

## European Viewpoint

## Nordics monthly: core problems

**Sticky core**

Higher than expected core inflation has become the main problem for both the Riksbank and Norges. Driven by strong services inflation, and much stronger than wage growth would suggest, we expect core inflation to be slow to decline. Most likely its strength reflects some continued passthrough of energy prices. For Sweden we raise 2023 CPI 10bp to 8.5%. We leave 2024 and 2025 unchanged at 2.6% and 1.6%. For Norway we raise 2023 CPI-ATE (excluding energy and indirect tax increases) inflation 70bp to 6.1% and raise 2024 50bp to 3.6%.

**More hikes**

Both Norges and Riksbank have shown little tolerance for upside inflation surprises. With labour markets extremely tight in both countries, we expect both central banks to hike further. For Norges we add one more rate hike, now looking for three 25bp hikes to 4.5% terminal. We see balanced risks around this call. We see a risk that Norges hikes 50bp in August instead of our 25bp call. On the other hand, the third hike we expect could be derailed if inflation slows as we expect and/or growth stumbles. We leave our Riksbank terminal rate call unchanged, however, continuing to look for one more 25bp rate hike to 4.0%. Growth in Sweden is weaker, the wage deal runs for two years, and the Riksbank meets infrequently. By November, their next opportunity to hike after September, weaker inflation could prevent another hike. We see risks skewed up.

**Resilient growth in Norway**

We continue to expect a mild recession in Sweden. Domestic demand is already falling, but export growth has kept the economy as a whole expanding. We do not expect that to last. Meanwhile, in Norway growth has been more resilient, reflecting stronger real wages. We see little growth through the rest of 2023, but no recession.

**FX: NOK over SEK**

We look for more NOKSEK upside this year, with our year-end forecast at 1.04 (and 1.06 for Q3). Structurally, we continue to like NOK: the Norwegian data remains strong and Norges has some more ground to cover, which alongside potentially slightly higher oil prices and prospects of China policy easing towards the end of this year could push EURNOK below 11.00. But we stay very cautious on SEK, worried about the slow progress on inflation. To us, more Riksbank hikes come alongside harder landing risks. Nearer term, we are cautious on both NOK & SEK, particularly vs. USD, given also our broader bullish USD (bearish on risk sentiment) view.

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## Growth: holding up, with risks in Sweden

Growth is beating central bank and our own forecasts in both Sweden and Norway (Exhibit 1, Exhibit 2). The stories are different, however. In Sweden final domestic demand has fallen sharply, down 1.0% in the past three quarters. GDP surprisingly avoided recession because of surging exports, with net exports adding 2.3ppt to growth in the past three quarters. Given weak global growth and a falling manufacturing PMI – albeit a signal we do not place enormous weight on – we expect export growth and GDP growth to slow, with a mild recession from 2Q-4Q 2023.

Domestic demand has held up better in Norway, rising 1.0% over the past three quarters. Consumer spending has been more resilient to rate hikes, likely reflecting the particular rate sensitivity of Swedish households (Exhibit 12). We expect Norway to skirt recession, with growth of 0.1% over the next three quarters.

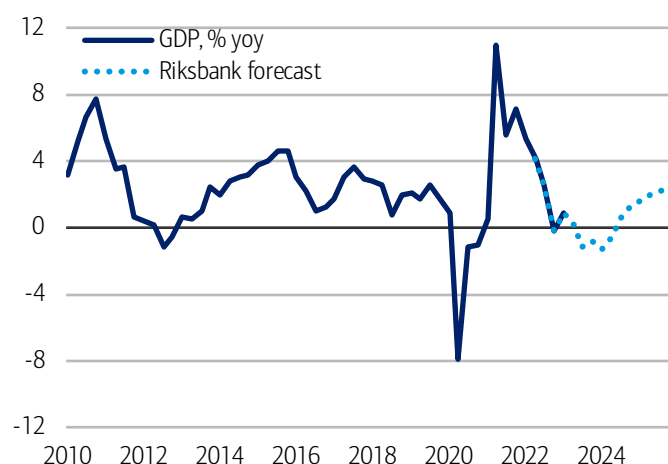
PMIs in Sweden suggest a recession is underway (Exhibit 5), but they have been a worse indicator of GDP growth than the more resilient Economic Tendency Survey (Exhibit 7) and have diverged from the hard data (Exhibit 11). We assume a mild recession, which would be between the signal from the two surveys. Overall, we raise 2023 growth to 0.1% from 0.0%, reflecting the better-than-expected monthly GDP data, but we cut 2024 to -0.2% from 0.0% reflecting our earlier change to Riksbank call, now expecting a 4.0% terminal rate ([Riksbank review: one more then let's see 29 June 2023](#)).

With a less severe real income squeeze Norwegian growth held up better and the consumer has avoided recession. Surveys, however, remain consistent with near-stagnation and we suspect past oil price falls will weigh on the manufacturing PMI (relative to Sweden) in coming months (Exhibit 4).

Growth resilience means higher, and for longer, interest rates, which will weigh more on growth than we previously thought. We adjust our growth forecasts for the latest data and our assumption of one more Norges rate hike, described below. We cut 2023 growth to 1.1% from 1.2%, leaving 2024 and 2025 at 0.4% and 1.2%. We show detailed forecasts for Sweden and Norway in Exhibit 54 and Exhibit 55.

### Exhibit 1: Riksbank expects mild recession

Riksbank GDP forecast



Source: BofA Global Research, Statistics Sweden, Riksbank

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### Exhibit 2: Norway GDP growth holds up

Norges GDP forecast

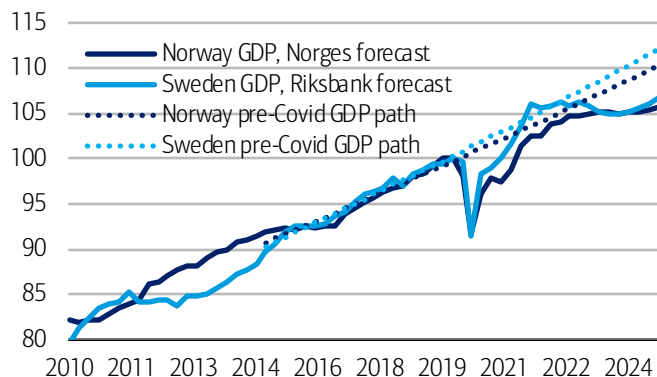


Source: BofA Global Research, Statistics Norway, Norges Bank

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**Exhibit 3: Riksbank and Norges expect permanent GDP losses**

Riksbank and Norges GDP forecasts, 4Q 2019 = 100

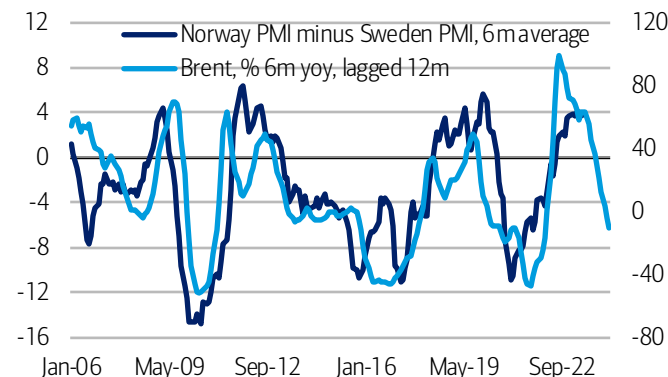


Source: BofA Global Research, Statistics Sweden

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**Exhibit 4: Oil price falls to weigh on Norway PMI**

Norway vs. Sweden PMI and Brent

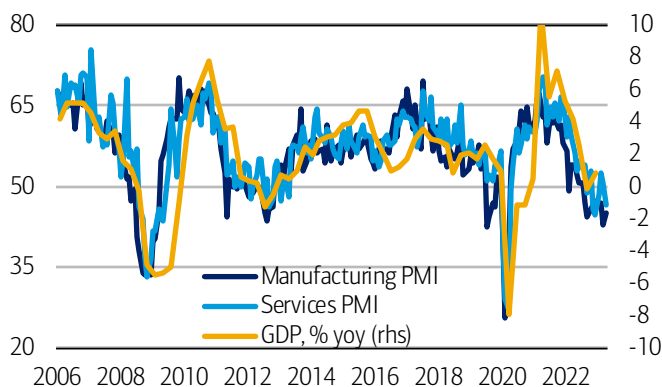


Source: BofA Global Research, Bloomberg, Swedbank, Statistics Norway

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**Exhibit 5: PMIs suggest Swedish growth weakening**

Sweden PMI and GDP

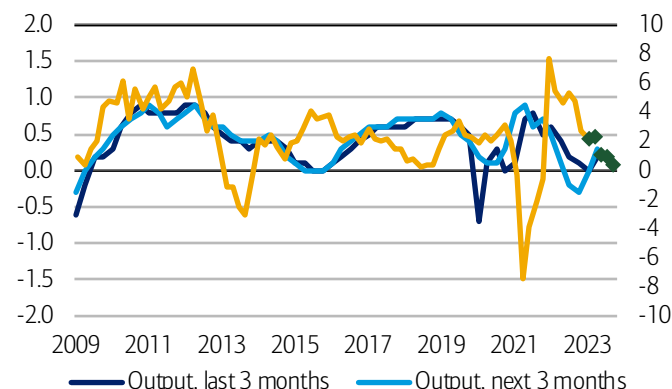


Source: BofA Global Research, Statistics Sweden, Swedbank

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**Exhibit 6: Norges business survey suggests growth holding up**

Norges Bank Regional Network Survey and GDP

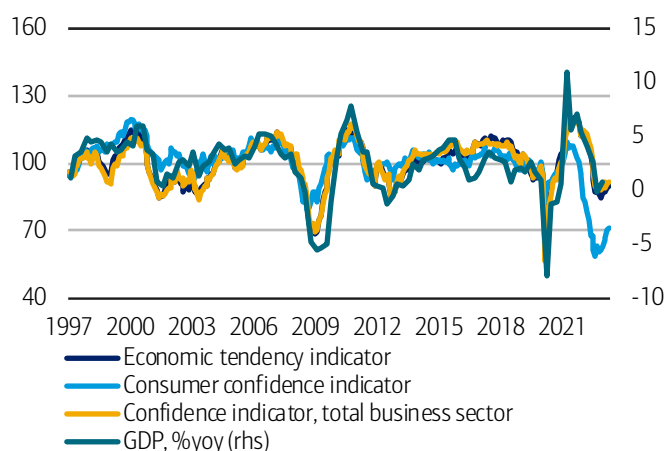


Source: BofA Global Research, Statistics Norway, Norges Bank

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**Exhibit 7: Consumer confidence very weak, but business confidence consistent with slow growth**

Sweden economic confidence and GDP

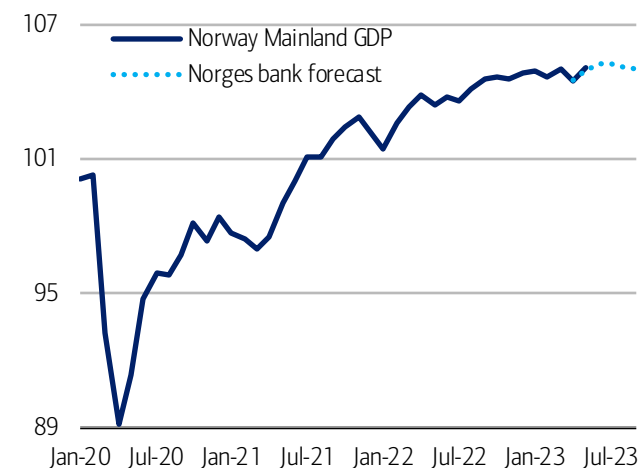


Source: BofA Global Research, National Institute of Economic Research, Statistics Sweden

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**Exhibit 8: GDP continues to bear Norges forecasts**

Norway monthly GDP and Norges forecast

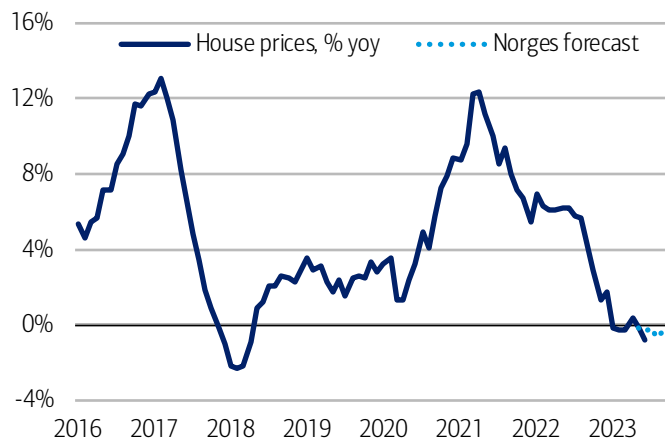


Source: BofA Global Research, Statistics Norway, Norges Bank

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**Exhibit 9: House price inflation weaker than Norges expected**

House prices, Norway, % four-quarter change

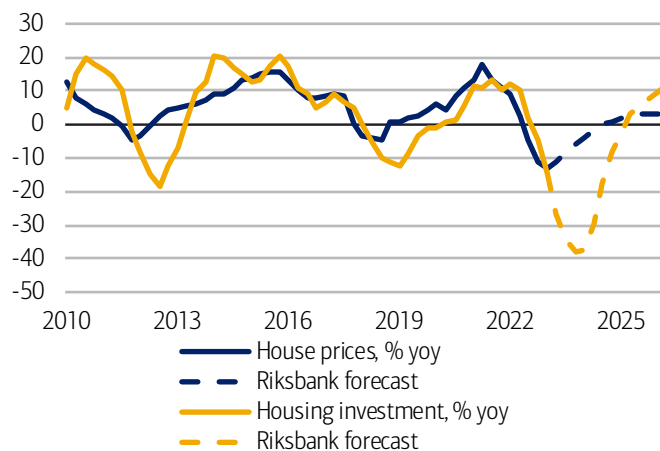


Source: Eiendomsverdi, Finn.no, Real Estate Norway and Norges Bank. Dotted lines show Norges Bank forecasts.

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**Exhibit 10: Housing investment likely to fall sharply**

Sweden house prices and investment

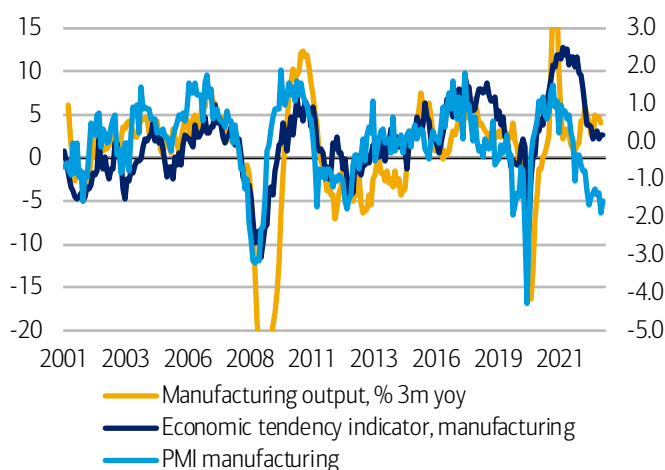


Source: Valueguard and Riksbank (Monetary Policy Report June 2023). Dotted lines show Riksbank forecasts

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**Exhibit 11: Sweden PMI diverges from hard data and other surveys**

Sweden manufacturing PMI, economic tendency indicator and manufacturing output growth

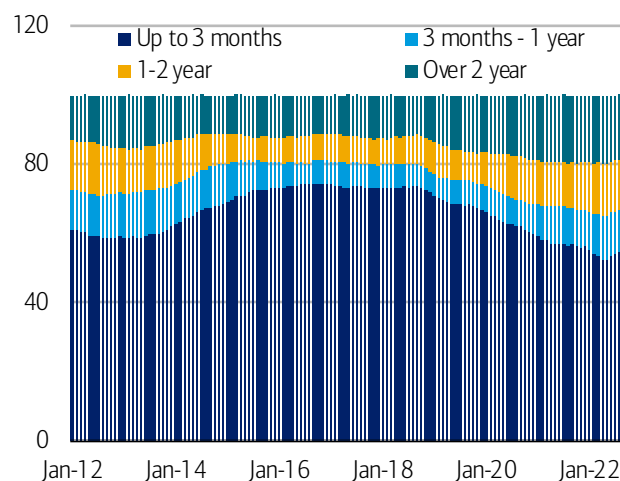


Source: BofA Global Research, Swedbank, National Institute of Economic Research

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**Exhibit 12: Residual duration of mortgage fix**

Swedish mortgages have a short-term fix rate period



Source: Riksbank

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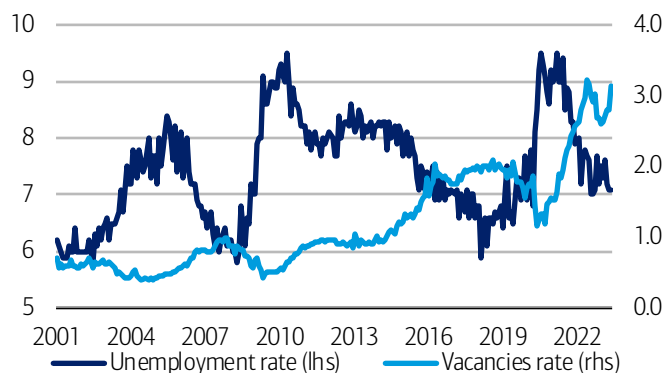
## Labour market: still tight

We had been expecting unemployment to creep up in both Norway and Sweden as growth slowed. But the national measure in Norway is barely off its low point, holding at 1.8% for three months compared to the low of 1.6% in mid-2022 (Exhibit 14). Unemployment has been falling in Sweden, returning close to the low from mid-2022. Vacancies have surged once more (Exhibit 13).

This is more puzzling for Sweden than Norway, given weaker growth in the former. Indeed, labour supply constraints seem to be easing in Norway but worsening in Sweden (Exhibit 16 vs. Exhibit 15). Nonetheless, this is a problem for both central banks. Recent wage deals provide considerable comfort - more for Riksbank than Norges - but the hot labour markets suggest inflation risks ahead.

**Exhibit 13: Swedish labour market remains very hot**

Sweden unemployment rate and vacancies

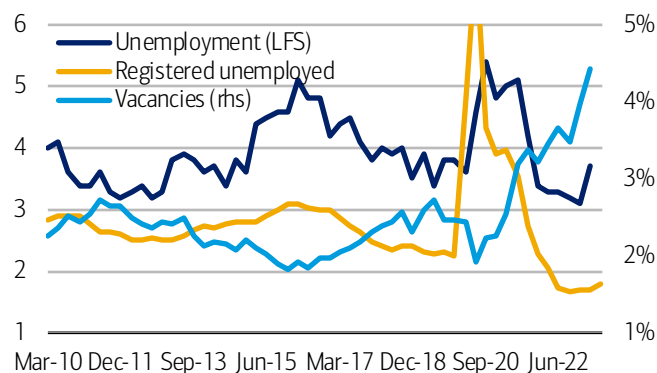


Source: BofA Global Research, Statistics Sweden.

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**Exhibit 14: Norwegian unemployment remains extremely low**

Norway unemployment and vacancy rate

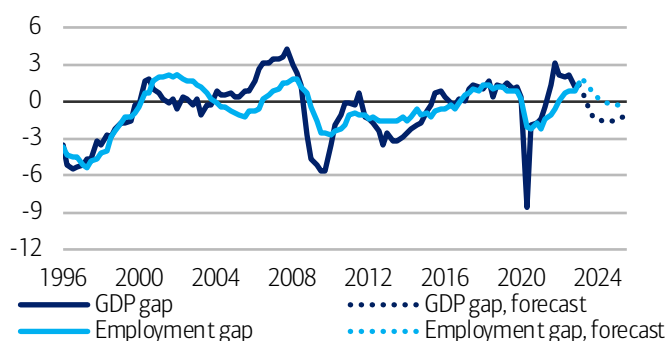


Source: BofA Global Research, Statistics Norway.

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**Exhibit 15: Riksbank expects capacity constraints to keep easing**

Riksbank capacity constraints forecast

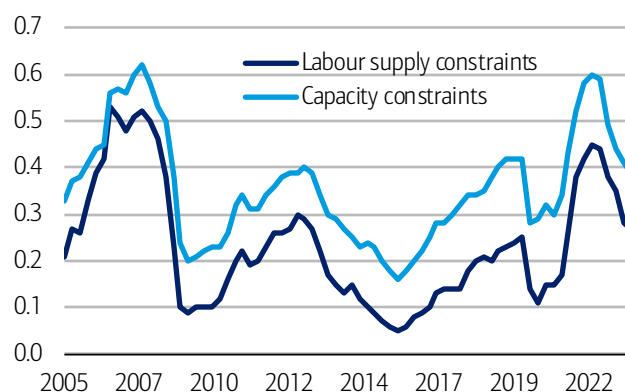


Source: Employment Service, National Institute of Economic Research, Statistics Sweden and the Riksbank (Monetary Policy Report, June 2023). Dotted lines show Riksbank forecasts. The RU indicator is a Riksbank statistical measure of resource utilization; which has been normalised so that the mean value is 0 and the standard deviation is 1 since 1996.

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**Exhibit 16: Labour supply and capacity constraints ease**

Norges Bank Regional Network Survey

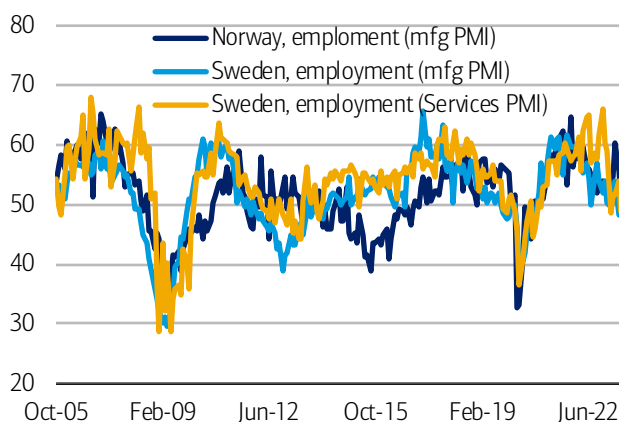


Source: Norges Bank.

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**Exhibit 17: Job growth slows to standstill**

PMI employment

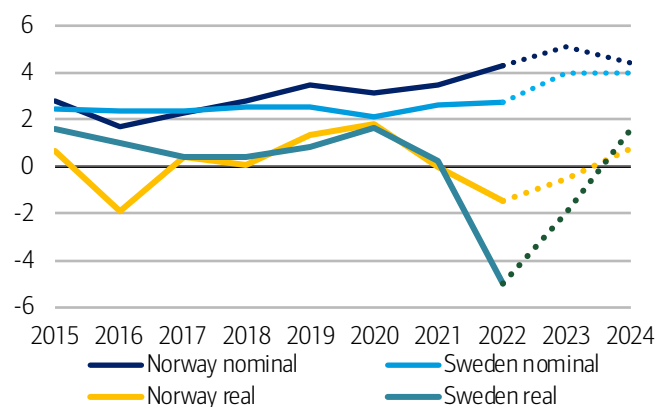


Source: Swedbank, DNB

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**Exhibit 18: Real wages fallen sharply in Sweden**

Nominal wage growth



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 prove surprisingly persistent in both Norway and Sweden, but a clearer pattern is beginning to emerge. Both countries' national core inflation measures of course include food, which has distorted the relative signal. Swedish food inflation – in the harmonised inflation index – peaked at 18.2% y/y in February compared to 11.1% in Norway more recently. This boosted Sweden's national core inflation measure well above Norway's earlier in the year, and has recently led to Norway's measure rising.

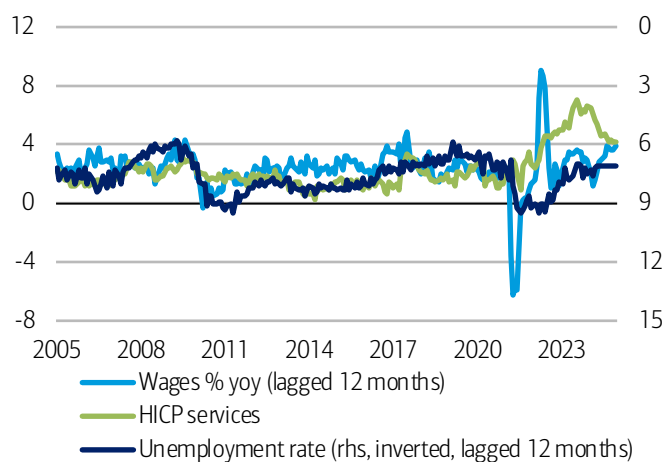
We prefer to look at inflation excluding energy and food for judging core pressures. Here we see a clearer relative signal (Exhibit 24). Both countries have seen core inflation surge to around 7%, in part as services inflation has risen far more than wage growth. We suspect part of that has to do with passthrough of energy price rises to other CPI components. We expect core to slow in both countries as global goods pressure eases and as services inflation slows back towards wage growth. We expect core to be stickier in Norway than Sweden because of a more resilient economy and an extremely tight labour market.

We tweak our inflation forecasts for recent data. For Sweden we raise 2023 CPI 10bp to 8.5%. We leave 2024 and 2025 unchanged at 2.6% and 1.6%. For Norway we raise 2023 CPI-ATE (excluding energy and indirect tax increases) inflation 70bp to 6.1%, and raise 2024 50bp to 3.6%.

In short, we expect inflation to slow more in Sweden than Norway over the next couple of years because: Sweden starts with much higher inflation driven in large part by very rapid food price inflation that should fade; we expect weaker Swedish growth.

**Exhibit 19: Services inflation running much stronger than wages**

Sweden wages and services inflation, BofA forecast

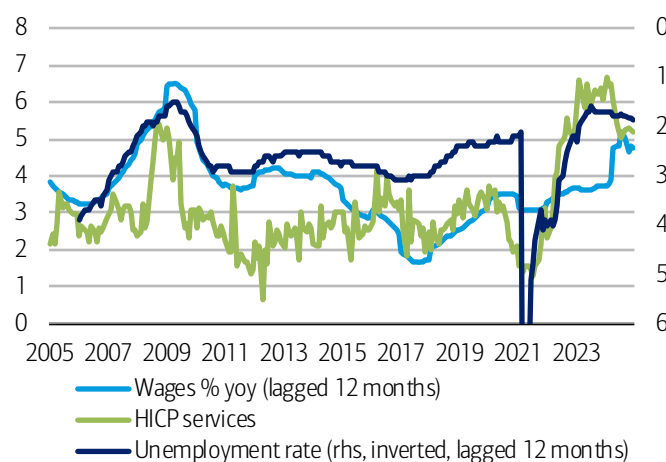


Source: BofA Global Research, Statistics Sweden

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**Exhibit 20: Services inflation running well above wages**

Norway wages and services inflation, BofA forecast

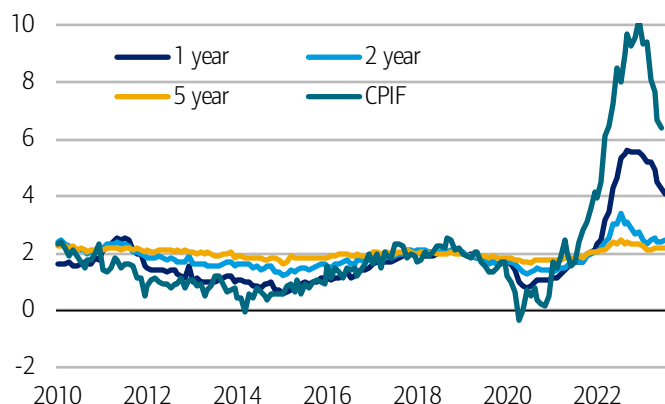


Source: BofA Global Research, Statistics Norway

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**Exhibit 21: Expectations falling or stable close to 2%**

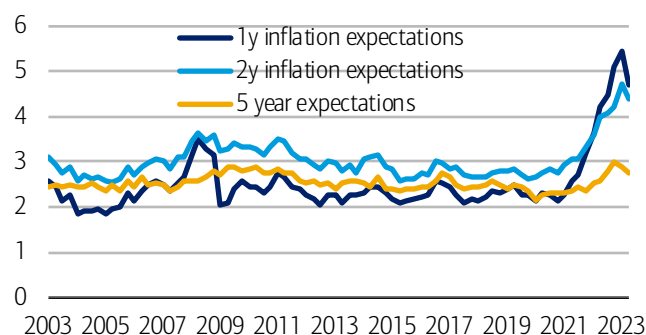
Sweden inflation expectations



Source: Prospera, Statistics Sweden. Note: We use the monthly survey data ("Small Prospera").  
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**Exhibit 22: Shorter term expectations correct some of recent surge, but more of a concern than in Sweden**

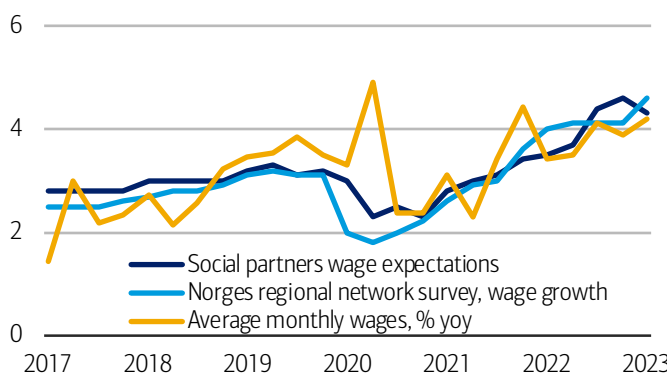
Norges Bank inflation expectations survey



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 23: Wage growth still rising, but wage deal gives relief**

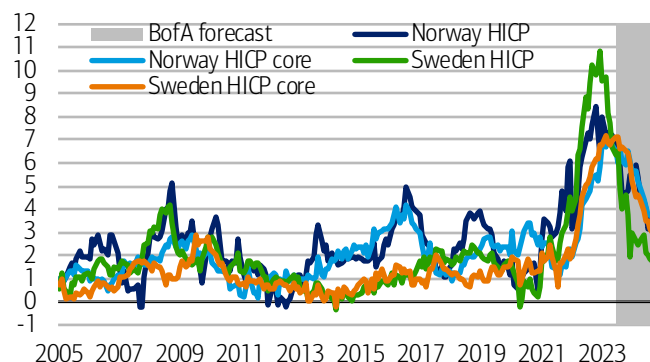
Wage growth, Norges regional survey and social partners



Source: Norges Bank, Statistics Norway  
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**Exhibit 24: Sweden saw larger inflation spike, driven by food and goods, core in Norway proving more persistent**

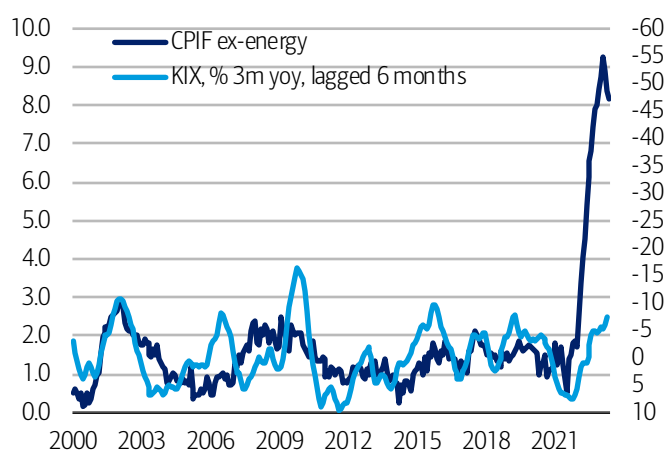
BofA Norway and Sweden CPI inflation



Source: BofA Global Research  
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**Exhibit 25: Currency likely explains small part of Sweden inflation...**

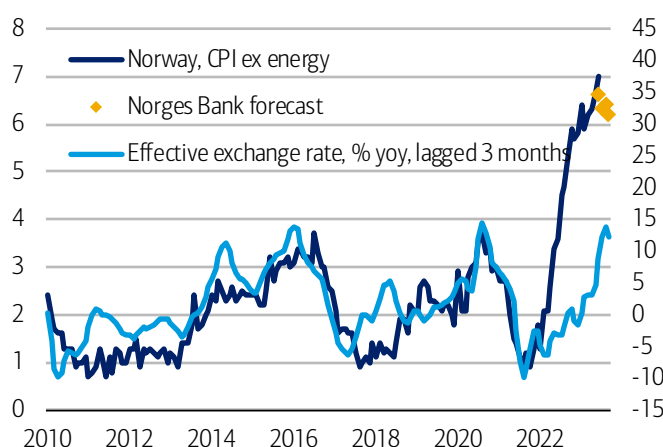
Swedish ex-energy inflation and KIX



Source: BofA Global Research, Statistics Sweden, Bloomberg  
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**Exhibit 26: ...but bigger part of Norway inflation**

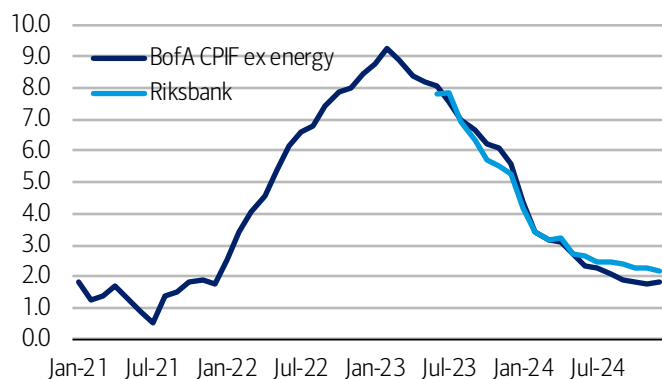
Norway inflation and Norges forecast (percent)



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 27: Core inflation peaked**

Riksbank and BofA core inflation forecast (percent)

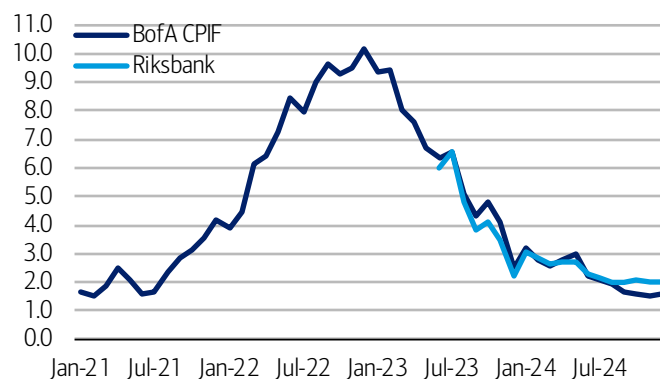


Source: BofA Global Research, Riksbank

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**Exhibit 28: Riksbank and BofA inflation forecast (percent)**

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

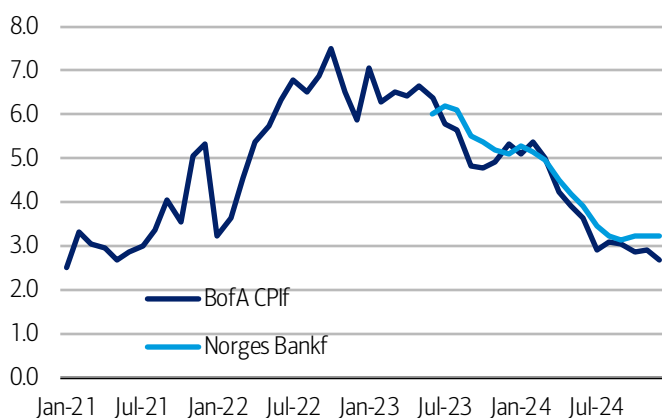


Source: BofA Global Research, Riksbank

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**Exhibit 29: Headline inflation peaked in Norway**

BofA and Norges Bank inflation forecasts

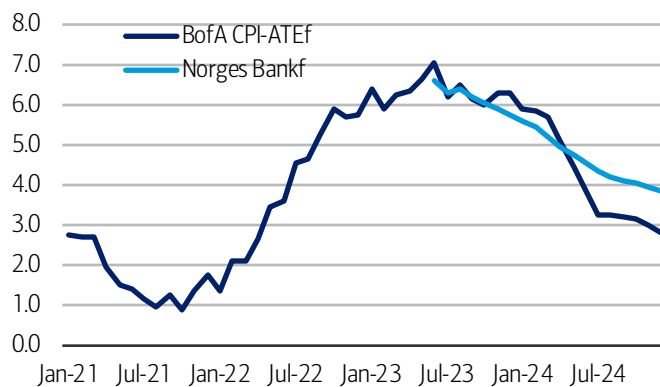


Source: BofA Global Research, Norges Bank, Statistics Norway.

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**Exhibit 30: We expect core inflation to be stickier than headline, but also to have peaked**

BofA and Norges Bank inflation forecasts

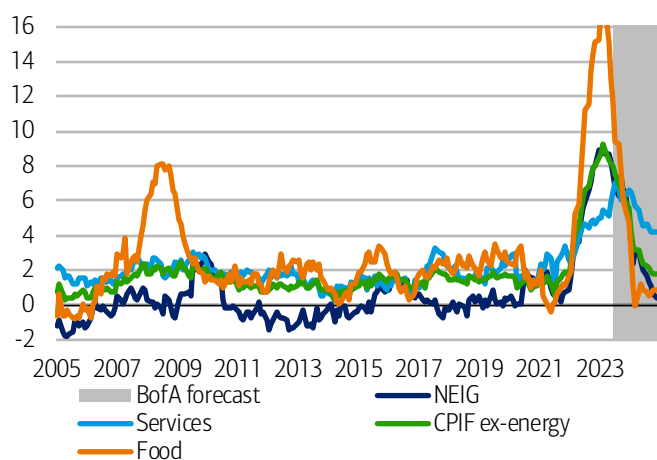


Source: BofA Global Research, Norges Bank, Statistics Norway.

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**Exhibit 31: Swedish inflation heavily driven by global factors, but services strong**

Sweden HICP components and BofA forecast

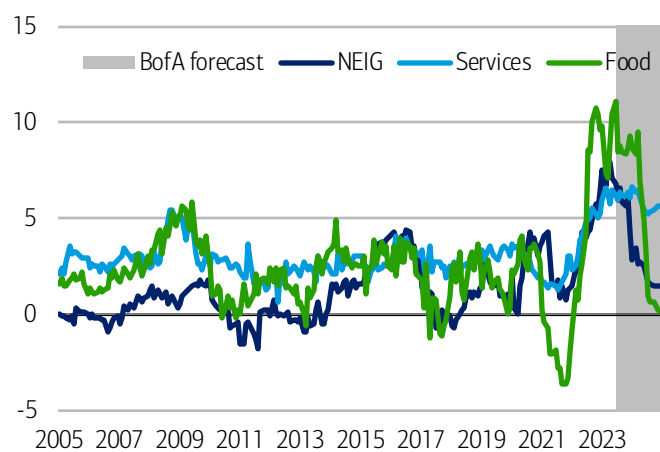


Source: BofA Global Research, Statistics Sweden.

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**Exhibit 32: Food and energy make large inflation contribution, but services risen**

Norway HICP components and BofA forecast



Source: BofA Global Research, Statistics Norway

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## Policy: tolerance

Our policy calls are sensitive to judgements about two types of central bank tolerance: for currency weakness; and the time to return inflation to target.

The Riksbank plans to return inflation to target faster than Norges. Norges seems more willing to trade-off above-target inflation for longer against less volatility in output (Exhibit 35, Exhibit 36). The latter would be a more textbook response to supply shocks when inflation expectations are reasonably well anchored.

That tolerance for inflation, or willingness to take time to return to target, is why we had been forecasting Norges to stop hiking soon despite resilient growth. But we also forecast Norges to keep rates higher for longer than Riksbank. Our policy call is partly a judgement about Norges' monetary strategy.

Norges surprise 50bp hike in June challenges our assumption – although their forecasts continue to suggest a tolerance for inflation. But, with upside inflation news since their last forecasts, we now look for Norges to hike their policy rate to 4.5% compared to 4.25% previously. We expect 3 more 25bp hikes, although we see a risk that they hike 50bp at their next meeting in August. We look for 2 25bp cuts in 2024 and 5 in 2025, leaving rates at 4.0% at end-2024 and 2.75% at end-2025. We see risks balanced around that call.

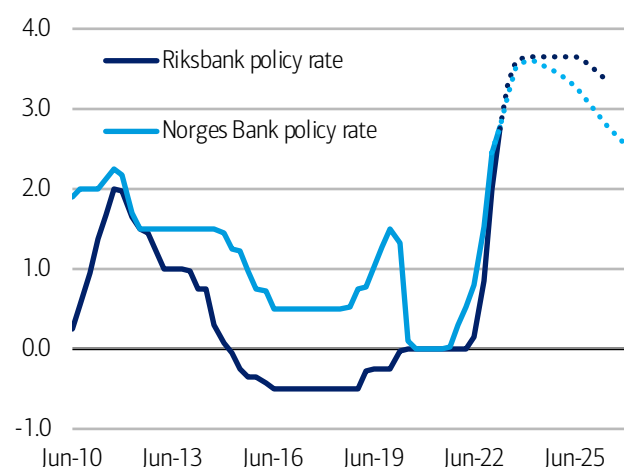
For Riksbank we leave our call unchanged, expecting one more 25bp hike in September for 4.0% terminal. Given the weaker economy, a two-year wage agreement, rather than one for Norway and domestic demand weakness we see Riksbank hiking less than Norges. Also factoring into our Riksbank call is their infrequent meeting schedule. After September the Riksbank does not have a meeting until November, by which time headline inflation will likely have fallen further.

We see risks skewed up to our Riksbank call. Inflation is proving sticky and the Riksbank's tolerance, as we note above, seems much more limited than Norges, despite better behaved inflation expectations and weaker growth. We expect 3 cuts from Riksbank in 2024 and five in 2025 leaving the policy rate at 3.25% and 2.0% at end-2024 and 2025 respectively.

The Riksbank has begun shifting its focus to how long rates will need to remain elevated. In the April Monetary Policy Report they add the new condition that "The underlying inflation rate is expected to fall rapidly, but policy rate cuts will not begin until it has been close to the target for a while." This raises risks that the Riksbank will not cut as early or as far as we expect. Big picture, however, we continue to think the Riksbank will need to cut rapidly from the peak whereas Norges will likely be more cautious.

### Exhibit 33: Riksbank and Norges project a similar terminal rate, but Riksbank projects a flatter path

Policy rates

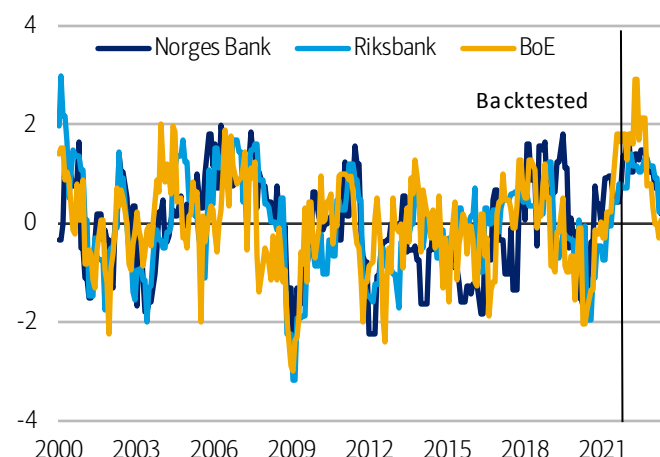


Source: Riksbank (April 2023), Norges Bank (March 2023)

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### Exhibit 34: Norges more hawkish

BofA central bank mood indicators, standard deviations from average

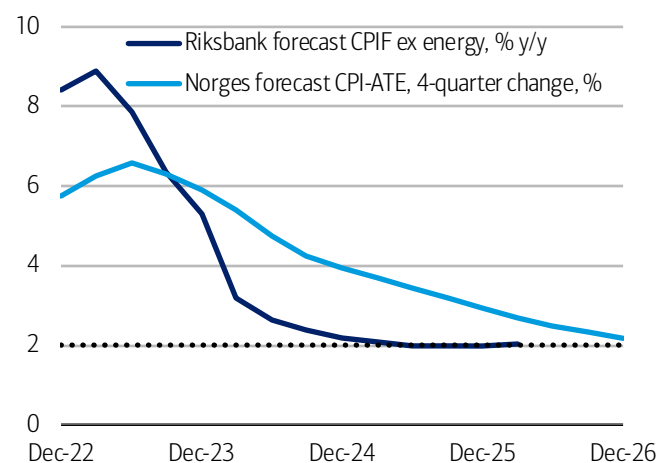


Source: BofA Global Research, Norges Bank, Riksbank, Bank of England. NORBI/Riksbank/BoEMI are scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. In the chart we show the raw mood score converted into standard deviations from average. The indicator identified as NORBI/Riksheard/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 35: Riksbank expects inflation to return to target faster

Riksbank vs Norges inflation forecasts

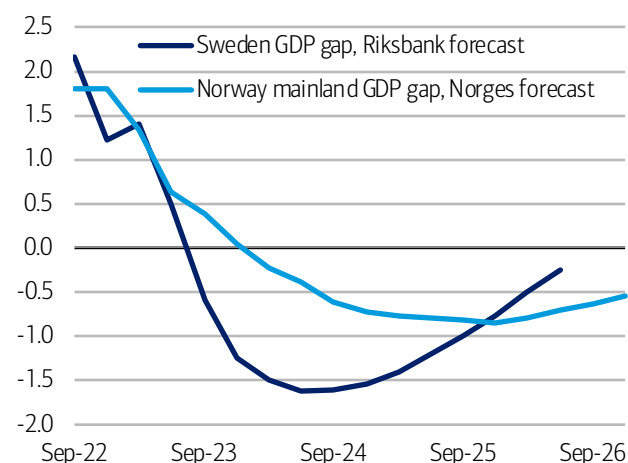


Source: Riksbank, Norges Bank

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### Exhibit 36: ...due to a more negative output gap

Riksbank vs Norges output gap forecasts

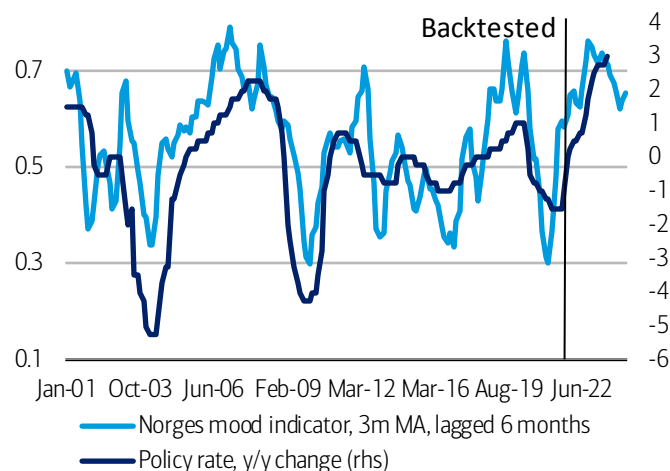


Source: Riksbank, Norges Bank

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**Exhibit 37: Norges mood indicator suggests turning more hawkish**

BofA Norges Bank mood indicator

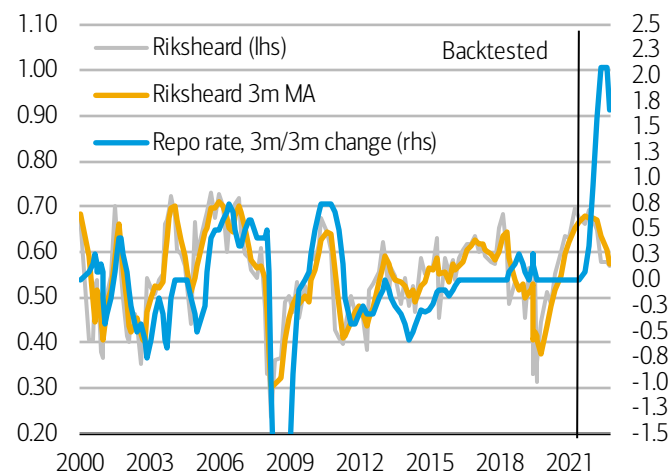


**Source:** BofA Global Research, Norges Bank. NORBI is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as NORBI is intended to be an indicative metric 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 38: Riksheard suggests dovish shift**

BofA Riksbank mood indicator

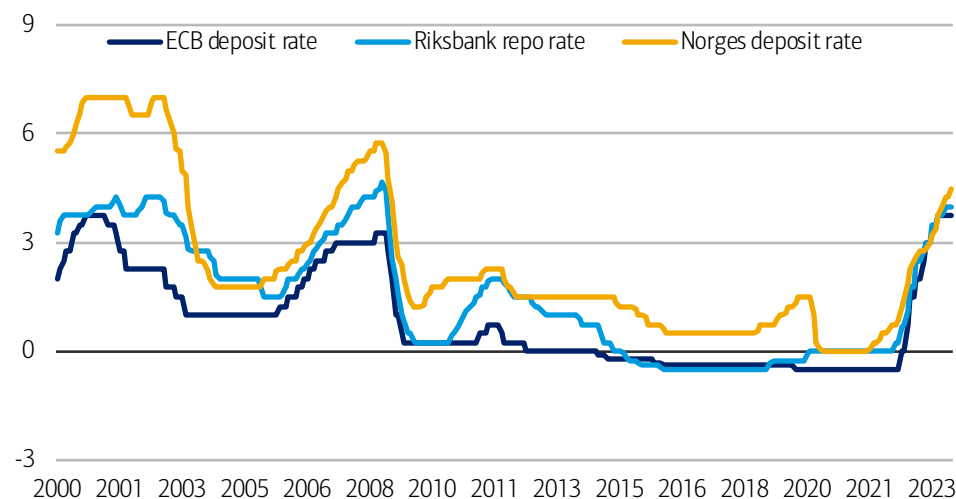


**Source:** BofA Global Research. Note: Riksheard is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in each publication. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as Riksheard is intended to be an indicative metric only and 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 39: Our forecasts put Norges and Riksbank policy rate in line with ECB**

BofA ECB, Riksbank and Norges policy rates

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

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**FX: NOK over SEK**

We look for more upside for NOKSEK in the rest of the year: our above-consensus year-end forecast is at 1.04, and we expect it even higher (1.06) in the meantime (Exhibit 40).

Structurally, we continue to like NOK: the Norwegian data has been solid and ex-energy inflation is yet to peak i.e., Norges has likely more ground to cover than most G10 central banks incl. the ECB and the Riksbank. This alongside potentially slightly higher oil

prices and prospects of China policy easing later this year could help push EURNOK below 11.00.

We stay very cautious on SEK, worried about Sweden's slow progress on inflation. To us, more Riksbank hikes is not obviously positive for SEK—we are worried about harder landing risks i.e., risks of a meaningful consumer squeeze and around property markets. In our base case, EURSEK is at 11.50 in Q3, but we see risks skewed firmly upwards.

Near term, we are cautious on both NOK and SEK especially vs. USD given our bullish USD view (bearish on risk sentiment) and, to this end, we see some risks around the Real Money USDNOK shorts.

#### Exhibit 40: Scandies FX forecasts

We expect NOKSEK to continue moving higher in 2H

	Sep-23	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024
EUR/NOK	10.90	10.60	10.40	10.40	10.20	10.00
USD/NOK	10.38	10.10	9.72	9.45	8.87	8.70
EUR/SEK	11.50	11.00	10.70	10.60	10.50	10.30
USD/SEK	10.95	10.48	10.00	9.64	9.13	8.96
NOK/SEK	1.06	1.04	1.03	1.02	1.03	1.03
EUR/USD	1.05	1.05	1.07	1.10	1.15	1.15

Source: BofA Global Research

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### NOK: we see more upside by year-end but cautious on risk

Stars aligned at last for NOK, which has staged a remarkably rally since end-May. We do expect more upside by year-end but are cautious on risk sentiment after the recent rally.

#### NOK underperformance vs history no more

Even *before* the risk rally following the softer-than-anticipated US June CPI print, NOK had retraced some of its losses from earlier in the year. This was partly in response to:

- Higher rate differentials (Exhibit 41), given the very hawkish Norwegian CPI prints, the resilient activity data, and Norges Bank's increased hawkishness in June (see [Norges Review: getting ahead 22 June 23](#)).
- Norges' oil-related NOK flows turning more favourable slightly earlier than expected and, importantly, Norges offering some clarity around them.

So, for NOK the risk rally following the US June CPI print and the higher oil prices that came with it was as much a trigger as a catalyst. Its rally was likely on the strong side of expectations (Exhibit 42, Some overshoots greater than others 18 July 23) but after several months firmly on their soft side (Exhibit 43).

#### Looking ahead, we are constructive but fear a correction lower in risk sentiment

We see further NOK upside by year-end. We count on:

1. Slightly higher oil prices later this year and more meaningfully higher prices in 2024, with our commodities team expecting Brent at 82\$/bbl in 4Q and at 90\$/bbl in 2024 (The battle royale between oil and money 5 June 23).

Of course, China policy easing could also help, but our economists are not holding their breath for the upcoming Politburo meeting ([Cutting China GDP growth forecasts for delayed policy response 20 July 23](#)).

2. With ex-energy inflation yet to peak and a very resilient Norwegian economy, we think Norges' bias will remain hawkish. Certainly, the recent NOK rally could take some pressure off (NOK is c. 3.5% stronger in trade-weighted terms than Norges expected), but the inflation data and NOK's out-sized weakness for several months leave not much room for complacency.

3. Oil-related NOK flows by Norges and petroleum companies combined could improve slightly more in the rest of the year.

### Forecasts: no changes. Risks: Fed & risk sentiment, oil & China

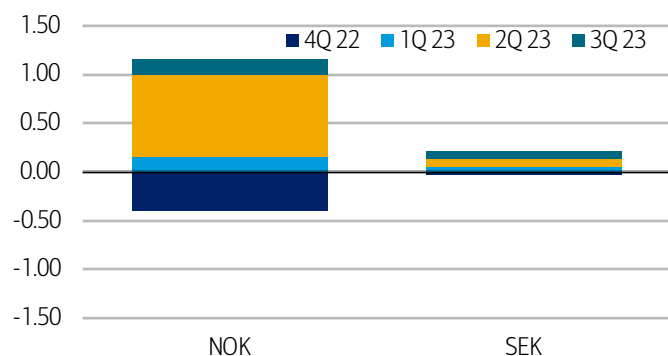
We still expect EURNOK at 10.60, USDNOK at 10.10, and NOKSEK at 1.04 by year-end.

Nearer term, we are worried about markets running ahead of themselves: we think getting to 2% inflation is unlikely to be costless in most economies, which could undermine risk sentiment and is a key reason behind our near-term bullish USD view—our US economists expect two more Fed rate hikes and no rate cuts until May-24.

We also find NOK positioning more crowded than earlier in the year (Exhibit 44). The bottom line is we like NOK, but we don't think its comeback will be a straight line, so being tactical would be key.

#### Exhibit 41: Change in 2yr trade-weighted swap spreads (percent)

Norway CPI & Norges' increased hawkishness likely helped NOK after May

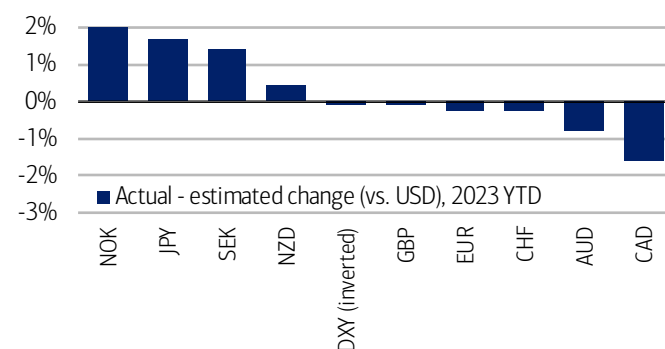


**Source:** BofA Global Research, Bloomberg. Note: The 2-year NOK swap spread is with respect to Norway's 9 largest trading partners as per the, import-weighted, NOK I-44 index. The 2-year SEK Spread is with respect to Sweden's 11 largest trading partners as per the, trade-weighted, krona index ("KIX"). Data weekly through July 14.

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#### Exhibit 42: Actual vs. PCA-based changes (vs. USD), first two weeks of July 2023

Most currencies within +/- 1pp of estimated performance, except NOK, JPY and CAD

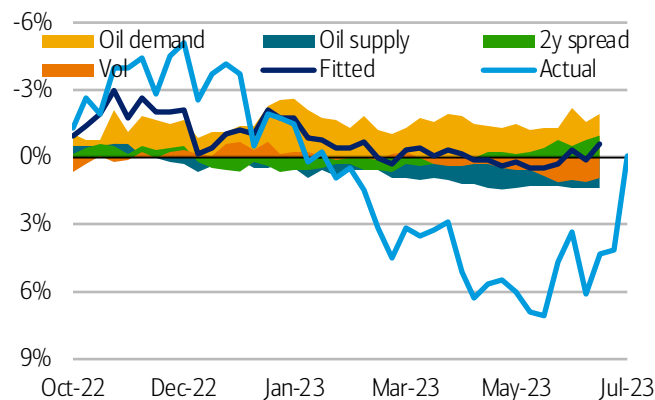


**Source:** Bloomberg. Note: PCA factors extracted from G10 pairs vs. USD. For more details, please see Liquid Insight: Some overshoots greater than others 18 July 23

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#### Exhibit 43: Fitted vs. actual NOK I-44 (inverted values)

NOK under-performance no more

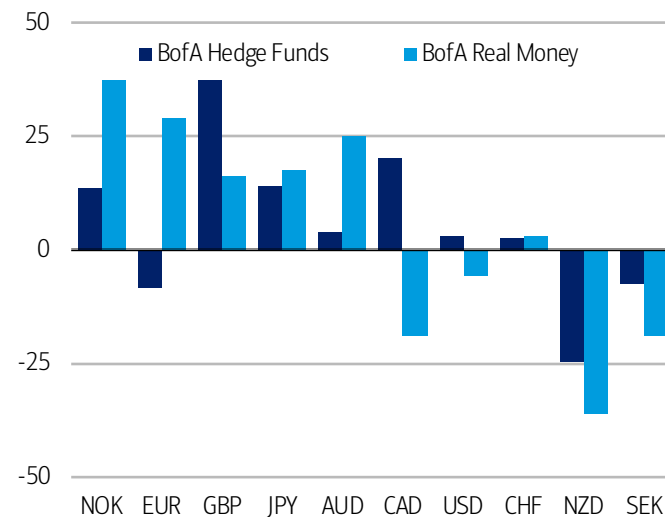


**Source:** BofA Global Research, Bloomberg, Federal Reserve Bank of New York, Oil Price Dynamics Report, [https://www.newyorkfed.org/research/policy/oil\\_price\\_dynamics\\_report.html](https://www.newyorkfed.org/research/policy/oil_price_dynamics_report.html). Lower values of the import-weighted krone index (NOK I-44) show a stronger NOK. Weekly data through July 14 for actual and June 30 for fitted. 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 York 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 44: BofA investor G10 FX positioning

Real Money NOK longs not far from stretched but Hedge Funds have room

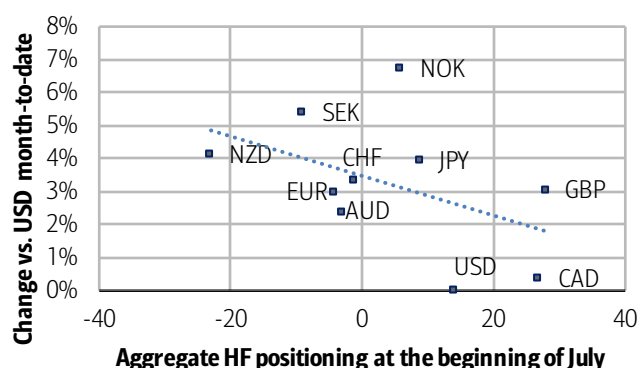


**Source:** BofA Securities. Data as of July 14. Currencies ranked on the equally-weighted positioning for Hedge Funds and Real Money. +50 (-50) represents a max long (short) positioning relative to history.

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**Exhibit 45: July month-to-date G10 FX performance vs. hedge fund positioning**

Outperformance of NZD and SEK can be attributed to relative positioning

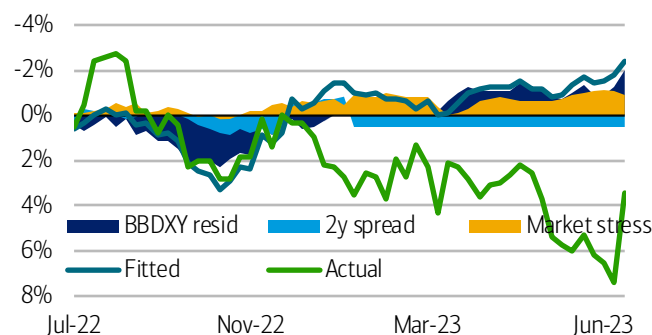


Source: BofA Global Research, Bloomberg. For more details, please see Liquid Insight: Some overshoots greater than others 18 July 23

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**Exhibit 46: Fitted vs. actual Swedish krona index**

Strong divergence even after recent risk rally likely partly reflects simmering property-market concerns



Source: BofA Global Research, Bloomberg. Lower values of the trade-weighted krona index (KIX) show a stronger SEK. Weekly data through July 14. 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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**SEK: still early to turn constructive**

We remain cautious on SEK, with the progress on inflation, esp. ex energy, being slower than we expected. The recent SEK rally should offer them some relief but, until inflation slows enough, the Riksbank and, to this end, SEK, could come under fresh pressure.

**Looking ahead: risks for more and/or prolonged SEK weakness**

Before SEK's strong rally following the softer-than-anticipated US June CPI print, SEK had weakened more vs. our (bearish when made) forecast. But we were, and still are, flagging risks of more and/or prolonged SEK weakness, although we find it much undervalued.

Even if SEK already priced a lot of negative domestic news, our bullish near-term USD (bearish risk) view suggests downside risks. And even into the US June CPI print, SEK positioning was short, both in absolute terms and historically, but not stretched (Exhibit 45)—it is slightly less short now (Exhibit 44).

Regarding the Riksbank—they have been clearly worried about SEK and the potentially faster FX pass-through, as the June meetings minutes can also attest. However, we remain of the view that they and, to this end, SEK increasingly risk getting caught between a rock and a hard place until ex energy CPIF falls meaningfully (Exhibit 46).

To us (but to markets less so), more Riksbank hikes is not obviously SEK positive, which the Riksbank is aware of although does not necessarily share. For instance, even though Sweden's front-end swap rate spread vs. the Eurozone is flat year-to-date (Exhibit 47) and despite a weaker USD, SEK remains meaningfully weaker vs. the EUR (Exhibit 48). Indeed, SEK stood out as the weakest in G10 vs. its usual beta to rates (see Do rates still matter for FX? 26 June 23).

Certainly, the Swedish labour market data has proven surprisingly resilient (incl. in its details like employment, hours, participation), housing prices have been stabilising (but transactions remain low), manufacturing has fared well (on exports & a weaker SEK), and business capex is also fine. But we have seen clear weakness in private consumption, housing investment, and an abundance of negative commercial real estate (CRE) headlines.

## What would it take us to turn constructive on SEK?

Meaningful progress on inflation. Lower inflation may initially be SEK-negative (on the Riksbank likely repriced lower) but would lower hard-landing risks i.e., risks of significant consumer squeeze & around property markets, further out.

To lower inflation we think the Riksbank is right to count on: (1) Sweden's high interest-rate sensitivity (Exhibit 12). (2) Lower wage growth given the recent deal although wage drift is a risk, as the June minutes showed. (3) Anchored inflation expectations. (4) A "friendly" fiscal stance. This was also a consensus view during our recent Stockholm fieldtrip (Stockholm investor fieldtrip notes: hope is inflation falls fast 14 June 23).

But we need time to tell. So far, ex energy inflation, especially in services, remains very sticky, narrowing the path to our more constructive view on SEK after Q3.

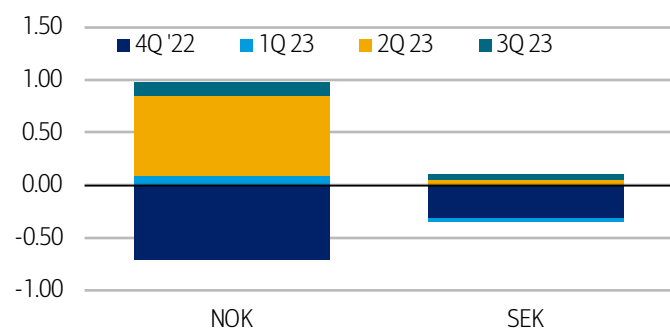
## Forecasts: no changes. Risks: inflation stickiness, property markets, ECB

We forecast EURSEK at 11.50 in 3Q and 11.00 by year-end, but risks are for more and/or prolonged SEK weakness. We see USDSEK at 10.48 and NOKSEK at 1.04 at year-end.

Risks are around global risk sentiment, global and Swedish inflation, the Swedish property markets (Exhibit 49, Exhibit 50), and the ECB.

### Exhibit 47: Change in 2yr swap spreads vs EUR (percent)

Despite flat front-rate differentials & a stronger EUR, SEK remains meaningfully weaker vs EUR year-to-date

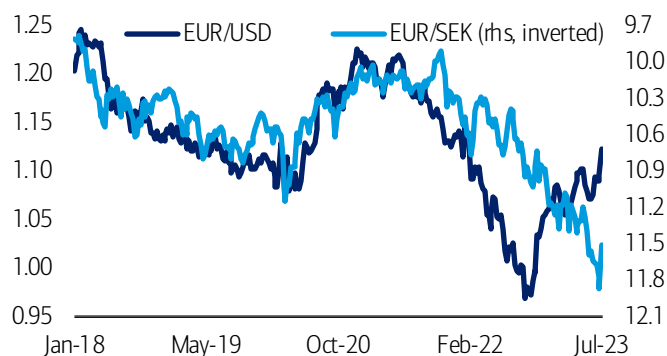


Source: BofA Global Research, Bloomberg. Data weekly through July 14.

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### Exhibit 48: EURUSD vs EURSEK

EURUSD and EURSEK much misaligned, even after the post-USD CPI rally

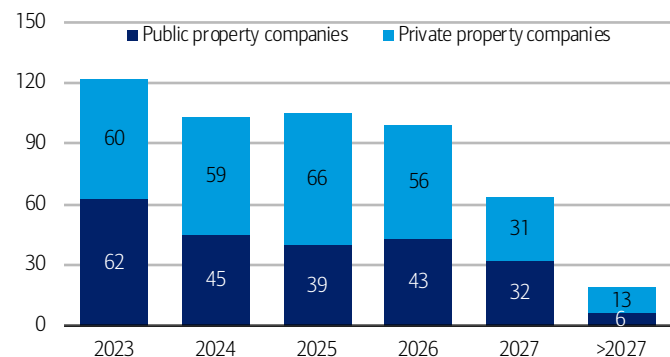


Source: Bloomberg. Weekly data through July 14.

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### Exhibit 49: Commercial paper and bond maturities of property companies

c120bn of securities will mature until YE23 and c100bn p.a. in 2024-26

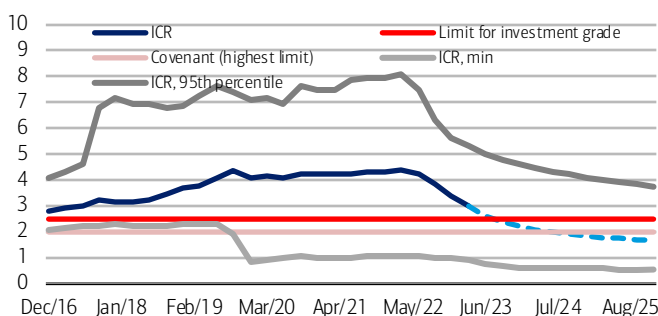


Source: Riksbank (Financial Stability Report)

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### Exhibit 50: ICR outlook of large property companies

Interest costs will rise and ICRs will decrease



Source: Sedis and the Riksbank (Financial Stability Report). The chart shows the volume-weighted interest coverage ratio for a sample of 34 property companies. Calculations assume the policy rate will rise in accordance with the Riksbank's April 2023 forecast to 3.65 per cent in 2023 and then remain at that level until mid-2025, which in June the Riksbank raised by 40bp.

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## Annex: economic forecasts

### Exhibit 51: BofA Sweden inflation

Updated forecasts

	HICP					CPI				
	NEIG	Energy	Unprocessed food	Processed food, alcohol, tobacco	Food	Services	Headline	Core	CPI	CPI ex energy
Feb-23	9.19	9.69	23.41	17.13	18.16	5.49	9.70	7.19	11.95	9.42
Mar-23	8.72	-2.15	19.48	16.75	17.17	5.32	8.14	6.88	10.64	8.04
Apr-23	8.69	-2.04	12.11	15.88	15.18	5.11	7.74	6.76	10.47	7.63
May-23	8.22	-10.90	9.81	13.59	12.90	5.88	6.67	6.99	9.67	6.70
Jun-23	7.57	-11.94	9.42	12.19	11.65	6.53	6.32	7.16	9.31	6.38
Jul-23	6.78	-6.56	9.34	9.39	9.35	7.04	6.49	7.16	9.29	6.55
Aug-23	6.32	-17.09	9.24	9.26	9.23	6.58	4.86	6.63	7.51	5.06
Sep-23	7.40	-21.61	7.35	7.83	7.74	6.06	4.03	6.70	6.52	4.33
Oct-23	6.58	-14.20	3.49	6.73	6.17	6.33	4.61	6.48	6.72	4.83
Nov-23	6.51	-19.70	3.52	5.93	5.54	6.27	3.74	6.40	5.75	4.13
Dec-23	5.11	-29.60	2.43	5.28	4.81	6.68	1.93	6.02	3.90	2.49
Jan-24	3.42	-14.86	0.55	3.56	3.06	6.50	3.00	5.21	4.38	3.17
Feb-24	2.32	-10.11	-4.85	2.30	1.06	6.11	2.60	4.52	3.77	2.75
Mar-24	3.02	-9.53	-4.45	0.85	-0.06	5.71	2.44	4.58	3.47	2.58
Apr-24	3.03	-7.74	0.10	0.85	0.74	5.46	2.65	4.45	3.40	2.78
May-24	2.46	-0.93	1.52	1.15	1.23	4.94	2.91	3.91	3.36	2.98
Jun-24	2.07	-6.48	-0.81	1.16	0.84	4.54	2.08	3.52	2.46	2.20
Jul-24	1.68	-6.43	-1.23	1.09	0.71	4.72	2.01	3.46	2.28	2.10
Aug-24	1.37	-5.51	-1.08	0.88	0.56	4.48	1.86	3.19	2.03	1.92
Sep-24	1.07	-5.48	0.17	0.67	0.59	4.19	1.64	2.88	1.74	1.69
Oct-24	0.69	-5.13	1.55	0.70	0.84	4.26	1.59	2.77	1.62	1.61
Nov-24	0.47	-4.61	2.36	0.52	0.82	4.16	1.53	2.61	1.45	1.52
Dec-24	0.40	-4.02	3.01	0.46	0.88	4.24	1.59	2.64	1.50	1.57

Source: BofA Global Research, Statistics Sweden

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### Exhibit 52: BofA Norway inflation

Updated forecasts

	HICP					CPI				
	NEIG	Energy	Unprocessed food	Processed food, alcohol, tobacco	Food	Services	Headline	Core	CPI	CPI-ATE
Mar-23	7.84	11.70	15.05	5.83	7.14	6.32	7.28	7.08	6.51	6.22
Apr-23	7.96	6.20	17.25	7.51	8.90	5.82	6.93	6.89	6.44	6.34
May-23	7.10	6.09	18.41	9.19	10.51	6.48	7.24	6.80	6.67	6.66
Jun-23	6.86	-1.30	18.47	9.85	11.12	6.14	6.76	6.55	6.36	7.05
Jul-23	5.99	1.77	12.54	7.83	8.53	5.95	6.15	6.04	5.79	6.19
Aug-23	6.63	-5.61	12.82	8.09	8.81	6.35	5.96	6.57	5.67	6.47
Sep-23	5.85	-14.46	10.60	8.60	8.91	6.21	4.71	6.08	4.83	6.12
Oct-23	5.64	-13.58	11.26	8.32	8.76	6.19	4.67	5.96	4.78	5.99
Nov-23	6.55	-17.76	10.87	8.84	9.15	6.36	4.78	6.49	4.91	6.31
Dec-23	6.18	-10.98	13.30	9.36	9.95	6.06	5.45	6.12	5.32	6.30
Jan-24	4.49	-5.56	13.73	8.63	9.38	6.67	5.45	5.65	5.10	5.91
Feb-24	4.74	-0.11	8.22	9.28	9.13	6.42	5.92	5.64	5.40	5.82
Mar-24	3.71	-5.11	8.35	11.22	10.80	6.51	5.43	5.20	5.00	5.67
Apr-24	3.64	-7.52	5.07	9.17	8.56	6.06	4.67	4.92	4.25	5.11
May-24	3.31	-4.01	3.00	7.74	7.04	5.41	4.33	4.43	3.91	4.47
Jun-24	2.82	-0.86	-2.03	7.23	5.80	5.19	4.04	4.09	3.65	3.87
Jul-24	2.28	-3.73	-4.26	4.78	3.42	5.05	3.11	3.76	2.93	3.27
Aug-24	2.13	-0.63	-4.94	4.61	3.15	5.12	3.30	3.73	3.09	3.27
Sep-24	2.01	-0.16	-4.14	4.01	2.80	5.23	3.25	3.73	3.05	3.21
Oct-24	1.95	-2.12	-4.62	3.89	2.62	5.27	3.06	3.72	2.87	3.14
Nov-24	1.48	1.61	-4.97	3.69	2.40	5.26	3.12	3.50	2.92	3.01
Dec-24	1.09	0.73	-5.26	3.52	2.21	5.20	2.86	3.27	2.69	2.81

Source: BofA Global Research, Statistics Norway

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**Exhibit 54: Sweden Economic forecasts**

Recession in 2023. Inflation to fall back towards target

		2020	2021	2022	2023	2024	2025	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
<b>GDP</b>	% qoq							-0.4	0.2	0.6	-0.5	0.6	-0.2	-0.4	-0.3	0.0	0.1	0.2	0.3
	% qoq ann.							-1.8	0.8	2.4	-2.2	2.4	-0.8	-1.6	-1.2	0.0	0.4	0.8	1.2
	% yoy	<b>-2.3</b>	<b>5.9</b>	<b>2.9</b>	<b>0.1</b>	<b>-0.2</b>	<b>1.1</b>	5.3	4.1	2.6	-0.2	0.8	0.4	-0.6	-0.3	-0.9	-0.6	0.0	0.6
Private Consumption	% qoq							-0.7	0.9	-1.8	-0.2	-1.2	-0.1	-0.4	-0.3	0.0	0.2	0.2	0.3
	% yoy	<b>-3.2</b>	<b>6.2</b>	<b>2.0</b>	<b>-2.4</b>	<b>-0.1</b>	<b>1.1</b>	5.3	5.1	-0.3	-1.8	-2.4	-3.3	-1.9	-2.0	-0.8	-0.5	0.1	0.7
Government Consumption	% qoq							-0.3	0.0	0.6	0.5	0.5	0.5	0.4	0.3	0.4	0.5	0.5	0.5
	% yoy	<b>-2.0</b>	<b>2.9</b>	<b>0.1</b>	<b>1.7</b>	<b>1.7</b>	<b>2.0</b>	0.2	-0.6	0.3	0.7	1.5	2.0	1.8	1.6	1.6	1.6	1.7	1.9
Investment	% qoq							1.5	2.5	0.6	-0.8	0.5	0.2	0.0	0.0	0.1	0.2	0.3	0.4
	% yoy	<b>1.6</b>	<b>6.8</b>	<b>6.2</b>	<b>0.9</b>	<b>0.6</b>	<b>1.5</b>	6.3	7.2	7.4	3.9	2.8	0.5	-0.2	0.7	0.3	0.3	0.6	1.0
Final Domestic Demand <sup>1</sup>	% qoq							0.0	1.1	-0.5	-0.2	-0.3	0.1	-0.1	-0.1	0.1	0.3	0.3	0.4
	% yoy	<b>-1.6</b>	<b>5.3</b>	<b>2.6</b>	<b>-0.4</b>	<b>0.5</b>	<b>1.4</b>	4.2	4.1	2.0	0.4	0.1	-0.9	-0.5	-0.3	0.1	0.3	0.7	1.1
Net exports <sup>1</sup>	% qoq							-0.1	-0.9	1.3	0.7	0.3	0.0	-0.2	-0.2	-0.1	-0.1	0.0	0.0
	% yoy	<b>0.0</b>	<b>0.2</b>	<b>-0.8</b>	<b>1.1</b>	<b>-0.5</b>	<b>-0.1</b>	-1.0	-2.6	-0.8	1.0	1.4	2.2	0.8	-0.1	-0.5	-0.6	-0.5	-0.3
Stockbuilding <sup>1</sup>	% qoq							-0.4	0.1	-0.2	-1.1	0.6	-0.3	-0.1	-0.1	0.0	-0.1	-0.1	0.0
	% yoy	<b>-0.8</b>	<b>0.5</b>	<b>1.2</b>	<b>-0.6</b>	<b>-0.3</b>	<b>-0.2</b>	2.3	2.7	1.5	-1.6	-0.6	-1.0	-0.9	0.1	-0.5	-0.3	-0.2	-0.2
Current Account Balance	% of GDP	<b>5.9</b>	<b>6.5</b>	<b>4.4</b>	<b>5.1</b>	<b>5.0</b>	<b>4.9</b>	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							-0.3	0.5	4.2	-4.1	3.0	-1.9	0.1	0.6	0.6	0.6	0.6	0.6
	% yoy	<b>-5.0</b>	<b>7.0</b>	<b>2.2</b>	<b>0.8</b>	<b>1.5</b>	<b>0.0</b>	1.6	19.6	4.7	3.8	1.5	1.2	6.1	0.1	3.5	1.0	-2.9	1.8
Unemployment rate <sup>2</sup>	%	<b>8.5</b>	<b>8.8</b>	<b>7.5</b>	<b>7.2</b>	<b>7.4</b>	<b>7.5</b>	7.6	7.7	7.0	7.5	7.4	7.1	7.1	7.1	7.2	7.3	7.4	7.6
CPI Inflation (harmonised) <sup>2</sup>	% yoy	<b>0.7</b>	<b>2.7</b>	<b>8.1</b>	<b>6.1</b>	<b>2.2</b>	<b>1.7</b>	4.9	7.7	9.4	10.2	9.1	6.9	5.1	3.4	2.7	2.5	1.9	1.6
CPI <sup>2</sup>	% yoy	<b>0.5</b>	<b>2.2</b>	<b>8.4</b>	<b>8.5</b>	<b>2.6</b>	<b>1.6</b>	4.7	7.4	9.7	11.6	11.4	9.8	7.8	5.4	3.9	3.1	2.0	1.5
CPIF	% yoy	<b>0.5</b>	<b>2.4</b>	<b>7.7</b>	<b>6.2</b>	<b>2.2</b>	<b>1.6</b>	4.8	7.4	8.9	9.7	8.9	6.9	5.3	3.8	2.8	2.7	1.9	1.6
Policy Rate <sup>4</sup>	%	<b>0.00</b>	<b>0.00</b>	<b>2.50</b>	<b>4.00</b>	<b>3.25</b>	<b>2.00</b>	<b>0.00</b>	<b>0.75</b>	<b>1.75</b>	<b>2.50</b>	<b>3.00</b>	<b>3.75</b>	<b>4.00</b>	<b>4.00</b>	<b>4.00</b>	<b>3.75</b>	<b>3.50</b>	<b>3.25</b>

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

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**Exhibit 55: Norway Economic forecasts**

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

		2022	2023	2024	2025	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
<b>GDP (mainland)</b>	% qoq					0.1	1.0	0.4	0.6	0.2	0.0	0.0	0.1	0.1	0.1	0.2	0.2
	% qoq ann.					0.5	4.0	1.8	2.5	0.6	0.0	0.0	0.4	0.4	0.4	0.8	0.8
	% yoy	<b>3.7</b>	<b>1.1</b>	<b>0.4</b>	<b>1.2</b>	5.3	4.8	2.7	2.2	2.2	1.2	0.8	0.3	0.2	0.3	0.5	0.6
Private Consumption	% qoq					-3.0	2.4	0.4	5.2	-5.1	0.0	0.1	0.2	0.1	0.1	0.2	0.2
	% yoy	<b>7.0</b>	<b>-0.6</b>	<b>0.5</b>	<b>1.2</b>	10.6	10.1	2.7	5.0	2.7	0.3	-0.1	-4.9	0.4	0.5	0.6	0.6
Government Consumption	% qoq					-1.9	0.4	0.2	1.2	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% yoy	<b>0.0</b>	<b>2.1</b>	<b>1.2</b>	<b>1.2</b>	1.7	0.3	-1.6	-0.1	2.3	2.2	2.3	1.4	1.2	1.2	1.2	1.2
Investment	% qoq					2.8	0.4	0.7	0.8	-0.6	0.0	0.0	0.2	0.5	0.5	0.5	0.5
	% yoy	<b>6.7</b>	<b>0.5</b>	<b>1.4</b>	<b>2.3</b>	6.9	6.9	8.0	4.8	1.3	1.0	0.2	-0.4	0.7	1.2	1.7	2.0
Final Domestic Demand <sup>1</sup>	% qoq					-1.3	1.4	0.4	3.1	-2.6	0.1	0.1	0.2	0.3	0.3	0.3	0.3
	% yoy	<b>5.0</b>	<b>0.4</b>	<b>1.0</b>	<b>0.3</b>	7.1	6.4	2.7	3.5	2.3	1.0	0.7	-2.1	0.7	0.9	1.0	1.1
Net exports <sup>1</sup>	% qoq					-0.3	-0.4	0.6	-1.0	0.5	0.0	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1
	% yoy	<b>-1.3</b>	<b>-0.2</b>	<b>-0.5</b>	<b>-0.4</b>	-1.5	-2.0	-0.4	-1.2	-0.3	0.1	-0.7	0.2	-0.5	-0.6	-0.5	-0.4
Stockbuilding <sup>1</sup>	% qoq					1.8	0.0	-0.6	-1.6	2.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% yoy	<b>0.0</b>	<b>0.9</b>	<b>-0.1</b>	<b>0.0</b>	-0.4	0.3	0.4	-0.4	0.2	0.1	0.7	2.3	-0.1	0.0	-0.1	-0.1
Current Account Balance	% of GDP	<b>30.5</b>	<b>16.5</b>	<b>8.8</b>	<b>0.0</b>	28.8	25.2	40.0	27.2	26.2	14.8	14.6	10.9	10.0	9.2	8.5	7.7
Industrial production	% qoq					1.8	1.0	2.3	-2.1	-7.6	-0.2	-1.3	0.0	0.3	0.5	0.6	0.6
	% yoy	<b>2.6</b>	<b>-8.5</b>	<b>0.4</b>	<b>2.4</b>	2.2	2.8	2.3	2.3	3.0	-6.6	-7.7	-10.9	-8.9	-1.2	-0.5	1.4
Unemployment rate <sup>2</sup>	%	<b>1.8</b>	<b>1.8</b>	<b>2.1</b>	<b>2.4</b>	2.1	1.7	1.7	1.7	1.7	1.8	1.8	1.9	2.0	2.1	2.2	2.3
CPI Inflation (harmonised) <sup>2</sup>	% yoy	<b>6.2</b>	<b>6.2</b>	<b>4.0</b>	<b>2.4</b>	3.8	6.4	7.4	7.3	7.5	7.0	5.6	5.0	5.6	4.3	3.2	3.0
CPI <sup>2</sup>	% yoy	<b>5.8</b>	<b>5.9</b>	<b>3.7</b>	<b>2.3</b>	3.8	5.8	6.7	6.6	6.6	6.5	5.4	5.0	5.2	3.9	3.0	2.8
CPI-ATE <sup>2</sup>	% yoy	<b>3.9</b>	<b>6.1</b>	<b>3.6</b>	<b>2.1</b>	1.9	3.2	4.8	5.8	6.2	6.7	5.5	6.0	5.3	3.6	3.2	2.5
Policy Rate <sup>3</sup>	%	<b>2.75</b>	<b>4.50</b>	<b>4.00</b>	<b>2.75</b>	<b>0.75</b>	<b>1.25</b>	<b>2.25</b>	<b>2.75</b>	<b>3.00</b>	<b>3.50</b>	<b>4.25</b>	<b>4.50</b>	<b>4.50</b>	<b>4.50</b>	<b>4.25</b>	<b>4.00</b>

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

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