

European Watch

Riksbank review: goodbye November

Clear turn, consistent with the economy

Riksbank stayed on hold, as widely expected. But they also kept distance from the hawkish guidance they gave markets in November. As we remarked in our preview ([European Watch: Riksbank preview: fragile path ahead 26 January 2024](#)), Sweden's macro data doesn't support a long hold at high rates – the Riksbank board is starting to acknowledge that. CPI ex-energy surprised them to the downside so far, the economy is weak, and the concerns about entrenched inflation in the medium-term look overblown. This week's communication turn was clearer than we expected, paving the way for cuts in 1H24. Even on SEK-related worries, the tone was more dovish. The announced QT acceleration was quite underwhelming too, which we take as additional evidence that the Riksbank is now more comfortable on currency dynamics.

First cut: May is live now, June still the base case

Today's communication makes the case for a May cut plausible. Especially after the indication that they could easily cut in non-forecast meetings (such as May). But we wouldn't get carried away just yet. The Riksbank's guidance can be volatile. We think the bar for them to move before the Fed and the ECB remains relatively high (and we don't see any of the two moving before June). The slowdown CPI ex-energy should comfort the board enough to start the cutting cycle in June.

SEK – dovish Riksbank, our near-term bias bearish again

The Riksbank was dovish in our view, and certainly more dovish than we were expecting. With this meeting now behind us, our tactical, near-term SEK bias is (again) bearish.

Into the Riksbank we saw several hawkish SEK risks and, to some extent we think, so did markets. In the end, SEK strengthened even more than we expected vs EUR and NOK for other reasons incl., on the domestic front, the much-improved Swedish sentiment data.

But the hawkish Riksbank risks we had “feared” did not materialise: First, in the press conference the Governor seemed open to the Riksbank moving ahead of the ECB and the Fed, and to acting at meetings without new forecasts—to us, this means May is live. Even in the monetary policy update, the Riksbank referred to the possibility of cuts in 1H rather than the summer.

Second, the additional government bond sales announced were probably not higher than the market was expecting (**continued on the following page**).

01 February 2024

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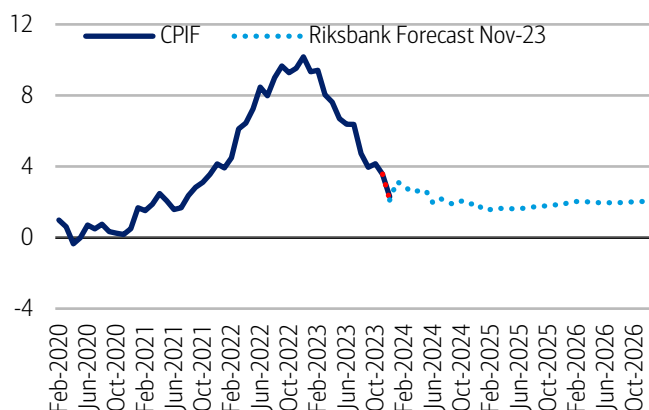
Third, the Riksbank language on FX was clearly softer. Among the hawkish risks the Riksbank highlighted, was “the krona weaken[ing] substantially once again”. To us, “substantially” means the Riksbank would be fine with modest SEK weakness.

Fourth, the Governor said the Riksbank is not planning to extend its FX hedging programme, which to us was a surprise although probably much less so to markets.

In a nutshell, it was a dovish Riksbank meeting. It added to our conviction that markets could reprice the Riksbank at least slightly lower vs. both the ECB and Norges. This is partly why we expect SEK to weaken near-term vs G4 and vs NOK. On the latter, the likely lighter NOKSEK positioning makes us more confident in our 1.01-1.02 forecast. Beyond Q1, we are constructive on SEK vs USD and EUR (but still prefer NOK to SEK).

Exhibit 1: CPIF forecast

Headline inflation was close to Riksbank projections...

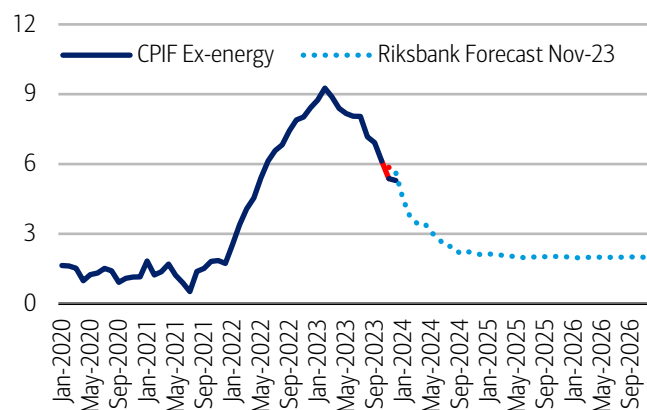


Source: Riksbank

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Exhibit 2: CPIF ex-energy forecast

...but the “core” print surprised them to the downside

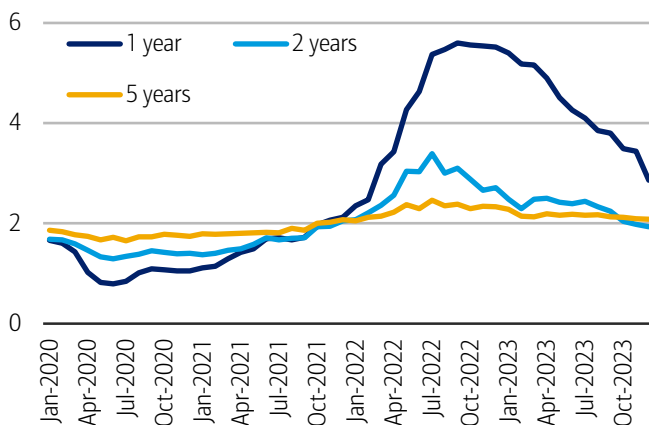


Source: Riksbank

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Exhibit 3: Prospera inflation expectations

Expectations are well-anchored, limiting the upside risks to inflation

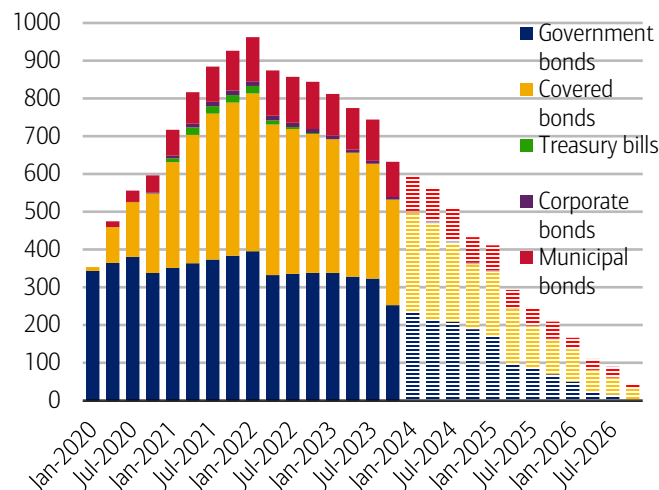


Source: Riksbank

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Exhibit 4: Balance sheet projections

Nominal amounts, SEK billion



Source: Riksbank

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