European Viewpoint

Nordics monthly: diverging paths

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Economics
Europe

BofA Euro Economics
BofA Europe (Madrid)
+44 20 7995 1476
europeaneconomics@bofa.com

Alessandro Infelise Zhou
Europe Economist
BofASE (France)
+33 1 8770 0058
alessandro.infelise_zhou@bofa.com

Michalis Rousakis
FX Strategist
MLI (UK)
michalis.rousakis@bofa.com

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
ruben.segura-cayuela@bofa.com

See Team Page for List of Analysts

Big picture: faster Riksbank, patient Norges

We expect the mild Swedish recession to continue but Norway to remain more resilient. Inflation will likely fall faster in Sweden than Norway, and we see the Riksbank cutting rates earlier and faster than Norges Bank. FX will likely remain a key consideration for both, but it is more likely to pose a dilemma to the Riksbank.

Sweden: base case is on thin ice

The mild Swedish recession should continue in 1Q24 with a gradual recovery from 2Q24. We look for -0.2% GDP growth in 2024 and 1.4% in 2025 with downside risks, amid a volatile Riksbank and a more fragile labor market. We forecast inflation will move in the right direction, with CPIF (consumer price index with fixed interest rate) inflation back to target by mid-2024. In 2025, we expect both CPIF and CPIF ex-energy to undershoot the target. Riksbank's May meeting is live, but more downside surprises are likely needed for them to move before the ECB. The base case is still for a first Riksbank cut in June, with a total of three rate cuts this year and five more cuts in '25, back to 2%. We see risks of faster rate cuts later this year.

Norway: behind the noise, stickier inflation

Near-term momentum is sluggish in Norway, but we expect a pick-up in 2H24. We see Norway's mainland growth at 0.5% this year and 1.1% next. Behind the noise, inflation looks sticky, especially in services. We forecast CPI at 3.7% this year and 2.5% in 2025, with CPI-ATE (consumer price index adjusted for tax changes excluding energy) at 3.9% and 2.7%. Inflation will get closer to target only in 2H25. Our base case remains that Norges Bank starts cutting rates in September. We expect two cuts in total this year and four in 2025. We see the risks to our Norges call as more symmetric.

FX: Constructive NOK, SEK and NOKSEK in '24

We remain constructive on the Scandies in 2024, preferring NOK over SEK. We forecast EURNOK at 10.90 (USDNOK 9.48) and EURSEK at 11.10 (USDSEK 9.65) by year-end and expect NOKSEK to move toward 1.02. A softer USD, especially in 2H 24, is key to our constructive Scandies FX view. So are a hawkish Norges and carry in the case of NOK, and the short positioning combined with lower Swedish "hard landing" risks in the case of SEK. In the near term, SEK could weaken if the Riksbank is repriced lower vs the ECB.

Sweden: on thin ice

We mark-to-market our macroeconomic forecasts for the Swedish economy, incorporating the latest data. Our core views are as follows:

- **Growth:** In our base case, the mild recession continues in 1Q24, with gradual recovery from 2Q24. Risks are to the downside, with a volatile Riksbank and a more fragile labor market. We estimate GDP growth at -0.2% in 2025, 1.4% in 2025.

- **Inflation:** It's moving in the right direction. We see CPIF back to target by mid-2024. In 2025, we expect both CPIF and CPIF ex-energy to undershoot the target.

- **Riksbank:** May is live, but more downside surprises are needed to move before the ECB. Our base case remains a first cut in June. We expect three cuts this year, five in 2025.

Growth: fragile base case

The latest GDP revisions show that the Swedish economy recorded zero real growth in 2023 vs 2022. All in all, this was not a terrible outcome if we consider all the headwinds. Sweden is famously rates-sensitive and the signs of monetary transmission are easy to spot across the economy – the most obvious being very weak housing investment and private consumption. In 2023, with bleak domestic demand dynamics, the competitive exports-driven sectors "saved" the year, thanks to a combination of SEK weakness, limited wage growth, a better energy mix than continental peers and strong US demand. The recession has been mild so far (in 4Q23 the economy was just 0.2% smaller than in 3Q22), but where do we go from here?

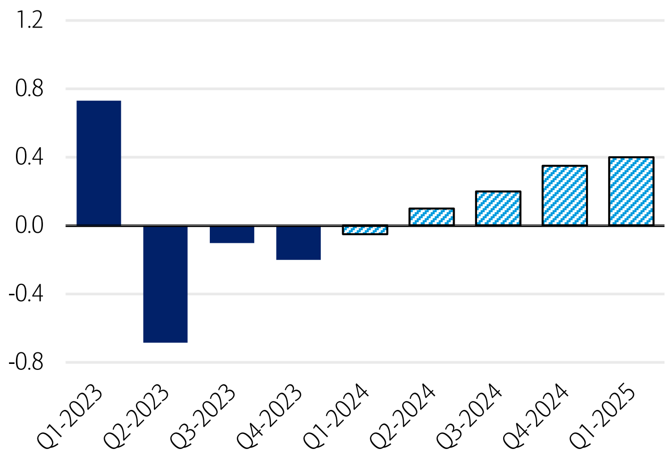
Recent data flow is mixed but, in our view, consistent with a mild recession at the end of its course. On the negative side: (1) household consumption remains very soft, with the economy kept afloat mainly by exports and public consumption; (2) downbeat wage growth constrains consumer prospects; (3) lagged variables such as bankruptcies and layoffs have picked-up across sectors; and (4) German demand (10% of goods exports) prospects look bleak. On the positive side: (1) confidence data seems to be regaining some strength; (2) house prices have bottomed-out, albeit at low transaction levels; (3) interest rates imposed on households are starting, slowly, to come down; and (4) US demand (9% of goods exports) is likely to remain decent for longer than previously expected.

In our estimates, sequential growth in 1Q24 is still slightly negative (Exhibit 1). Then, towards mid-year, lower inflation and real income growth should start supporting household balances. The demand impulse from the Euro area should turn more positive from 2Q24 on. Sweden's growth dynamics should turn cautiously positive in 2Q24, then accelerate towards year-end and in 2025. Due to the negative carryover from 2023 and the gradual recovery, we think 2024 GDP will still be 0.2% down vs 2023. For 2025, we pencil in acceleration to 1.4%.

The risk balance is tilted to the downside. First, a volatile Riksbank (and/or hawkish surprises from the ECB/Fed) could end up keeping rates higher for far too long. Our "soft landing" scenario needs lower interest rates in the second half of the year and the confidence boost from realistic expectations of a return to 2% over 2025. The second risk is a break in the labor market, preventing household recovery. So far, the unemployment rate has increased quite gradually and we assume it will peak around 8.5% in 4Q24. Relatively modest Swedish wage growth, in nominal and even more in real terms, should keep employment at decent levels, as long as the manufacturing/export sector remains solid.

Exhibit 1: Sweden, BofA GDP forecast, %qoq

We expect the recovery to start in 2Q24, accelerating later in the year



Source: BofA Global Research, Statistics Sweden

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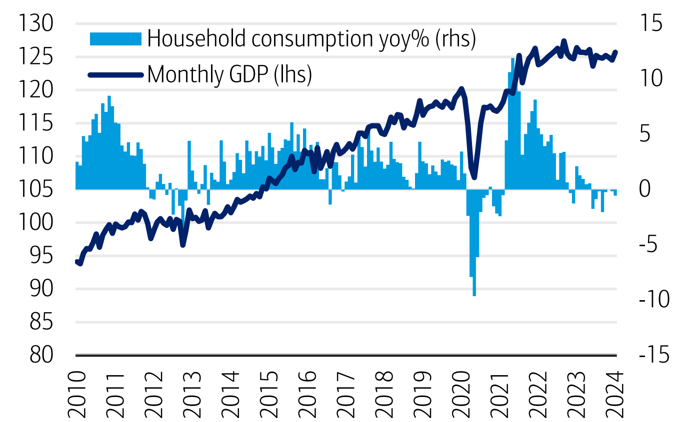
Exhibit 2: Monthly GDP and household consumption

The economy has stabilized, but consumption is very weak



Source: BofA Global Research, Statistics Sweden

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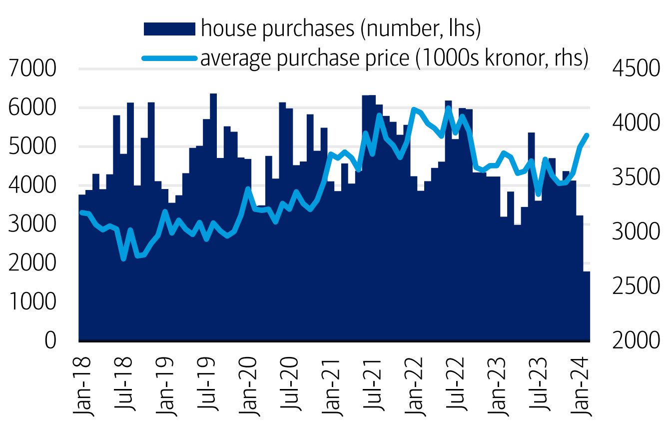
Exhibit 3: House prices and house purchases

Prices have bottomed-out but there are very few transactions



Source: Statistics Sweden

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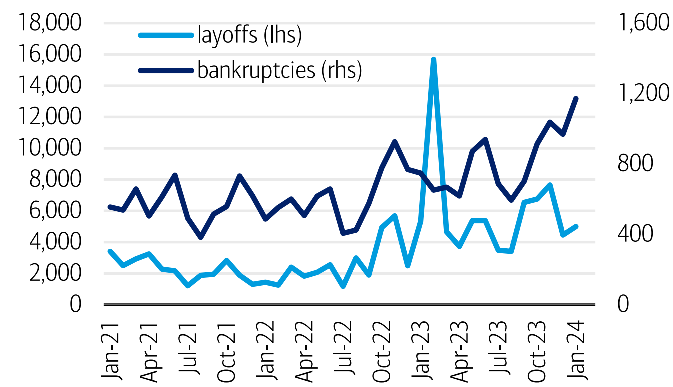
Exhibit 4: Bankruptcies and layoffs

Monetary transmission is clearly at work



Source: Statistics Sweden

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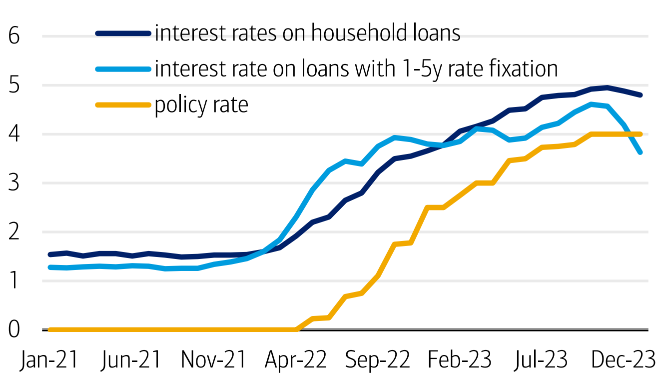
Exhibit 5:Interest rates, %

Household interest rates are starting to come down



Source: Statistics Sweden

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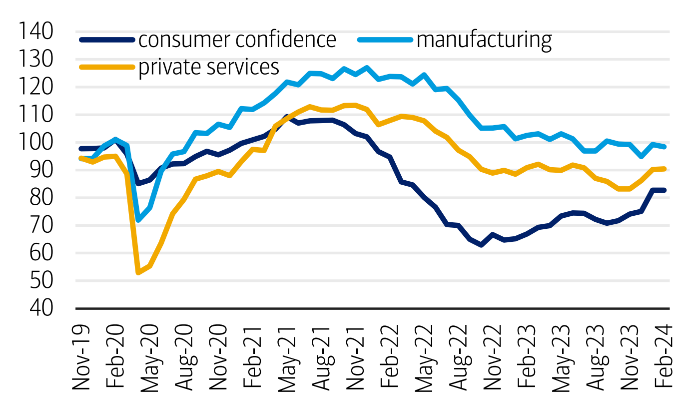
Exhibit 6: Confidence data, percentage balance

Confidence has bottomed-out, with some improvements in 1Q24



Source: Statistics Sweden

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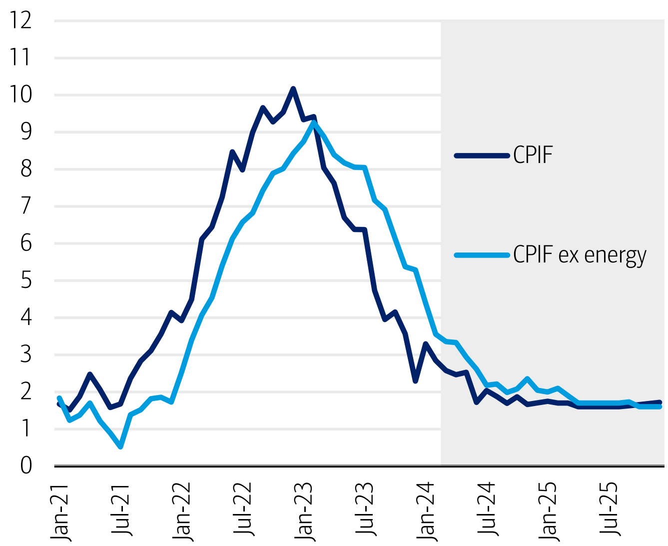
Inflation: in the right direction

On the inflation side, the progress is quite clear and we believe that the outlook is encouraging. Lagged components (especially rents and indexed services in January) remain elevated, but we would tend to discount those (and Riksbank is most likely on the same page). The dynamics of several core categories, and the 3m/3m annualized rates that the Riksbank tracks, are already broadly consistent with its inflation target. In our estimates, CPIF annual rates dip slightly below the target in mid-2024, while CPIF-ex energy hovers just above 2% in 2H24. We then expect both inflation measures to undershoot the target in 2025. We forecast CPIF inflation will average 2.2% this year and 1.7% in 2025, with CPIF ex-energy at 2.7% and 1.8%, respectively.

We see limited risk that inflation remains entrenched in Sweden compared with other economies (e.g., Norway or even the UK): (1) wage growth is relatively tame across sectors (even vs the Euro area); (2) the two-year Swedish wage deal provides more protection from possible upside; (3) inflation expectations are still broadly well behaved; and (4) retailers' updated pricing plans, a key variable to watch, continue to suggest firms are ready to accept reduced margins.

Unless SEK weakens significantly (which is not our base case), we see the risks to our inflation forecasts as quite balanced. We see a fairly slim possibility of Red Sea disruptions creating inflation upside in Sweden and, so far, the supply chain data (e.g., PMI delivery times) doesn't suggest significant upside risks either.

Exhibit 7: Sweden, BofA inflation forecasts, %yoy
Headline below target In June, CPIF-ex energy around target in 2H24



Source: BofA Global Research, Statistics Sweden. CPIF = CPI with a fixed interest rate.
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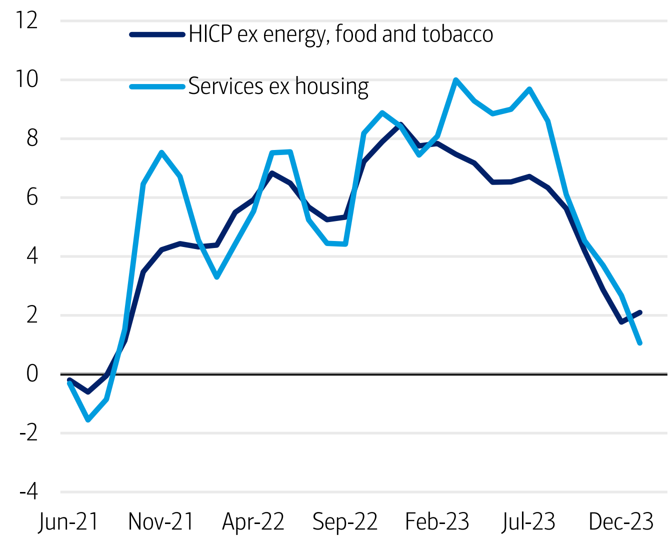
Exhibit 8: Sweden, 3m/3m inflation rate, annualized %
Near-term dynamics look encouraging



Source: BofA Global Research, Statistics Sweden
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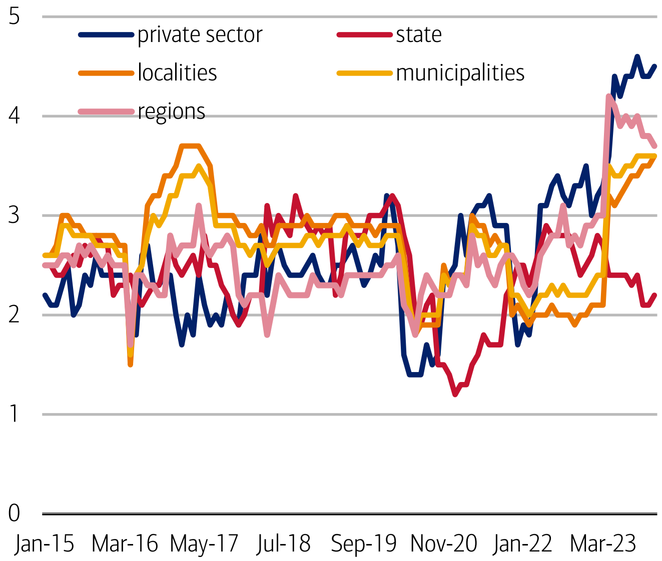
Exhibit 9: Wage growth by sector, yoy%
Wage growth remains below what we see in the Euro area, Norway and UK



Source: Statistics Sweden

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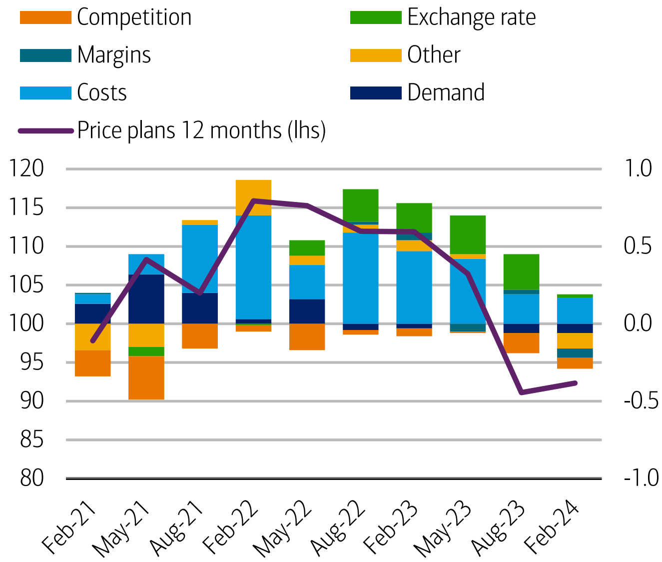
Exhibit 10: Driving forces behind pricing decisions in the next 12m
Retailers are willing to accept reduced margins, due to low demand



Source: Statistics Sweden

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Riksbank: May is live, June still more likely

Where do we stand compared with the Riksbank's forecasts? We probably shouldn't give too much weight to the November forecast at this stage – with the clear February pivot, board members have distanced themselves from the hawkish guidance of the last forecast round (see our European Watch: Riksbank review: goodbye November 01 February 2024). But, so far, activity developments have been a bit stronger than the Riksbank expected in November and, up to the January print, ex-energy inflation has surprised them to the downside (in a consistent but not dramatic way).

In the past few weeks, Riksbank speakers have maintained this new cautiously dovish tone. Board members are showing more confidence in the prospect of inflation stabilizing at a low level. They have opened the door to a cut of the policy rate in the second quarter, assuming the outlook for inflation remains favorable and SEK doesn't depreciate significantly (realistic assumptions, in our view). The dovish pricing plans reported by firms were surely welcomed by the board (Floden mentioned this explicitly) and wage growth is not giving them much reason to worry.

The Riksbank's communication makes a plausible case for a May cut. They indicated that they could cut in non-forecast meetings (such as May) and even openly flagged the possibility of moving before the ECB. But we wouldn't get carried away just yet – the Riksbank's guidance is often volatile and we suspect further downside surprises to growth/inflation would be needed for them actually to move ahead of the ECB. The bar for them to move before the major central banks remains relatively high and we don't see the ECB or the Fed cutting before June. The Riksbank's balance of risks will also depend on the ECB's communication in the coming months – if the ECB's June cut becomes a near-certainty, the Riksbank may take the risk of going earlier. If the ECB stance remains uncertain, it will be tricky for Riksbank to move first. Our call remains for a first Riksbank cut in June, followed by two further cuts at a quarterly pace this year (i.e., to 3.25% by year-end). We then expect them to cut every meeting next year, going back to 2% fairly quickly (i.e., five cuts in total).

Norway: behind the noise, sticky inflation

We update our macroeconomic forecasts for Norway, incorporating the latest data. Our core views are as follows:

- **Growth:** We see mainland growth at 0.5% this year and 1.1% next. Near-term momentum is sluggish, but we expect a pick-up in 2H24.
- **Inflation:** Behind the noise, inflation looks sticky, especially in services. We forecast CPI at 3.7% this year and 2.5% in 2025, with CPI-ATE at 3.9% and 2.7%.
- **Norges Bank:** Our base case is for a first cut in September. We expect two cuts this year and four in 2025.

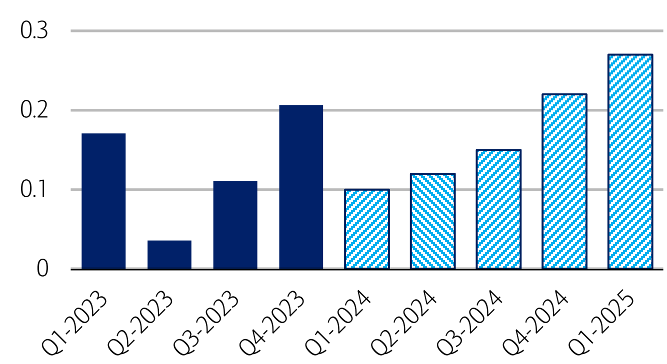
Growth: resilient, but sluggish momentum

Norway managed to grow moderately in 2023, at 0.6% vs 2022 – the mainland economy was supported by the strength of the rates-insensitive energy sector. While private consumption clearly retreated due to higher rates (-0.5% vs 2022), oil and gas investments reached the highest levels in decades.

Going into 2024, the dataflow looks consistent with softer activity dynamics. Survey data are mixed: Norges Bank's regional networks data in December showed slowing momentum, consumer confidence is still stuck at low levels, and the manufacturing PMI is hovering slightly above 50. The hard data surprised somewhat to the upside in 4Q24, but the composition showed an unbalanced economy – we would discount the strong private consumption print, which is probably linked to higher energy use.

This doesn't mean the economy is falling off a cliff. The underlying resilience of the Norwegian economy remains intact: (1) house prices are close to 2022 levels; (2) the partial cooling of the labour market can be hardly described as a deterioration; and (3) insolvencies are still below pre-COVID levels. We estimate low growth around 0.1% in 1Q/2Q this year, then accelerating in 2H24. The unemployment rate will probably tick-up to around 2.2% towards year-end, then retreat in 2025. Strong wage growth (decent in real terms too) reassures us on consumer balances. For 2024 as whole, we forecast growth of 0.5%, then accelerating to 1.1% in 2025.

Exhibit 11: Norway, BofA GDP forecast, %qoq
Sluggish near-term growth, acceleration in 2H24



Source: Statistics Norway, BofA Global Research

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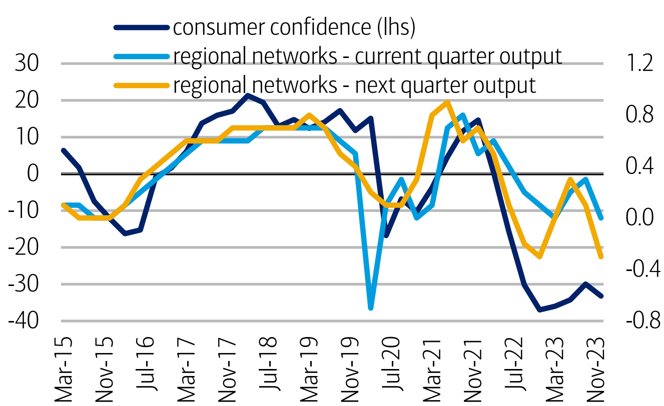
Exhibit 12: Norway, soft data
Softening momentum



Source: Statistics Norway, Norges Bank

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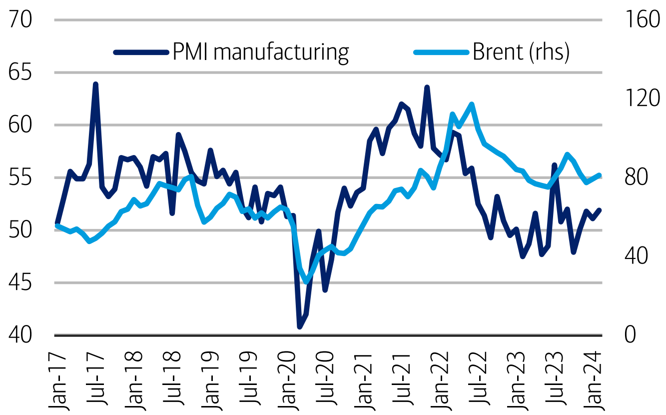
Exhibit 13: PMI manufacturing
Manufacturing confidence remains in positive territory



Source: DNB, Bloomberg

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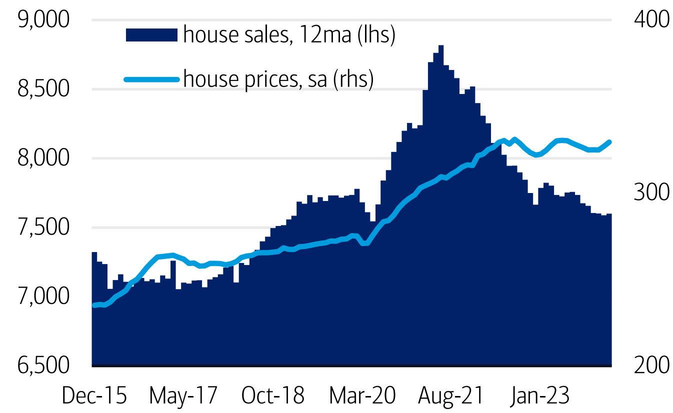
Exhibit 14: Norway, house prices and sales
Resilient house prices, but lower transaction volumes



Source: Statistics Norway

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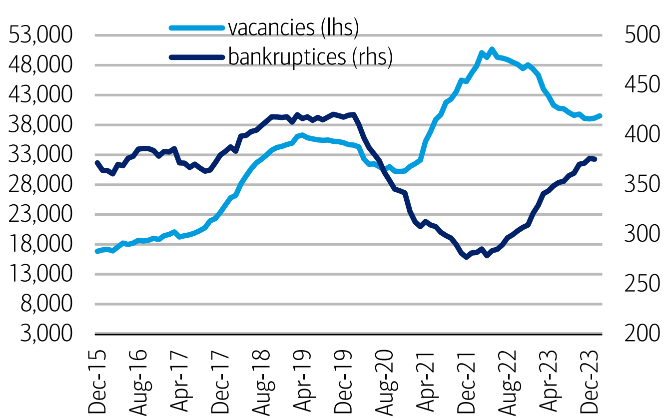
Exhibit 15: Vacancies and bankruptcies
Vacancies still above pre-COVID, bankruptcies still below pre-COVID



Source: Statistics Norway

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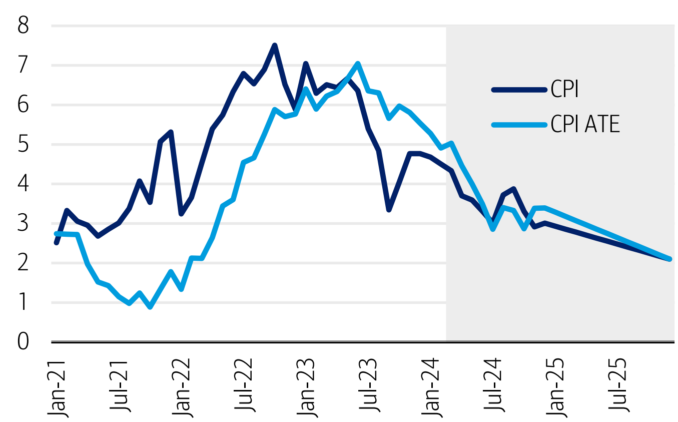
Exhibit 16: Norway, BofA inflation forecasts, %yoy
Above target this year, reaching target at end-2025E



Source: BofA Global Research, Statistics Norway. CPI-ATE: CPI adjusted for tax changes and excluding energy products.

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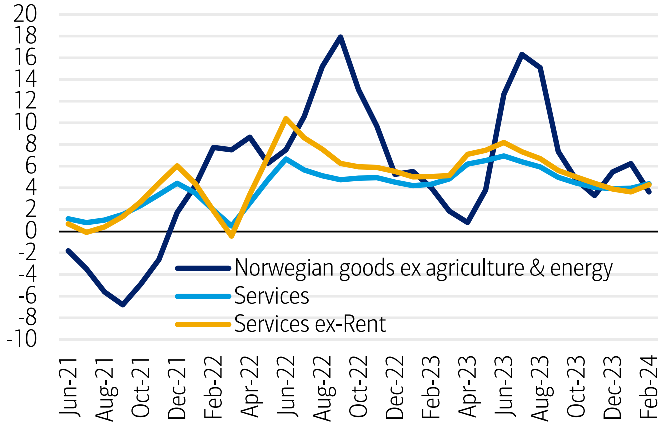
Inflation: fade the food noise, watch the wage negotiations

The February CPI print came in well below Norges Bank expectations and even lower than our below-consensus forecasts, with CPI slowing to 4.5% yoy and CPI-ATE at 4.9%. We had thought that the change in supermarkets' seasonal pricing behaviour and the discounts flagged by several retailers would dampen food prices, but the impact was greater than in most estimates. Still, we wouldn't overplay the signal of this print – the surprise was driven by food, as expected. Core categories remain well above the pace consistent with the inflation target.

We still think inflation will remain sticky in Norway, in particular for services. We forecast CPI to average 3.7% this year and 2.5% in 2025, with CPI-ATE at 3.9% and 2.7%, respectively. We see inflation getting close to the target only in 2H25. The economy is clearly resilient, wage growth has been much stronger than in Sweden and wage/inflation expectations across social partners have moved higher. Norway's one-year wage negotiation system, despite some specific safeguards to competitiveness, creates upside risks. The 2024 wage negotiations round starts in March – we will be watching the developments closely.

Exhibit 17: Norway, 3m/3m inflation rate, annualized %
The pace of inflation is still well above target



Source: BofA Global Research, Statistics Norway

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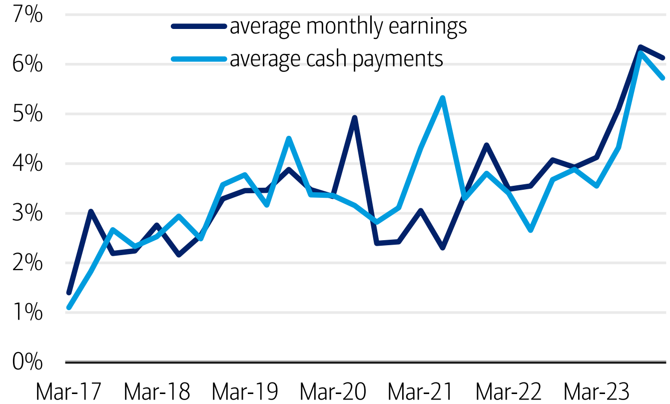
Exhibit 18: Norway, compensation growth, yoy%
Wage growth has been relatively high in Norway



Source: Statistics Norway,

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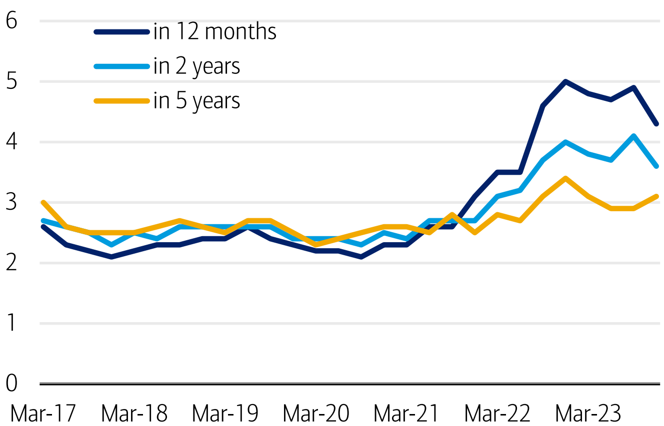
Exhibit 19: Social partners, inflation expectations, %
Inflation expectations remain high, with some encouraging signs



Source: Norges Bank

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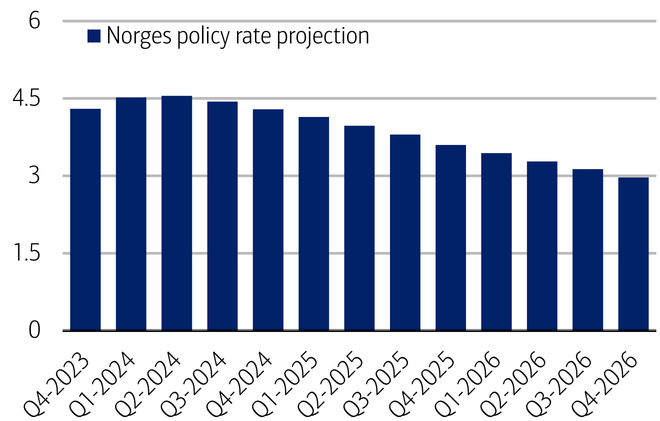
Exhibit 20: Norges Bank policy rate forecast
Norges has guided to a start of easing in 3Q24



Source: Norges Bank

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Norges Bank: all eyes on September

The central bank's December rate path suggested easing would start in 3Q24. Norges Bank clarified that they intended to keep rates high "for some time ahead". Since then, inflation has surprised Norges to the downside but economic growth and the housing market have been in better shape than they were forecasting.

We remain confident in our base case of a first 25bp cut in September, followed by a second cut in December. The February inflation print was very noisy and linked to food seasonality but, on the margin, it still supports a September start. We don't think the underlying inflation picture is consistent with earlier hikes – the economy is in better shape than in Sweden and wages have clearer upside risks. For next year, we now assume they will cut rates once per quarter, ending the year at 3.00%.

FX: Constructive NOK, SEK and NOKSEK in '24

We remain constructive on the Scandies in 2024, continuing to prefer NOK over SEK. We forecast EURNOK at 10.90 (USDNOK 9.48) and EURSEK at 11.10 (USDSEK 9.65) by the year-end and expect NOKSEK to gradually move toward 1.02 (Exhibit 21).

Even if our constructive forecasts proved correct, NOK and SEK would remain much undervalued vs. USD and EUR, and NOK vs. SEK (see Scandies FX YA '24 24 Jan 2024).

A softer USD, especially in 2H 24, is key to our constructive Scandies FX view. So are a hawkish Norges and carry in the case of NOK, and the short positioning combined with lower Swedish "hard landing" risks in the case of SEK.

Risks: Fed & risk, oil prices, ECB

We see risks mostly associated with the Fed and risk sentiment. Conditional on the Fed starting to cut in June, we see mostly downside risks to our EUR/Scandies profiles given current Scandi FX levels. US elections also present risks after the summer. Sticky US inflation and a more hawkish Fed, or slower global growth pose downside risks to our NOK and SEK forecasts, and to NOKSEK if accompanied by lower oil prices.

Oil supply and geopolitics also remain key risks—we would expect NOK to perform well in the crosses in case of positive, non-demand-driven, energy price shocks.

Upside Euro area surprises would likely help the Scandies but the effect on NOKSEK will depend on oil prices. Upside Euro area surprises with flat oil prices could slightly weigh on NOKSEK, also given how the market is positioned.

Meanwhile, a more dovish ECB than we expect would likely be negative for NOKSEK, given the Riksbank's closer alignment with it. Last, slower disinflation in Sweden could reignite fears of a hard Swedish landing and remains the main downside SEK risk.

Exhibit 21: BofA NOK and SEK forecasts
Constructive Scandies this year, slightly more on NOK

	Spot	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
EUR/NOK	11.43	11.40	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD/NOK	10.46	10.65	10.27	9.82	9.48	9.40	9.23	9.07	8.83
EUR/SEK	11.19	11.40	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD/SEK	10.24	10.65	10.36	10.00	9.65	9.57	9.40	9.24	9.00
NOK/SEK	0.98	1.00	1.01	1.02	1.02	1.02	1.02	1.02	1.02
EUR/USD	1.09	1.07	1.10	1.12	1.15	1.16	1.17	1.18	1.20

Source: BofA Global Research. Spot and forecasts as of 11 Mar 2024.

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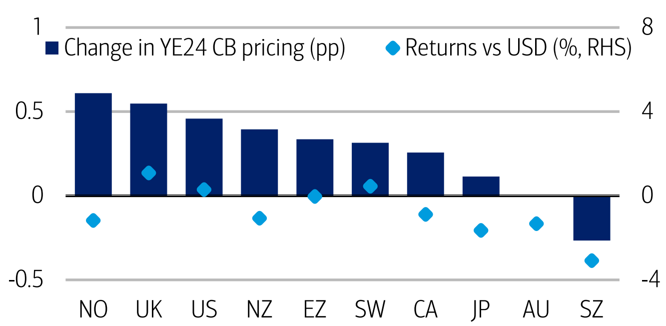
Exhibit 22: Change in YE24 market pricing vs FX returns
NOK's performance this year is disconnected from rates moves



Source: BofA Global Research, Bloomberg. Data refers to Jan 5-Mar 8. FX returns are % vs USD. We use DXY for USD returns.

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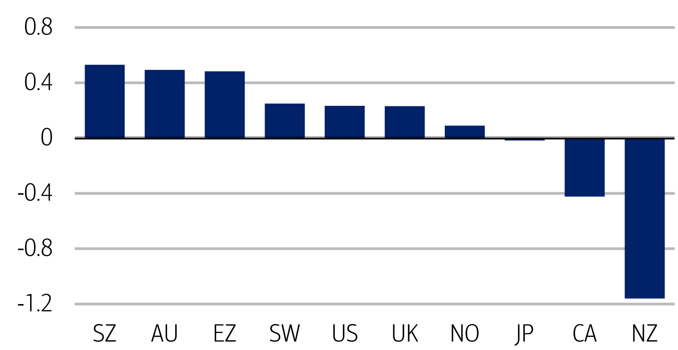
Exhibit 23: BofA vs market pricing for policy rates by YE 2024
Norges fairly priced we think. Riksbank could be repriced lower vs ECB



Source: BofA Global Research, Bloomberg. Data as of Mar 8.

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NOK: our bullish bias remains

We remain constructive on NOK for 2024. NOK's performance this year has been disconnected from rates moves (Exhibit 22), but we suspect this reflects positioning adjustments and expect NOK to catch up once USD softens.

Looking back: NOK c. 2% weaker this year than past history would suggest

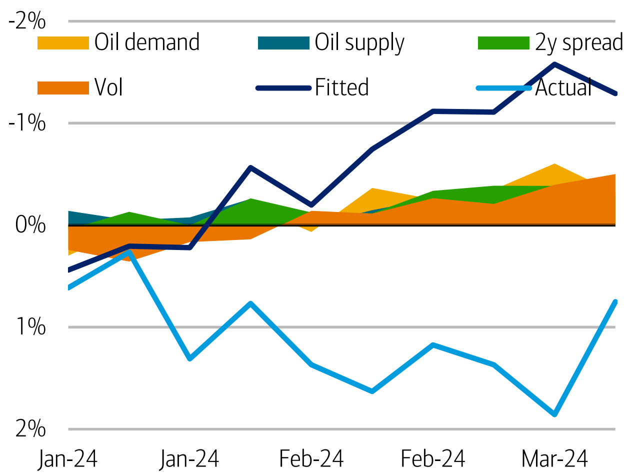
Norges Bank has been repriced higher both in absolute terms and vs. its G10 peers this year (again Exhibit 22), in line with the mostly hawkish recent domestic developments.

(1) Underlying inflation ("CPI-ATE") was just 10bp (in % y/y terms) below Norges in Dec and Jan with very hawkish details. In Feb, CPI-ATE printed 50bp below Norges, but this was driven primarily by food prices with details remaining more mixed; (2) 4Q mainland GDP surprised slightly upwards vs Norges and Feb unemployment lower; (3) housing prices have continued to surprise hawkishly; (4) Norges' 4Q expectations survey was probably not much of a surprise but its details are likely to keep Norges cautious.

Still, NOK has failed to impress despite the wider rate differentials, favourable oil prices (but gas prices are down), its lower relative implied vol, and Norges' FX purchases remaining much more modest than last year (Exhibit 24, Exhibit 25). We think positioning adjustments help explain NOK underperformance vs the above drivers (Exhibit 26).

Exhibit 24: Fitted vs. actual NOK I-44 this year (inverted values)

NOK 2% weaker this year than its recent history would suggest



Source: BofA Global Research, Bloomberg. Weekly data through Mar 8. Lower values of import-weighted krone (NOK I-44) show stronger NOK. Regression estimates are for Jan 18- Dec 23. We regress changes in (log) NOK I-44 on: proxies for (1) demand- and (2) supply-driven changes in Brent crude spot; (3) changes in Norway's 2-year trade-weighted swap spread; and (4) changes in our preferred NOK implied-vol spread measure. We use the first principal component of changes in MSCI Global, Brent crude spot, and VIX as proxy for demand-driven oil-price changes, and the second principal component as proxy for supply-driven oil-price changes

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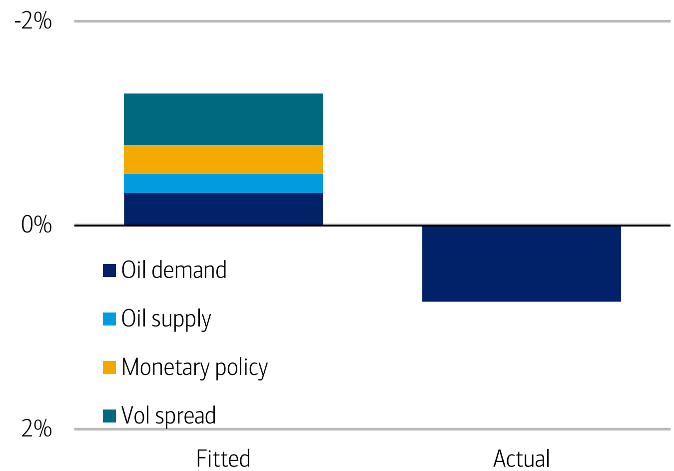
Exhibit 25: NOK I-44 actual vs fitted this year by driver

NOK weaker despite NOK drivers pushing upwards



Source: BofA Global Research, Bloomberg. Weekly data through Mar 8. Lower values of import-weighted krone (NOK I-44) show stronger NOK. Regression estimates are for Jan 18- Dec 23. We regress changes in (log) NOK I-44 on: proxies for (1) demand- and (2) supply-driven changes in Brent crude spot; (3) changes in Norway's 2-year trade-weighted swap spread; and (4) changes in our preferred NOK implied-vol spread measure. We use the first principal component of changes in MSCI Global, Brent crude spot, and VIX as proxy for demand-driven oil-price changes, and the second principal component as proxy for supply-driven oil-price changes.

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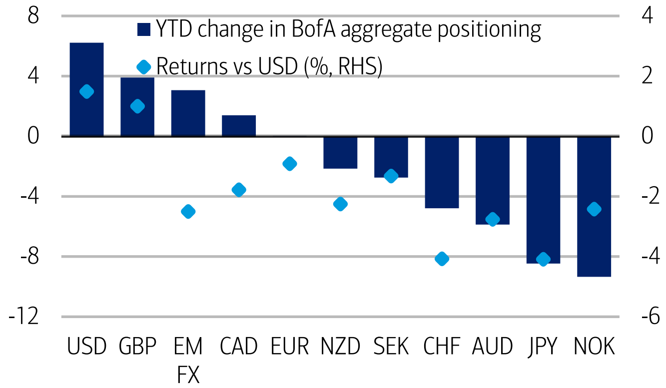
Looking ahead: softer USD, lighter positioning, resilient Norwegian economy

With Norges pricing for this year roughly in line with our economists' call and with energy prices in line with our commodity strategists' call, we expect an eventually softer USD (especially if combined with well-behaved vol) together with a resilient domestic economy and lighter NOK positioning (Exhibit 27) to help push NOK higher. Indeed, the past year's price action suggests NOK can quickly get closer to fundamentals once the USD starts softening—and we remain more bearish than consensus on USD by YE24.

Exhibit 26: YTD changes in positioning vs price action (Dec 29-Mar 8)
Positioning adjustment likely a key reason for NOK underperformance



Source: BofA Global Research, Bloomberg, Aggregate positioning is the equally weighted average of five inputs (BofA Hedge Funds, BofA Real Money, a signal from our monthly FX & Rates sentiment survey, TFF Leveraged Funds, TFF Asset Managers). Each signal is scaled to +50 and -50. Where fewer than five inputs are available (Scandies, CHF, EM FX), aggregate positioning assigns equal weights to all available inputs. Currency returns are vs USD. For USD we use DXY returns and for EM FX the J.P. Morgan Emerging Market Currency Index

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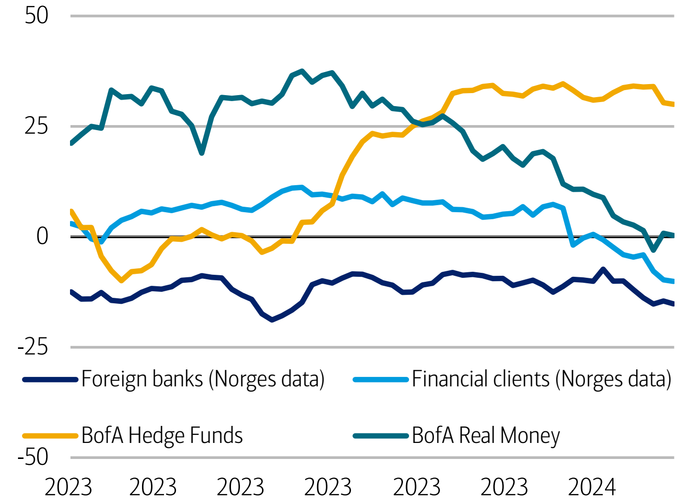
Exhibit 27: NOK positioning
Both our and Norges' flows data suggest NOK positioning is lighter



Source: BofA Global Research, Norges Bank. Each signal is scaled to +50 and -50.

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SEK: strikingly resilient

SEK's resilience this year has slightly surprised us. We see some downside near term assuming the Riksbank is repriced lower vs the ECB, but modest upside by year-end.

Looking back: catching up

We are slightly puzzled by SEK's resilience this year: there have been instances of both EURUSD and EURSEK being slightly down despite the largely flat ECB-Riksbank front-end differential (Exhibit 22, Exhibit 28).

The short SEK positioning may have been a reason, although we should flag that BofA investors have stopped paring back their SEK shorts this year.

SEK's low starting point also matters: SEK had underperformed meaningfully vs its own history from Q3 '22 until late Q3 '23 (Exhibit 29), likely on the back of elevated Swedish "hard landing" risks. Investor feedback suggests these risks are now lower amid rate cut expectations.

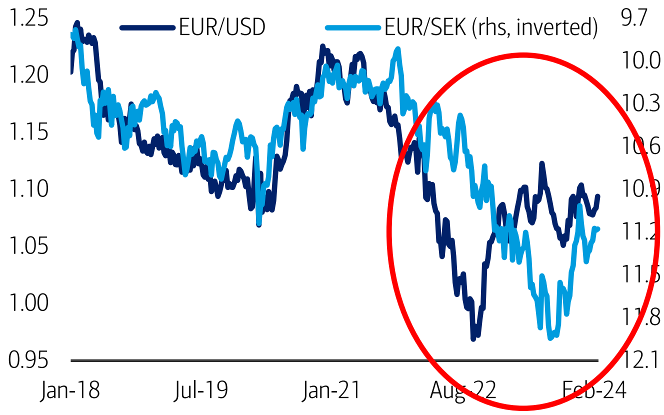
Relatedly, Swedish and Euro area surprises have rebounded strongly in recent weeks (Exhibit 30). These are in line with the improved sentiment data, in turn likely reflecting rate cut expectations.

Looking ahead: near-term downside risks but modest upside by year-end

We think there is some room for the Riksbank to be repriced lower vs. the ECB: whereas markets tend to expect around 10-20bp less in rate cuts this year from the Riksbank vs. the ECB, we expect the two central banks to move symmetrically in our base case—three rates cuts this year starting in June, with risks for more cuts in 2H.

Exhibit 28: EURSEK vs EURUSD

EURSEK has largely recoupled with EURUSD after Q3



Source: Bloomberg, BofA Global Research. Data as of Mar 8.

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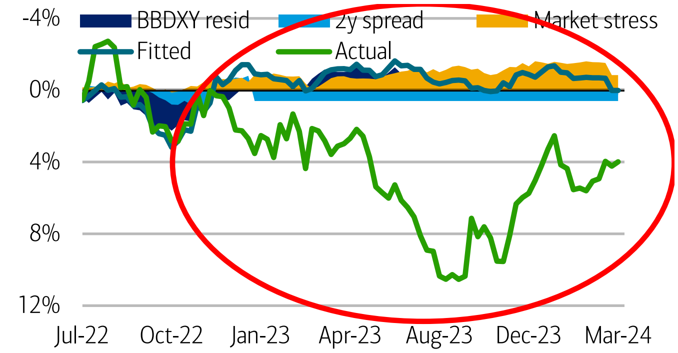
Exhibit 29: Fitted vs. actual Swedish krona index

SEK has closed a good part – but not all – of its nearer-term valuation gap



Source: BofA Global Research, Bloomberg, Lower values of the trade-weighted krona index (KIX) show a stronger SEK. Weekly data through Mar 8. Fitted values are based on regression estimates for Jan 2018- June 2022. 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 2-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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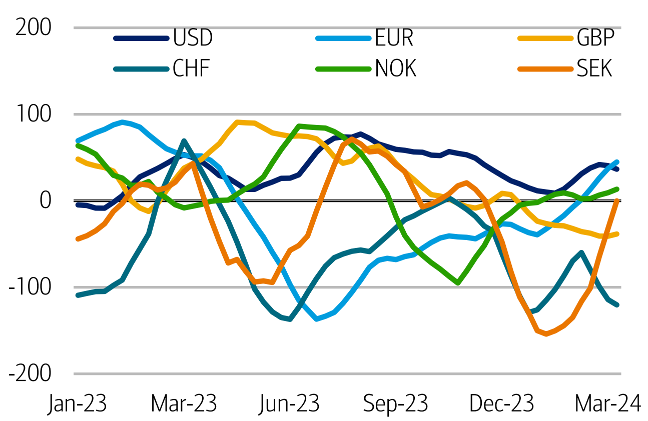
In fact, we would not be surprised if markets priced more Riksbank vs ECB cuts: our economists forecast weaker Swedish growth vs the Eurozone and see CPIF ex energy below 2% y/y around mid-year. This also reflects (1) Sweden's higher rate sensitivity; (2) lower wage growth; and (3) tighter fiscal policy relative to the Euro area.

That said, higher rate sensitivity also means fewer rate cuts are needed to stimulate the economy (all else equal) and, importantly, the Riksbank will likely continue to care a lot about SEK until it sees more progress on the inflation front. We suspect the Riksbank's stance on FX will turn more neutral closer to the summer, but we are not there yet.

While we see modest SEK downside near term, we remain modestly constructive by year-end. This is for three reasons: (1) we expect a softer USD year-end, especially in 2H; (2) we see lower Swedish hard landing risks as inflation continues slowing; and (3) SEK positioning remains short, even if much less short than in 3Q 2023.

Exhibit 30: Data surprises in US and Europe G10

Strong rebound in Swedish and Euro area data surprises



Source: Bloomberg, BofA Global Research. Data surprises are based on the Citi index

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Annex: economic forecasts

Exhibit 31: BofA forecasts

Annual and quarterly profiles

Sweden		2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq					0.7	-0.7	-0.1	-0.2	-0.1	0.1	0.2	0.4	0.4	0.4	0.4	0.4
	% yoy	**2.7**	**0.0**	**-0.2**	**1.4**	1.4	-0.2	-1.0	-0.3	-1.0	-0.3	0.0	0.6	1.1	1.4	1.6	1.6
Unemployment rate	%	**7.5**	**7.7**	**8.3**	**8.4**	7.4	7.5	7.8	8.0	8.2	8.3	8.3	8.5	8.5	8.5	8.4	8.3
CPIF	% yoy	**7.7**	**6.0**	**2.2**	**1.7**	8.9	6.9	5.0	3.3	2.9	2.2	1.9	1.7	1.7	1.6	1.6	1.7
CPIF ex energy	% yoy	**5.9**	**7.5**	**2.8**	**1.8**	9.0	8.2	7.4	5.6	3.8	3.0	2.1	2.2	2.0	1.7	1.7	1.6
Policy Rate (EOP)	%	**2.5**	**4.00**	**3.25**	**2.00**	3.00	3.75	4.00	4.00	4.00	3.75	3.50	3.25	2.75	2.25	2.00	2.00
Norway		**2022**	**2023**	**2024**	**2025**	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**	**2Q24**	**3Q24**	**4Q24**	**1Q25**	**2Q25**	**3Q25**	**4Q25**
GDP (mainland)	% qoq					0.2	0.0	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.4
	% yoy	**3.7**	**1.1**	**0.5**	**1.1**	2.2	1.1	0.7	0.5	0.5	0.5	0.6	0.6	0.8	1.0	1.3	1.5
Unemployment rate	%	**1.8**	**1.8**	**2.0**	**2.1**	1.7	1.8	1.9	1.9	1.9	2.0	2.1	2.2	2.2	2.2	2.1	2.0
CPI	% yoy	**5.8**	**5.5**	**3.7**	**2.5**	6.6	6.5	4.5	4.5	4.5	3.5	3.5	3.1	2.9	2.6	2.4	2.2
CPI-ATE	% yoy	**3.9**	**6.2**	**3.9**	**2.7**	6.2	6.7	6.1	5.8	5.1	4.0	3.2	3.2	3.2	2.9	2.5	2.2
Policy Rate (EOP)	%	**2.75**	**4.50**	**4.00**	**3.00**	3.00	3.50	4.25	4.50	4.50	4.50	4.25	4.00	3.75	3.50	3.25	3.00

Source: BofA Global Research, Statistics Sweden, Statistics Norway. CPIF = CPI with a fixed interest rate, CPI-ATE: CPI adjusted for tax changes and excluding energy products.

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Exhibit 32: BofA inflation forecasts

CPIF and CPI monthly profiles

	Sweden		Norway	
	CPIF	CPIF ex energy	CPI	CPI-ATE
Jan-24	3.3	4.4	4.7	5.3
Feb-24	2.8	3.6	4.5	4.9
Mar-24	2.6	3.4	4.3	5.0
Apr-24	2.5	3.3	3.7	4.5
May-24	2.5	2.9	3.6	4.0
Jun-24	1.7	2.6	3.3	3.5
Jul-24	2.0	2.2	3.0	2.9
Aug-24	1.9	2.2	3.7	3.4
Sep-24	1.7	2.0	3.9	3.3
Oct-24	1.9	2.1	3.3	2.9
Nov-24	1.7	2.4	2.9	3.4
Dec-24	1.7	2.0	3.0	3.4

Source: BofA Global Research, Statistics Sweden, Statistics Norway. CPIF = CPI with a fixed interest rate, CPI-ATE: CPI adjusted for tax changes and excluding energy products.

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Research Analysts

Ruben Segura-Cayuela
Europe Economist
BofA Europe (Madrid)
+34 91 514 3053
ruben.segura-cayuela@bofa.com

Evelyn Herrmann
Europe Economist
BofASE (France)
+33 1 8770 0292
evelyn.herrmann@bofa.com

Chiara Angeloni
Europe Economist
BofA Europe (Milan)
+39 02 6553 0365
chiara.angeloni@bofa.com

Alessandro Infelise Zhou
Europe Economist
BofASE (France)
+33 1 8770 0058
alessandro.infelise_zhou@bofa.com