07	4.77	6.53	4.66
Sep-22	4.95	24.36	12.87	9.58	10.07	5.59	7.65	5.28	6.89	5.25
Oct-22	5.76	30.40	14.46	10.19	10.81	5.23	8.45	5.49	7.51	5.88
Nov-22	5.49	18.91	15.08	9.71	10.48	5.04	7.28	5.26	6.52	5.70
Dec-22	6.35	6.05	12.10	9.20	9.62	5.28	6.31	5.81	5.89	5.77
Jan-23	7.51	17.41	12.39	9.42	9.84	5.97	8.02	6.76	7.05	6.40
Feb-23	6.72	14.18	13.78	6.30	7.36	6.62	7.17	6.71	6.30	5.89
Mar-23	7.42	1.29	16.04	7.96	9.11	5.92	6.50	6.67	5.99	6.21
Apr-23	7.58	-8.05	16.06	7.78	8.96	5.82	5.68	6.71	5.40	6.12
May-23	6.62	-0.03	15.98	8.19	9.30	5.69	6.07	6.16	5.60	5.86
Jun-23	6.47	-2.53	10.72	8.44	8.78	4.91	5.54	5.71	5.26	5.80
Jul-23	6.21	-2.65	4.22	4.67	4.60	4.96	4.68	5.61	4.44	4.87
Aug-23	6.49	-8.42	5.41	5.29	5.31	5.37	4.57	5.98	4.39	5.14
Sep-23	5.33	-16.54	4.07	5.75	5.49	5.60	3.41	5.51	3.63	4.83
Oct-23	4.80	-14.50	5.31	5.89	5.80	5.62	3.47	5.26	3.65	4.70
Nov-23	5.16	-16.48	5.57	6.73	6.55	5.54	3.56	5.40	3.76	4.87
Dec-23	3.25	-10.79	8.53	7.59	7.73	5.37	3.71	4.37	3.73	4.47

Source: BofA Global Research, Statistics Norway

BofA GLOBAL RESEARCH

Exhibit 51: Sweden Economic forecasts

Recession in 2023. Inflation to fall back towards target

		2020	2021	2022	2023	2024	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
GDP	% qoq						-0.2	0.2	0.3	-0.5	-0.3	-0.4	-0.4	0.1	0.2	0.3	0.4	0.4
	% qoq ann.						-0.7	0.8	1.4	-2.0	-1.2	-1.6	-1.6	0.4	0.8	1.2	1.6	1.6
Private Consumption	% yoy	-2.3	5.2	2.7	-0.9	0.5	4.6	4.0	2.5	-0.1	-0.2	-0.9	-1.6	-1.0	-0.5	0.2	1.0	1.3
	% qoq						-1.2	1.4	-1.8	-0.4	-0.2	-0.2	-0.2	0.2	0.3	0.4	0.4	0.4
Government Consumption	% yoy	-3.2	6.2	2.2	-1.2	0.9	5.2	5.7	0.2	-2.0	-1.0	-2.6	-1.0	-0.4	0.1	0.7	1.3	1.5
	% qoq						-0.2	-0.2	0.5	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investment	% yoy	-2.0	2.4	0.0	1.6	2.0	0.1	-0.8	0.2	0.3	1.0	1.7	1.7	2.0	2.0	2.0	2.0	2.0
	% qoq						1.2	2.4	0.5	-1.0	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4
Final Domestic Demand ¹	% yoy	1.5	5.7	5.3	0.6	1.2	5.8	6.6	5.7	3.1	2.1	-0.1	-0.4	0.8	0.9	1.1	1.3	1.5
	% qoq						-0.3	1.3	-0.6	-0.4	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.4
Net exports ¹	% yoy	-1.6	4.8	2.3	0.0	1.2	3.9	4.2	1.7	0.0	0.4	-0.8	-0.1	0.6	0.8	1.2	1.5	1.6
	% qoq						0.2	-0.9	0.8	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stockbuilding ¹	% yoy	-0.1	-0.1	-0.6	0.6	-0.1	-0.8	-2.0	-0.4	0.7	0.5	1.4	0.6	-0.1	-0.1	-0.1	-0.1	-0.1
	% qoq						-0.1	0.0	0.1	-0.8	-0.4	-0.5	-0.5	-0.2	-0.1	-0.1	0.0	0.0
Current Account Balance	% yoy	-0.7	0.5	1.0	-1.6	-0.7	1.6	2.0	1.2	-0.8	-1.1	-1.5	-2.1	-1.5	-1.2	-0.8	-0.4	-0.2
	% of GDP	5.9	6.5	4.4	5.2	5.0	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Industrial production	% qoq						-0.2	0.0	4.2	-4.5	-0.8	0.0	0.4	0.6	0.6	0.6	0.6	0.6
	% yoy	-5.0	7.0	1.9	-1.8	2.2	1.6	19.5	4.7	3.8	1.5	0.9	5.7	-0.7	-1.2	-1.2	-4.8	0.2
Unemployment rate ²	%	8.5	8.8	7.5	7.5	8.0	7.7	7.7	7.0	7.4	7.3	7.4	7.5	7.7	7.8	7.9	8.0	8.2
CPI Inflation (harmonised) ²	% yoy	0.7	2.7	8.1	6.3	1.9	4.9	7.7	9.4	10.2	9.1	7.2	5.1	4.0	2.7	1.7	1.6	1.4
CPI ²	% yoy	0.5	2.2	8.4	8.0	2.4	4.7	7.4	9.7	11.6	11.4	9.5	6.8	4.8	3.3	2.3	2.1	1.8
CPIF	% yoy	0.5	2.4	7.7	6.3	2.1	4.8	7.4	8.9	9.7	8.9	7.2	5.2	4.1	3.0	1.9	1.7	1.6
Repo Rate ⁴	%	0.00	0.00	2.50	3.75	2.75	0.00	0.75	1.75	2.50	3.00	3.75	3.75	3.75	3.50	3.25	3.00	2.75

Notes: ¹ Contribution to GDP growth ² quarterly averages ³ Period averages ⁴ Period averages, quarterly change. Source: BofA Global Research, Statistics Sweden, Bloomberg

BofA GLOBAL RESEARCH

Exhibit 53: Norway Economic forecasts

Growth to slow through 2022 and 2023, inflation to fall back towards target in 2023

		2020	2021	2022	2023	2024	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
GDP (mainland)	% qoq						-0.4	1.2	0.6	0.8	0.2	0.0	0.0	0.1	0.2	0.2	0.3	0.3
	% qoq ann.						-1.5	4.7	2.3	3.4	0.8	0.0	0.0	0.4	0.8	0.8	1.2	1.2
Private Consumption	% yoy	-3.4	4.2	3.8	1.4	0.7	5.3	4.9	2.7	2.2	2.8	1.6	1.0	0.3	0.3	0.5	0.8	1.0
	% qoq						-3.9	3.2	0.6	5.6	0.0	-0.1	0.1	0.2	0.2	0.2	0.3	5.6
Government Consumption	% yoy	-6.6	4.3	6.9	5.3	0.8	10.1	9.8	2.9	5.4	9.7	6.2	5.6	0.2	0.4	0.7	0.9	1.0
	% qoq						-1.7	0.5	0.0	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Investment	% yoy	-0.5	5.0	0.1	1.6	1.2	1.9	0.5	-1.6	-0.3	1.8	1.5	1.8	1.2	1.2	1.2	1.2	1.2
	% qoq						2.1	0.5	1.1	1.1	0.0	0.0	0.0	0.2	0.5	0.5	0.5	0.5
Final Domestic Demand ¹	% yoy	-3.1	1.7	6.6	1.5	1.4	6.8	6.8	7.9	4.7	2.6	2.1	1.1	0.2	0.7	1.2	1.7	2.0
	% qoq						-1.9	1.8	0.5	3.2	0.1	0.0	0.1	0.2	0.3	0.3	0.3	0.3
Net exports ¹	% yoy	-4.3	4.0	5.0	3.5	1.1	6.9	6.4	2.7	3.6	5.8	3.9	3.5	0.5	0.7	1.0	1.2	1.3
	% qoq						0.6	-1.1	0.4	-1.3	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
Stockbuilding ¹	% yoy	3.1	1.7	-1.3	-1.5	-0.6	-1.3	-2.0	-0.5	-1.4	-2.2	-1.2	-1.8	-0.7	-0.7	-0.6	-0.5	-0.5
	% qoq						1.0	0.5	-0.4	-1.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Current Account Balance	% yoy	-2.2	-1.6	0.0	-0.6	0.1	-0.4	0.4	0.4	-0.2	-1.0	-1.2	-0.7	0.5	0.2	0.1	0.1	0.1
	% of GDP	1.1	13.9	32.5	18.7	16.0	31.8	26.8	44.6	26.6	25.3	16.7	16.5	16.4	16.3	16.1	16.0	15.8
Industrial production	% qoq						1.9	0.8	2.5	-2.3	-0.4	-0.3	-0.2	0.0	0.3	0.5	0.6	0.6
	% yoy	4.1	3.3	2.5	-1.0	0.9	2.2	2.7	2.3	2.3	2.9	0.6	-0.5	-3.1	-0.8	-0.2	0.6	1.4
Unemployment rate ²	%	5.1	3.1	1.8	1.7	2.0	2.0	1.8	1.7	1.7	1.6	1.7	1.7	1.8	1.9	1.9	2.0	2.0
CPI Inflation (harmonised) ²	% yoy	1.2	3.9	6.2	5.2	3.1	3.8	6.4	7.4	7.3	7.2	5.8	4.2	3.6	3.9	3.5	2.6	2.5
CPI ²	% yoy	1.3	3.5	5.8	4.9	2.9	3.8	5.8	6.7	6.6	6.4	5.4	4.2	3.7	3.6	3.2	2.5	2.3
CPI-ATE ²	% yoy	3.0	1.7	3.9	5.0	2.6	1.9	3.2	4.8	5.8	6.1	5.3	4.2	4.4	3.4	2.7	2.2	2.1
Policy Rate ³	%	0.00	0.50	2.75	3.50	3.00	0.75	1.25	2.25	2.75	3.00	3.50	3.50	3.50	3.25	3.25	3.00	3.00

Notes: ¹ Contribution to GDP growth ² quarterly averages ³ End period. Source: BofA Global Research, Statistics Norway, Norges Bank.

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