

European Viewpoint

Nordics Year Ahead 2024: stickier inflation in Norway

Sweden stays in recession, Norway avoids

We lean bearish vs. consensus on Sweden and Norway, in line with our Eurozone outlook. We expect Sweden to stay in recession in 2024 but Norway to avoid one. The Swedish consumer has already been in recession for some time, with spending down in the past five quarters (and six of the past seven). But the Norwegian consumer has shown more resilience, in line with her less severe real income squeeze. For 2024/2025 we forecast GDP growth of -0.4%/+1.1% in Sweden, and +0.5%/+1.2% in Norway.

Stickier inflation in Norway

We expect much stickier core inflation in Norway than in Sweden. This reflects their somewhat diverging growth outlooks, the more modest Swedish wage growth, and the better-behaved Swedish inflation expectations. Meanwhile, the recent currency developments add to our conviction. In Sweden, we forecast headline CPI inflation at 1.9%/1.7% in 2024/2025. We now expect CPI excl. energy to fall below 2% y/y in July. In Norway, we expect headline CPI at 3.7%/2.8% in 2024/2025, and underlying inflation 3.7%/2.2%. We expect both headline and underlying inflation above 3% y/y through end-2024. Our inflation forecasts lie below those of the Riksbank and Norges Bank.

Riksbank to cut earlier and more

We think the Riksbank is done with hikes. We expect three 25bp rate cuts in 2024 and another five in 2025, leaving the policy rate at 3.25% and 2.00% at end-2024 and 2025, respectively. Our YE 24 Riksbank forecast is above what markets currently price, but our YE 25 forecast is slightly below. We see somewhat downside risks to our Riksbank path. We continue to expect Norges Bank to deliver one last hike next week, but this is a close call. Further ahead, we continue to forecast two 25bp rate cuts in 2024 and five in 2025, leaving rates at 4.00% at end-2024 and 2.75% at end-2025, with balanced risks.

FX: Constructive FX in '24, cautious SEK in Q1

We are constructive on NOK and SEK in 2024 although we are cautious on SEK in Q1. In our base case, the USD softens—as the US recouples with the rest of the world and the Fed starts cutting rates—risk sentiment remains positive, and oil prices are supported. We expect mild recession in Sweden, but it may take a few more months to definitively rule out “harder landing” risks—hence, our caution in Q1. Meanwhile, Norway will likely prove more resilient, which is partly why we maintain a bullish NOKSEK bias.

08 December 2023

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GDP: Sweden recession, Norway avoids

Sweden is already in technical recession, with GDP falling 0.3% q/q in 3Q (Exhibit 1), below consensus and the Riksbank's forecasts but just above what we were expecting back in September. Weakness was driven by inventories and—once again—domestic demand (consumer spending, housing investment) despite the (persistently) strong net exports. Consumer spending has fallen in the past five quarters—and six of the last seven—as squeezed real incomes and rate hikes bite. Investment has also been weak. These are in line with lead indicators suggesting mild recession (Exhibit 5, Exhibit 7).

While we adjusted our 2023 slightly higher (-0.3%), we remain below consensus for 2024, expecting -0.4%. We see this mainly driven by falling consumer spending. Those falls should start moderating in 4Q 2023 as real wage growth improves and with rates likely at their peak. We look for the economy to start growing again in 2H 24, and expect still 1.1% growth in 2025, which is below consensus and the Riksbank but in line with our relatively bearish view on the Euro area (see Global Economics Year Ahead 2024).

In Norway, too, growth has been slightly slower than Norges Bank expected (Exhibit 2). While Norway has been holding up better vs Sweden, it is a statistical error away from recession, too. Norges' Regional Network Survey, however, now suggests mild recession ahead (Exhibit 6), which could also depend on the energy prices' outlook (Exhibit 4).

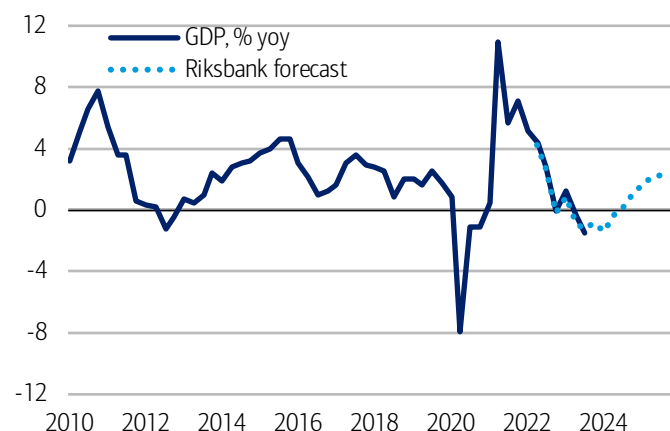
Housing markets is an area the two countries diverged meaningfully until Q2 (Exhibit 8, Exhibit 9). But Norwegian construction softened meaningfully in Q3, and the Regional Network Survey points to some more weakness ahead.

Still, with a less severe real income squeeze, Norwegian growth will likely continue to hold up better and the consumer to avoid recession, while the (comparably) rate-sensitive Swedish consumer (Exhibit 10) will not: in Norway, we expect final domestic demand to grow 0.2% in 2023 and 1.0% in 2024, but in Sweden to fall 0.8% this year and grow by a modest 0.2% in 2024.

We left our Norway growth forecasts unchanged at 1.1% for 2023, raised 2024 10bp to 0.5% for 2024 and left 2025 at 1.2%. These remain, however, slightly below consensus, and—we think—consistent with surveys pointing toward near-stagnation.

Exhibit 1: Weaker growth than Riksbank expects, mild recession ahead

Riksbank GDP forecast



Source: BofA Global Research, Statistics Sweden, Riksbank

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Exhibit 2: Norway growth slightly softer than expected but holding up

Norges GDP forecast

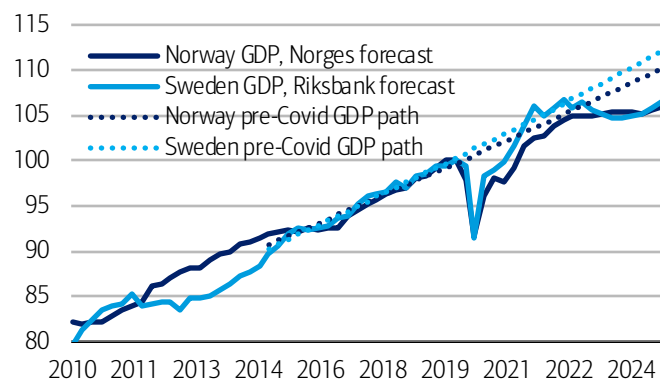


Source: BofA Global Research, Statistics Norway, Norges Bank

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Exhibit 3: Both Riksbank and Norges expect permanent GDP losses

Riksbank and Norges GDP forecasts, 4Q 2019 = 100

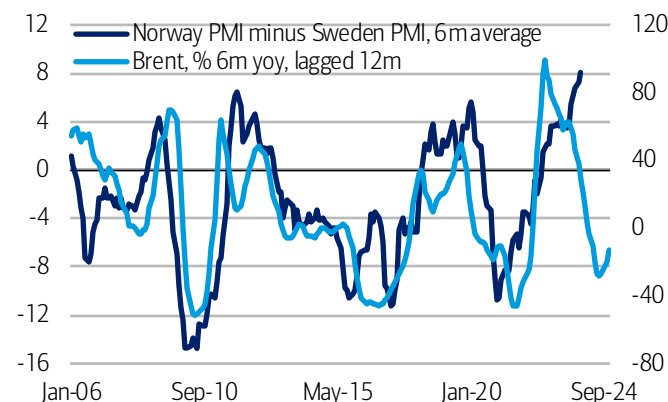


Source: BofA Global Research, Statistics Sweden, Statistics Norway, Riksbank (Monetary Policy Report November 23), Norges Bank (Monetary Policy Report 3/23)

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Exhibit 4: Energy prices remain key for Norwegian growth

Norway vs. Sweden PMI and Brent

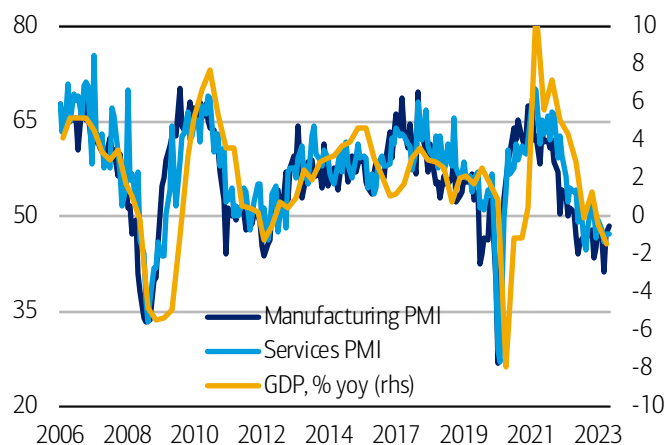


Source: BofA Global Research, Bloomberg, Swedbank, Statistics Norway

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Exhibit 5: PMIs in line with mild recession

Sweden PMI and GDP

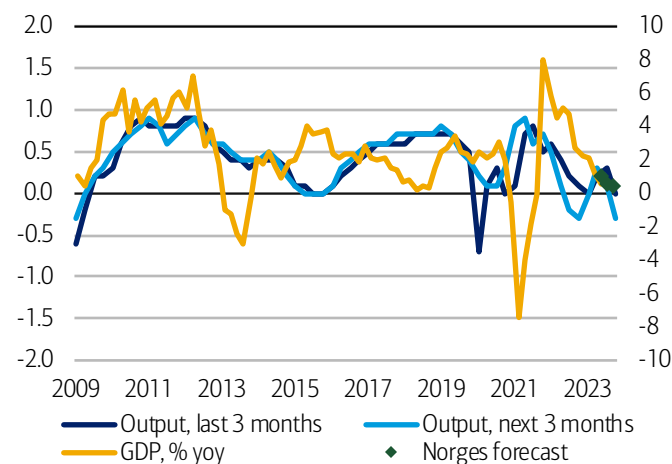


Source: BofA Global Research, Statistics Sweden, Swedbank

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Exhibit 6: Norges business survey now suggests mild recession

Norges Bank Regional Network Survey and GDP

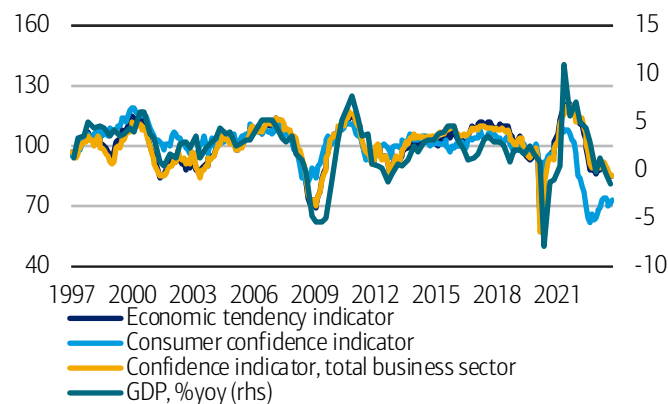


Source: BofA Global Research, Statistics Norway, Norges Bank.

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Exhibit 7: Swedish consumer & business confidence very weak

Sweden economic confidence and GDP

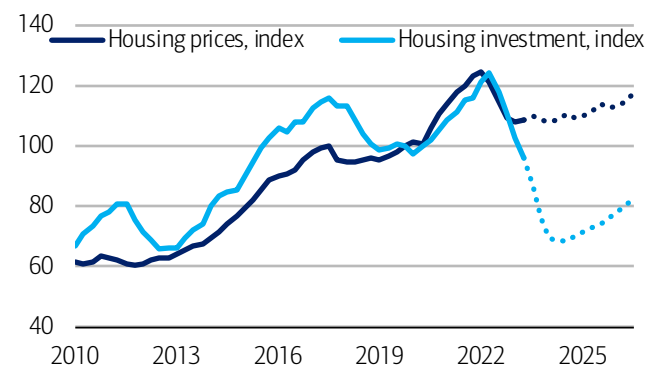


Source: BofA Global Research, National Institute of Economic Research, Statistics Sweden

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Exhibit 8: Housing prices investment likely to fall sharply

Sweden house prices and investment, 2019Q4=100

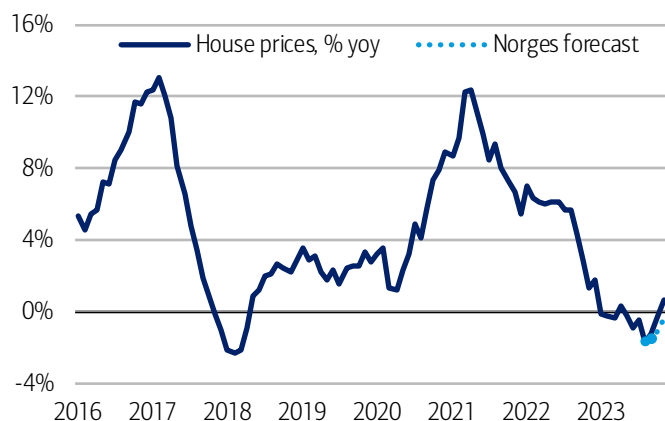


Source: Valueguard and Riksbank (Monetary Policy Report November 2023). Dotted lines show Riksbank forecasts

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Exhibit 9: House prices slightly stronger than Norges expected

House prices, Norway, % four-quarter change

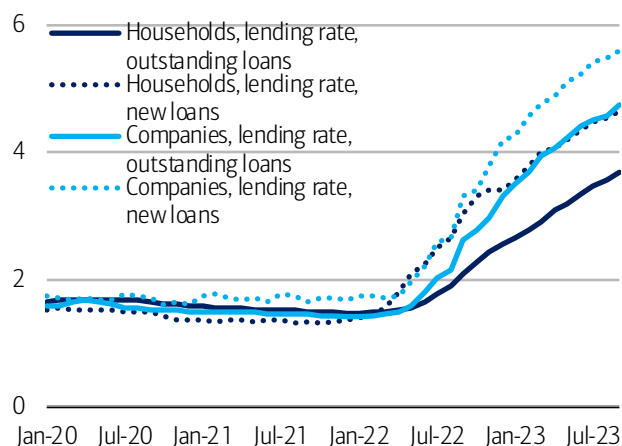


Source: Eiendomsverdi, Finn.no, Real Estate Norway, Norges Bank. Dotted lines show Norges Bank forecasts

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Exhibit 10: Even fast passthrough to stock of NFC loans

Sweden lending rates for households and NFCs, percent



Source: Statistics Sweden, Riksbank (Monetary Policy Report, November 23)

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Labour market: softening from tight levels

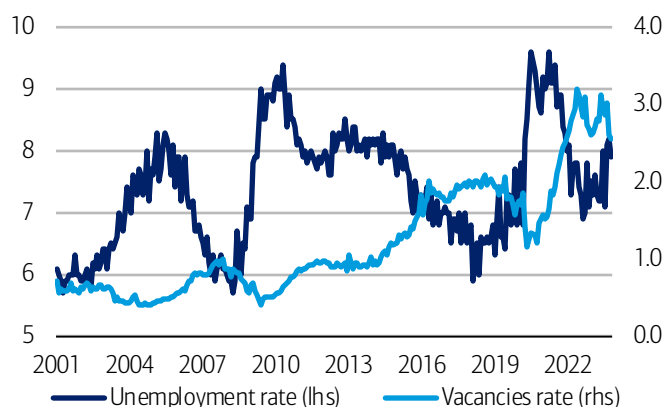
We had been expecting unemployment to creep up in both Norway and Sweden as growth slowed. In Norway, registered unemployment remains very low: at 1.9% as in November from a low of 1.6% in Jul-22, it is 10bp lower than Norges expected (Exhibit 12). But the latest Regional Network Survey points shows labour market constraints are now below their historical average, which suggest more softness lies ahead (Exhibit 14).

In Sweden, the labour market data has lately shown more signs of softness, with unemployment gradually rising and job vacancies falling slightly faster than in Norway (Exhibit 11). Labour supply constraints also seem to be easing (Exhibit 13).

But the Swedish labour market remains tight, which seems puzzling given the weak growth. We think its resilience partly reflects the relatively modest Swedish wage growth, in nominal and even more in real terms, as well as the resilience of the Swedish manufacturing/export sector (Exhibit 15, Exhibit 16).

Exhibit 11: Swedish labour market now easing from tight levels

Sweden unemployment rate and vacancies

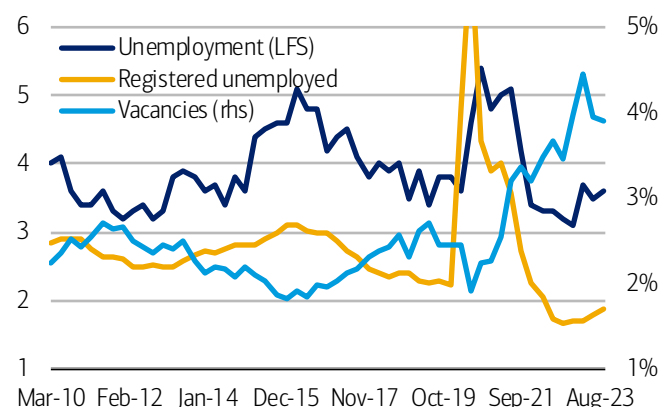


Source: BofA Global Research, Statistics Sweden

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Exhibit 12: Signs Norwegian labour market turning but remains tight

Norway unemployment and vacancy rate

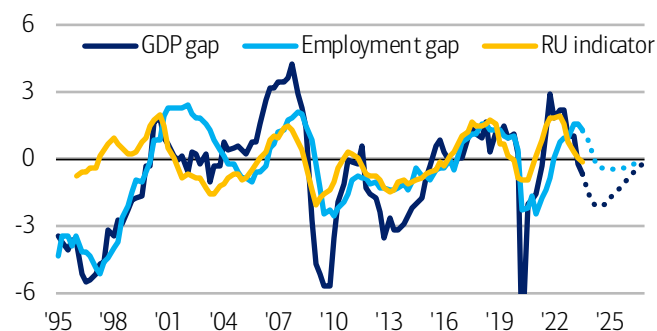


Source: BofA Global Research, Statistics Norway

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Exhibit 13: Riksbank expects capacity constraints to keep easing

Riksbank capacity constraints forecast

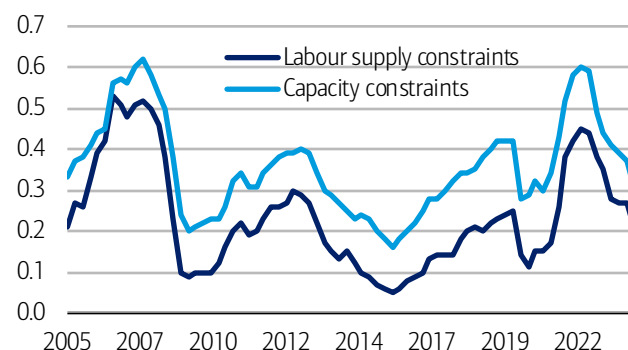


Source: Statistics Sweden and the Riksbank (Monetary Policy Report, November 2023). Dotted lines show Riksbank forecasts. The RU indicator is a Riksbank measure of resource utilization; normalised so that the mean value is 0 and the standard deviation is 1 since Q1-96.

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Exhibit 14: Labour supply and capacity constraints now below their historical average

Norges Bank Regional Network Survey

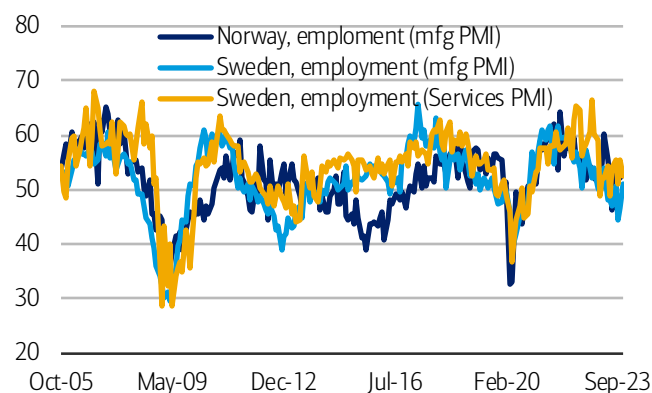


Source: Norges Bank

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Exhibit 15: Job growth oscillating around zero

PMI employment

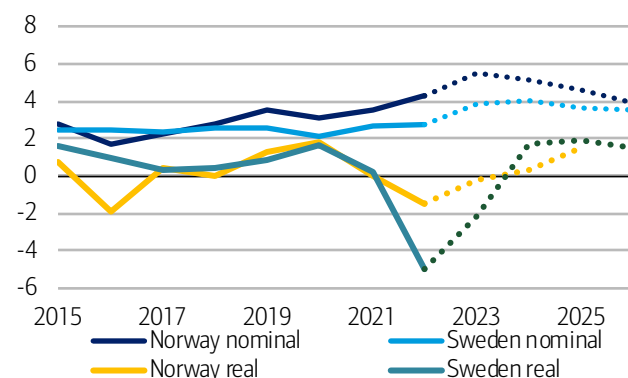


Source: Swedbank, DNB

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Exhibit 16: Real wages sharply lower in Sweden

Nominal and real wage growth, percent



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

Core inflation continues to prove persistent but is no longer surprising Norges or Riksbank majorly on the upside. Our rate calls below are more about relative growth resilience than about relative inflation surprises now.

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 in June. This boosted Sweden's national core inflation measure well above Norway's earlier in the year and has recently led to Norway's measure falling slower than in Sweden.

We prefer to look at inflation excluding energy and food for judging core pressures. Here we see a similar picture so far in both countries, with core having likely peaked at 7-8% in both countries (Exhibit 17). We expect core to slow in both countries as global goods pressure continues easing and as services inflation slows back towards wage growth (Exhibit 18, Exhibit 19).

But we expect inflation to show more persistence in Norway than Sweden (Exhibit 25-Exhibit 28), which is in line with the two central banks' own forecasts (Exhibit 29)—after all, developments point to more “pain” ahead in Sweden than in Norway, as we already noted (Exhibit 30). Relatedly, the two-year Swedish wage deal provides more protection than Norway's one-year deal (Exhibit 20). Meanwhile, inflation expectations seem better

anchored in Sweden than in Norway (Exhibit 21, Exhibit 22), while the recent currency developments also add to our conviction (Exhibit 23, Exhibit 24).

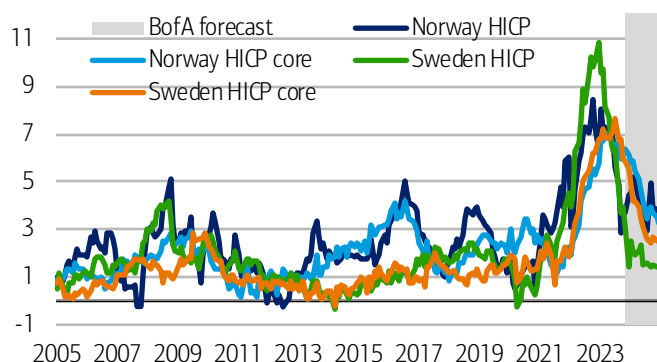
We tweak our inflation forecasts for recent data:

- For Sweden we expect headline CPI inflation at 1.9%/1.7% in 2024/2025. We now expect CPIF excl. energy to fall below 2% y/y in July (see Exhibit 47, Exhibit 49).
- For Norway we expect headline CPI at 3.7%/2.8% in 2024/2025, and underlying inflation ("CPI-ATE") at 3.7%/2.2%. We expect both headline and underlying inflation above 3% y/y through end-2024 (see Exhibit 48, Exhibit 50).

Our inflation forecasts lie below those of the Riksbank and Norges Bank (Exhibit 25-Exhibit 28) but are in line with our more bearish growth outlook for the two economies and our relatively bearish Euro area growth and inflation outlook.

Exhibit 17: Sweden saw larger inflation spike, driven by food and goods, core proving persistent

BofA Norway and Sweden CPI inflation

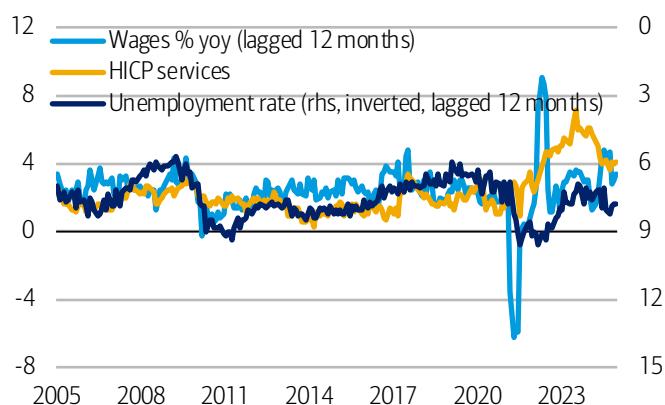


Source: BofA Global Research, Eurostat

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Exhibit 18: Swedish services inflation now more aligned with wages

Sweden wages and services inflation, BofA forecast

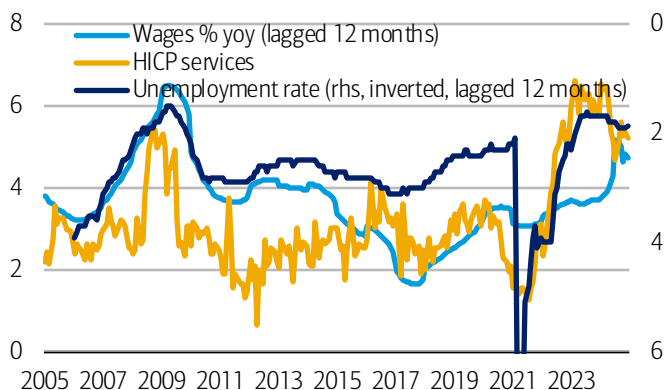


Source: BofA Global Research, Statistics Sweden

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Exhibit 19: Norwegian services inflation running still above wages

Norway wages and services inflation, BofA forecast

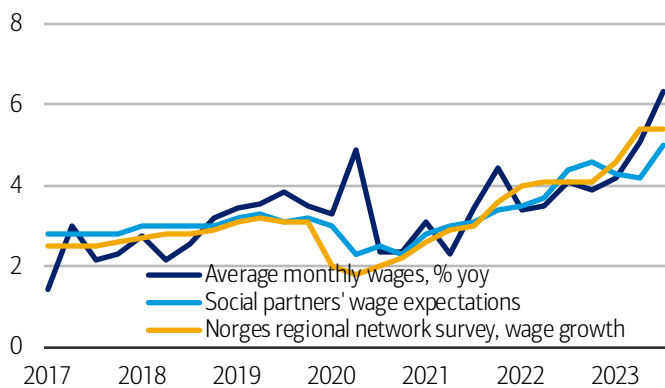


Source: BofA Global Research, Statistics Norway

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Exhibit 20: Norwegian wage growth strong

Wage growth, Norges regional survey and social partners

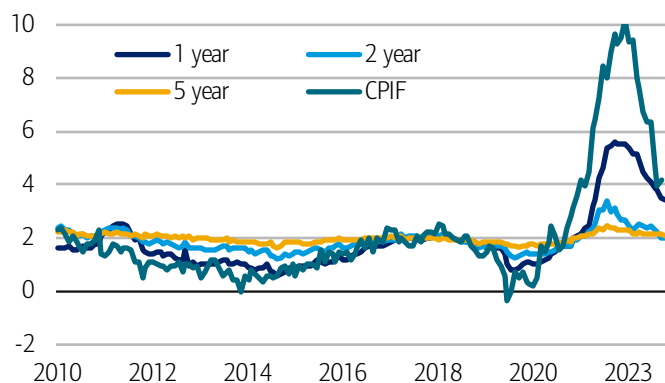


Source: Norges Bank, Statistics Norway

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Exhibit 21: Swedish inflation expectations anchored...

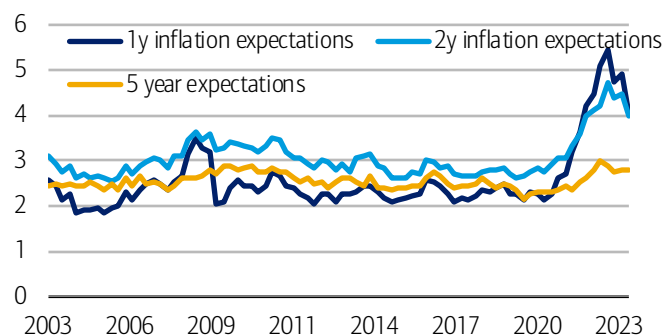
Sweden CPIF annual inflation expectations and y/y CPIF, percent



Source: Prospera, Statistics Sweden. Note: We use the monthly survey data ("Small Prospera").
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Exhibit 22: ...but Norwegian inflation expectations more of a concern

Norges Bank CPI inflation expectations survey (percent)

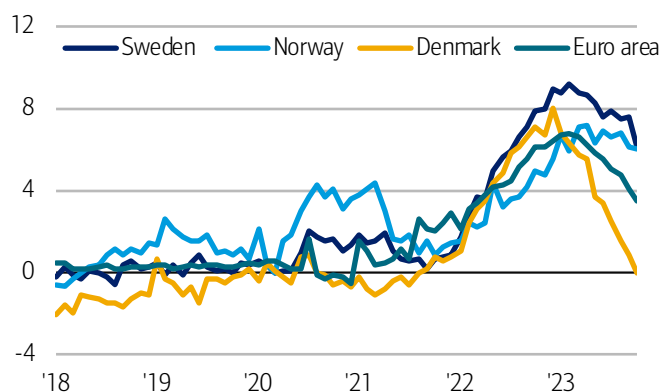


Source: Norges Bank. 1y and 2y expectations are the average of economists', households', firms' and social partners' expectations. 5y expectations are the average of economists' and social partners' expectations.

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Exhibit 23: FX likely contributing to higher goods inflation in Norway and Sweden

Goods prices excl. food, %y/y

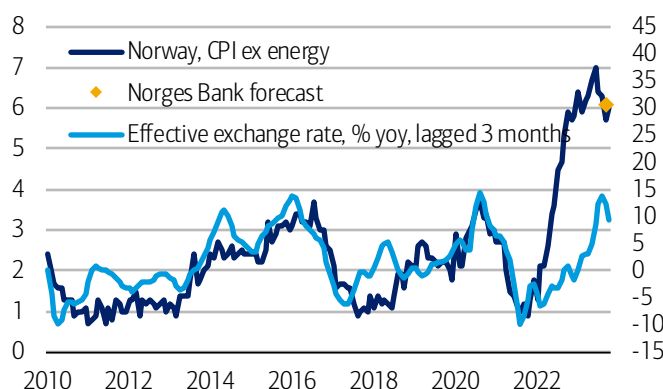


Source: Eurostat via Riksbank (Monetary Policy Report November 2023)

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Exhibit 24: Weaker NOK could contribute to inflation persistence

Norway inflation and Norges forecast (percent)

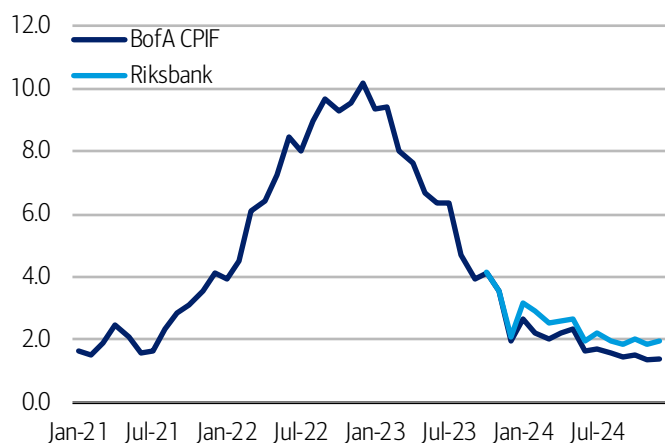


Source: BofA Global Research, Statistics Norway, Norges Bank. Note: We use Norges Bank projections for both CPI ex energy and the effective exchange rate

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Exhibit 25: Headline Inflation dropping sharply as energy eases

Riksbank and BofA core inflation forecast (percent)

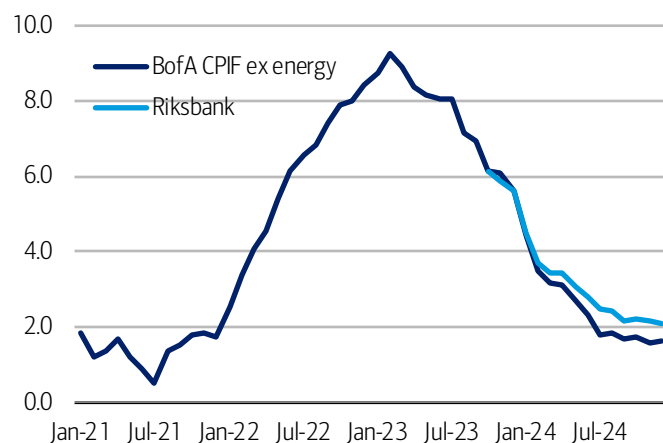


Source: BofA Global Research, Riksbank

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Exhibit 26: We expect CPIF ex energy below 2% y/y in July

Riksbank and BofA inflation forecast (percent)

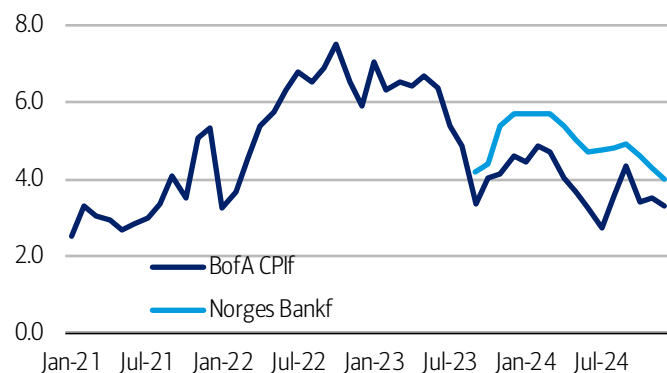


Source: BofA Global Research, Riksbank

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Exhibit 27: Headline inflation to undershoot Norges but be persistent...

BofA and Norges Bank inflation forecasts

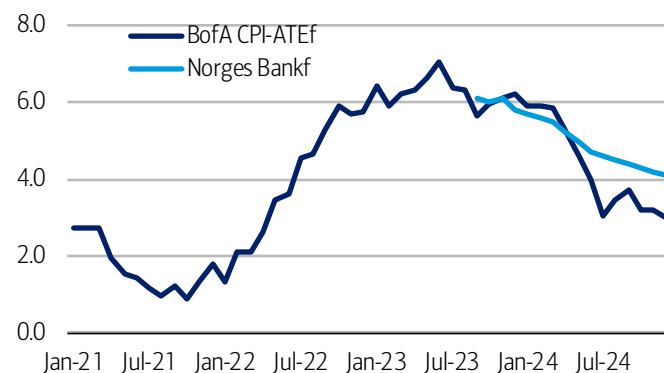


Source: BofA Global Research, Norges Bank, Statistics Norway

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Exhibit 28: ...and core to be stickier

BofA and Norges Bank inflation forecasts

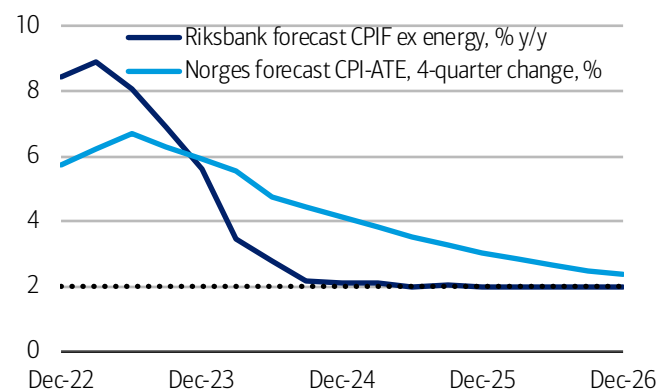


Source: BofA Global Research, Norges Bank, Statistics Norway

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Exhibit 29: Riksbank expects inflation to return to target faster

Riksbank vs Norges inflation forecasts

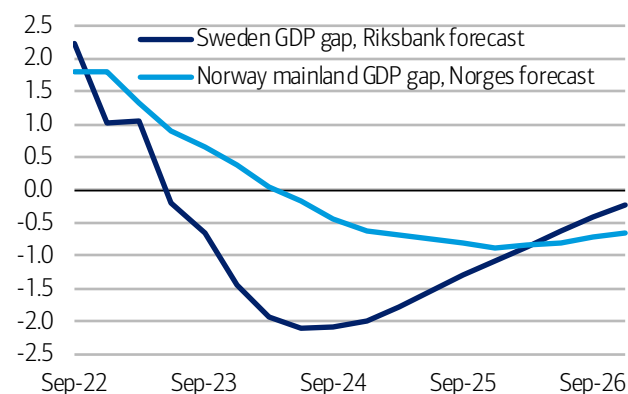


Source: Statistics Sweden, Riksbank (Nov 23), Statistics Norway Norges Bank (Sep 23)

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Exhibit 30: ...due to a more negative output gap

Riksbank and Norges Bank output gap forecasts

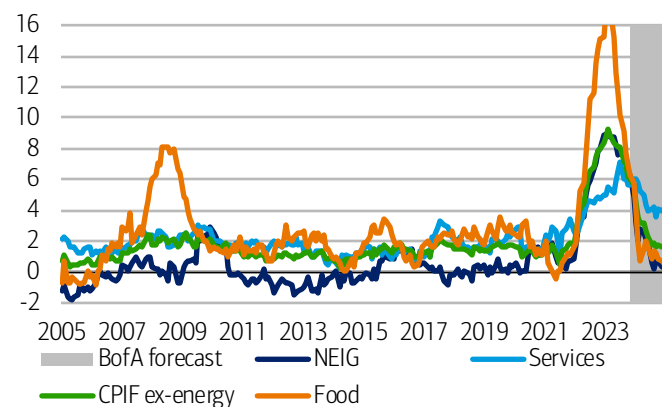


Source: Statistics Sweden, Riksbank (Nov 23), Statistics Norway Norges Bank (Sep 23)

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

Sweden HICP components and BofA forecast

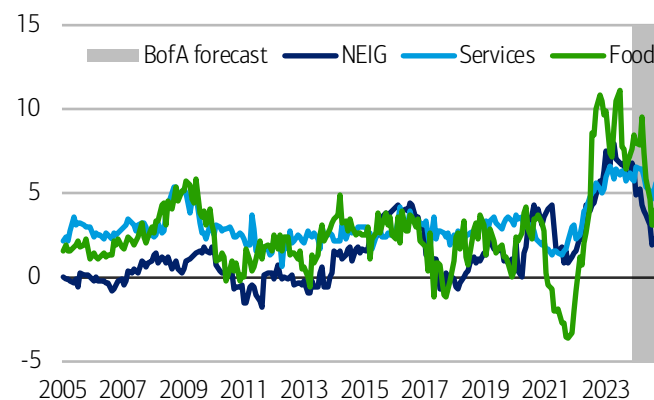


Source: BofA Global Research, Statistics Sweden

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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: Riksbank to cut more

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 (Exhibit 27). Norges meanwhile, in our view, contends with a more resilient economy. We expect a higher terminal rate in Norway for the latter reason, but earlier and more rate cuts in Sweden for the former reason. Norway seems to us closer to higher for longer than the Riksbank.

This is not how the two central banks view the outlook. The Riksbank projects a slightly lower terminal than Norges but holding theirs for longer (Exhibit 36). Why is that? The Riksbank seems to view its inflation problem as more entrenched than we do, and more entrenched than Norges sees its inflation challenge despite a stronger economy. The Riksbank also seems much more focused on avoiding currency weakness. Our proprietary mood indicators do indeed show a more hawkish Riksbank (Exhibit 33, Exhibit 34).

On balance Norges hikes next week. Expect a flatter rate path vs markets

Next week, on balance we continue to expect Norges Bank to deliver one last hike. We think currency weakness will weigh slightly more on their decision than the somewhat weaker activity data and the soft Regional Network Survey. But it is a close call and, no doubt, the November core CPI print will be key—we expect it in line with Norges. But we are confident Norges will project next week a flatter path than markets currently price.

Looking further ahead, we continue to forecast two 25bp rate cuts in 2024 and five in 2025, leaving rates at 4.00% at end-2024 and 2.75% at end-2025, with balanced risks. We think persistent core inflation amid a relatively resilient economy will keep Norges cautious.

Riksbank to cut much more than it projects

We think the Riksbank is done with hikes. We expect three 25bp rate cuts in 2024 and another five in 2025, leaving the policy rate at 3.25% and 2.00% at end-2024 and 2025 respectively. Our YE 24 Riksbank forecast is above what markets currently price, but our YE 25 forecast is slightly below. We see somewhat downside risks to our Riksbank path.

This is because we think growth will be slower than the Riksbank expects, while even the Riksbank's stance on FX will likely turn more neutral as core CPIF gets closer to target.

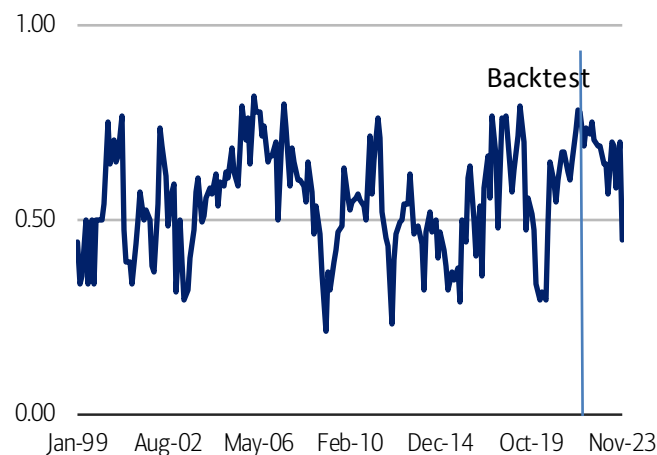
What prevents us from forecasting earlier cuts is what the Riksbank noted in the April Monetary Policy Report (and has argued along these lines since): "[T]he underlying inflation rate is expected to fall rapidly, but policy rate cuts will not begin until it has been close to the target for a while." In similar vein, near term we expect the Riksbank to continue trying to avoid fresh currency weakness and likely projecting a flatter path than currently priced—of course, what the ECB does remains key.

We expect the ECB to start cutting in June, so we expect the Riksbank to also start later that month. But our Euro area colleagues flag risks of an earlier ECB cut, which suggests risks the Riksbank could also start a little earlier (May), or to perhaps cut rates by more than in our base case in 2H.

Bottom line - we continue to think the Riksbank will need to cut rapidly from the peak, whereas Norges will likely be more cautious.

Exhibit 33: Norges mood indicator fell to dovish territory in Nov

BofA Norges Bank mood indicator (Back-tested)

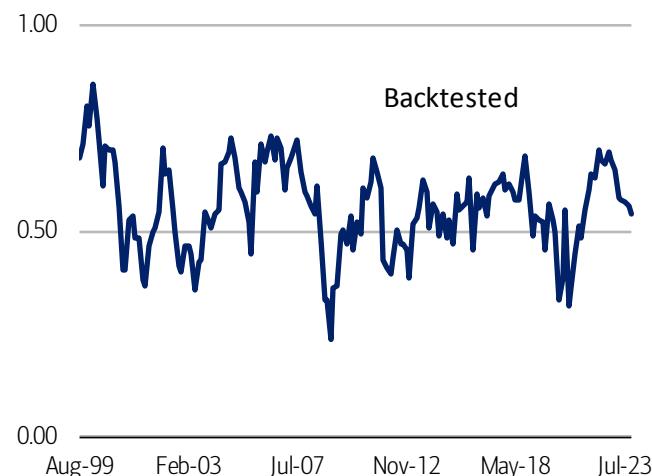


Source: BofA Global Research, Norges Bank. NORBI is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in monetary policy assessments. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as NORBI is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This economic indicator was not created to act as a benchmark. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. For more details, please see [European Viewpoint: Assessing Norges Bank's hawkishness](#)

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Exhibit 34: Riksheard suggests hikes likely over but still hawkish

BofA Riksbank mood indicator (Back-tested)



Source: BofA Global Research. Note: Riksheard is scaled from 0 to 1, and reflects the proportion of 'hawkish' sentences in each publication. A score of 0.5, for instance, means half of the sentences were hawkish. The indicator identified as Riksheard is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This economic indicator was not created to act as a benchmark. This performance is back-tested and does not represent the actual performance of any account or fund. Back-tested performance depicts the theoretical (not actual) performance of a particular strategy over the time period indicated. No representation is being made that any actual portfolio is likely to have achieved returns similar to those shown herein. For more details, please see [European Viewpoint: Riksheard: doves without a tool](#).

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Exhibit 35: Riksbank roughly symmetric to the ECB but Norges to cut less

BofA ECB, Riksbank, Norges Bank forecasts (percent, end-quarter forecasts)

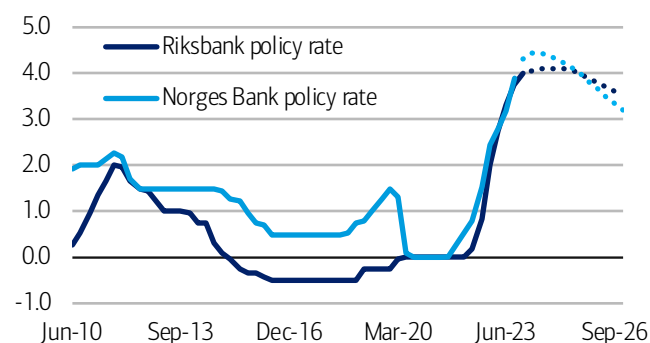
	Q4-23	Q1-24	Q2-24	Q3-24	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
ECB	4.00	4.00	3.75	3.50	3.25	2.75	2.25	2.00	2.00
Riksbank	4.00	4.00	3.75	3.50	3.25	3.00	2.50	2.25	2.00
Norges Bank	4.50	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75

Source: BofA Global Research

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Exhibit 36: Riksbank projects a flatter path

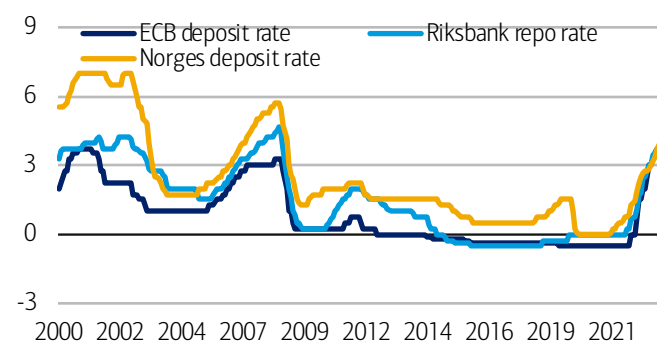
Central bank policy rate expectations

**Source:** Riksbank (November 2023), Norges Bank (September 2023)

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Exhibit 37: Riksbank will likely focus more on the ECB than Norges will

ECB, Riksbank and Norges policy rates

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

BofA GLOBAL RESEARCH

FX: Constructive FX in '24, cautious SEK in Q1

We are constructive on NOK and SEK in 2024 although we are cautious on SEK in Q1. In our base case, the USD softens—as the US recouples with the rest of the world and the Fed starts cutting rates—risk sentiment remains positive, and oil prices are supported. We expect mild recession in Sweden, but it may take a few more months to definitively rule out “harder landing” risks—hence, our caution in Q1. Meanwhile, Norway will likely prove more resilient, which is partly why we maintain a bullish NOKSEK bias.

Exhibit 38: We see EUR/Scandies lower by YE 2024 but we remain cautious on SEK until end-Q1

NOK and SEK forecasts

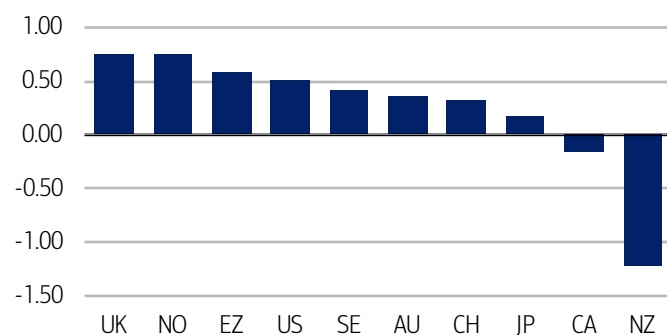
	Spot	YE 2023	Mar-24	Jun-24	Sep-24	YE 2024	Mar-25	Jun-25	Sep-25	YE 2025
EUR/NOK	11.74	11.70	11.60	11.30	11.00	10.90	10.90	10.80	10.70	10.60
USD/NOK	10.88	11.14	10.84	10.27	9.57	9.48	9.40	9.23	9.07	8.83
EUR/SEK	11.23	11.50	11.70	11.40	11.20	11.10	11.10	11.00	10.90	10.80
USD/SEK	10.40	10.95	10.93	10.36	9.74	9.65	9.57	9.40	9.24	9.00
NOK/SEK	0.96	0.98	1.01	1.01	1.02	1.02	1.02	1.02	1.02	1.02
EUR/USD	1.08	1.05	1.07	1.10	1.15	1.15	1.16	1.17	1.18	1.20

Source: BofA Global Research. Spot and forecasts as of 7 Dec 2023.

BofA GLOBAL RESEARCH

Exhibit 39: In our base case Norges and Riksbank cut less in '24 than priced...

BofA vs market pricing by YE 2024

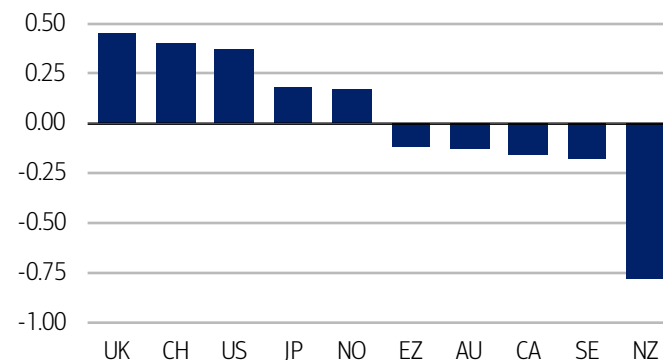


Source: BofA Securities, Bloomberg. Data as of Dec 7.

BofA GLOBAL RESEARCH

Exhibit 40: ...but we expect around one more Riksbank cut by end-25

BofA vs market pricing by YE 2025

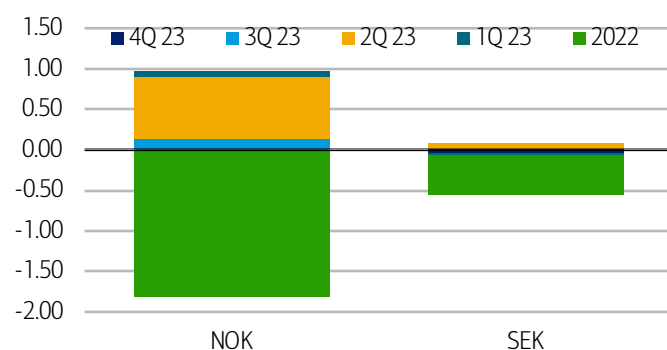


Source: BofA Securities, Bloomberg. Data as of Dec 7.

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Exhibit 41: Monetary policy positive for NOK in 2023, neutral for SEK

2-year EUR/Scandies swap spreads, percent

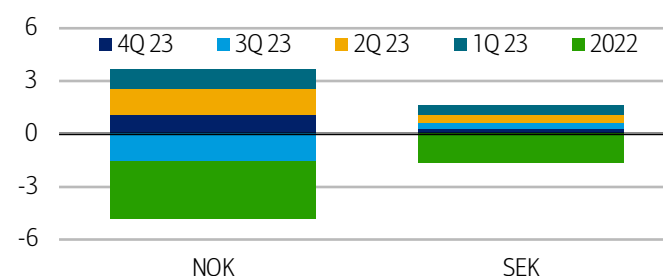


Source: BofA Global Research, Bloomberg. Data as of Dec 1

BofA GLOBAL RESEARCH

Exhibit 42: Vol has likely weighed on NOK this year

NOK and SEK implied volatility spreads



Source: BofA Global Research, Bloomberg. Data as of Dec 1. We define the idiosyncratic NOK (SEK) implied volatility spread as that between the equally weighted average of the 3-mth EUR/NOK and USD/NOK (EUR/SEK and USD/SEK) implied volatilities and the equally-weighted average of the 3-mth EUR/USD, USD/JPY, EUR/JPY and EUR/CHF implied volatilities.

BofA GLOBAL RESEARCH

NOK: weakness seems overdone

2023 was a bad year for NOK and, for its most part, our forecasts. 2024, we believe, will be better given our (1) bearish view on USD (see our G10 FX YA); (2) constructive view on oil (see our Energy YA); (3) hawkish Norges view vs markets (Exhibit 39, Exhibit 40). Lower NOK sales by Norges could also support NOK.

Looking back: NOK weakness in 2023 overdone

We think NOK's weakness in 2023 is overdone. Oil moved below its YE22 level in the past days, but we would have expected its demand-supply mix to be largely neutral for NOK. Norges was slightly dovish in November but more hawkish overall in 2023, so we would have expected a small positive impact (Exhibit 41). The USD is also flat year-to-date. However, NOK's vol spread rose throughout this year ex 3Q (Exhibit 42) and natural gas prices are meaningfully lower. Even in hindsight, we would have expected no more than modest NOK weakness, yet NOK has weakened around 10% in trade-weighted terms this year (Exhibit 43).

Looking ahead: softer USD, higher oil, peak China pessimism, hawkish Norges

In 2024 we expect NOK to recover some of its lost ground. First, we expect a weaker USD in our base case (EURUSD at 1.15 by year-end), counting on a soft US landing and an easing Fed. Second, our commodities team expects Brent to average 90\$/bbl in 2024. Relatedly, China bearishness seems overdone to us. Third, we expect Norges to cut its policy rate twice next year (after concluding its hiking cycle next week), i.e., likely cut rates less than most G10 central banks (again Exhibit 39, Exhibit 40). Last, we expect Norges Bank to lower its NOK sales in 2024, which markets will likely see favourably.

Forecasts: EURNOK at 10.90 by end-2024, USDNOK 9.48, NOKSEK 1.02

We recently revised up our EURNOK profile: we expect EURNOK at 10.90 and USDNOK at 9.48 by end-2024. We revised NOKSEK down but still expect it higher (1.02) in 2024.

Risks: Fed, risk sentiment, energy supply, China

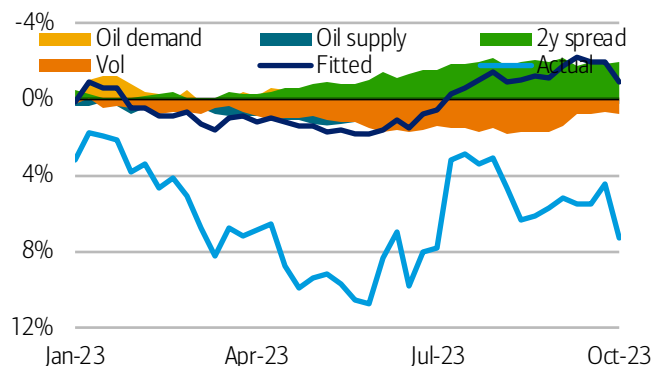
Our main risk scenarios involve a less soft (or even stronger) USD vs our base case and weaker risk sentiment—these scenarios pose downside risks to NOK. But NOK could perform well in the crosses if market bearishness is driven by an energy price shock. Nearer-term, positioning still suggests mostly downside risks for NOK (Exhibit 44).

On balance upside NOK risks into Norges' December meeting

With the market pricing a small chance of a hike next week, our base case suggests upside risks for NOK. But it is a close call. In case, however, Norges holds, we would expect NOK to weaken—also given the long NOK positioning—even if Norges Bank projected a flatter rate path vs. markets.

Exhibit 43: NOK 10% weaker than its recent history would suggest

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

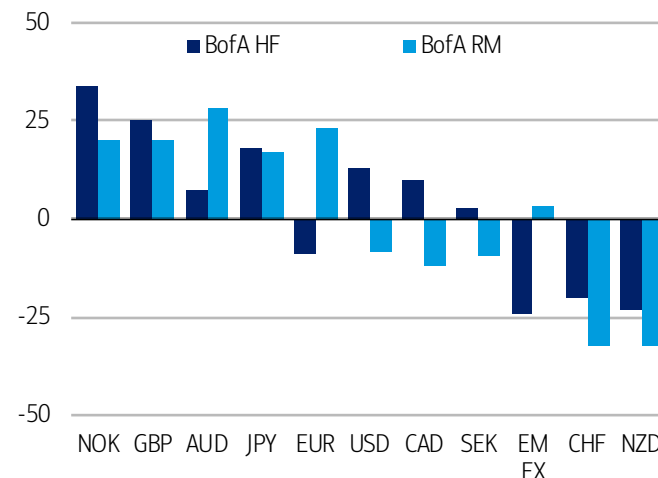


Source: BofA Global Research, Bloomberg, Federal Reserve Bank of New York, Oil Price Dynamics Report, https://www.newyorkfed.org/research/policy/oil_price_dynamics_report.html. Lower values of the import-weighted krone index (NOK I-44) show a stronger NOK. Weekly data through Nov 3. Regression estimates are for Jan 18- Sep 22. We regress changes in (log) NOK I-44 (Norway's import-weighted krone index) on: demand- 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: Our own FX flows suggest market long NOK, neutral SEK

Latest BofA investor FX positioning



Source: BofA Securities. +50 (-50) represents a max long (short) positioning relative to history. Data as of Dec 1.

BofA GLOBAL RESEARCH

SEK: cautious in Q1, constructive later

2022 & 2023 were bad years for SEK. In our base case, 2024 proves better, counting on a softer USD and lower Swedish hard landing risks. But near-term risks remain bearish.

Looking back: “rolling” SEK bearishness. Impressive comeback in Q4

We have been rolling over our SEK bearishness for many months despite finding it much undervalued from a long-term perspective: amid persistently high inflation in a rate-sensitive economy, we saw tricky options for the Riksbank and risks of a less mild landing, a view we think markets largely shared for most of the year until end-Q3.

So far in Q4 SEK has staged a remarkable comeback (Exhibit 45): initially, amid hawkish Riksbank talk and the Riksbank's FX hedging operation (coupled with hopes of local asset managers following suit) and, afterwards, on the back of the softer USD. Interestingly, EURSEK has been recoupling fast with EURUSD (Exhibit 46), while SEK positioning turned largely neutral from short earlier in 2023 (Exhibit 44 again).

Looking ahead: cautious in Q1 but constructive later

Are we out of the woods? We are hopeful, but we still lack visibility. Ex energy inflation remains high and the impact of the Riksbank's hikes is yet to be fully felt. Our base case—given Sweden's rate sensitivity—assumes mild recession in 2024 and core inflation below target in Jul-24, with the Riksbank cutting rates three times next year, starting around the same time as the ECB and in broadly symmetric fashion.

Although markets are front-loading rate cuts vs our baseline for both the ECB and the Riksbank, we expect the ECB-Riksbank differential to eventually push EURSEK a little higher (Exhibit 39, Exhibit 40). SEK could also come under some pressure in case the Fed starts cutting later or slower than markets expect. Meanwhile, we remain more bearish on the Swedish economy than consensus and, with core inflation below target perhaps by July, we suspect the Riksbank will turn more neutral on SEK over the course of 1H.

From Q2 we expect SEK to make more sustained gains, which reflects our base case of (1) USD softness amid favourable risk sentiment and (2) mild recession in Sweden (no “hard landing”).

Bottom line – we forecast SEK to be stronger in a year from now but expect some retracement of its recent move in Q1.

Forecasts: EURSEK slightly up

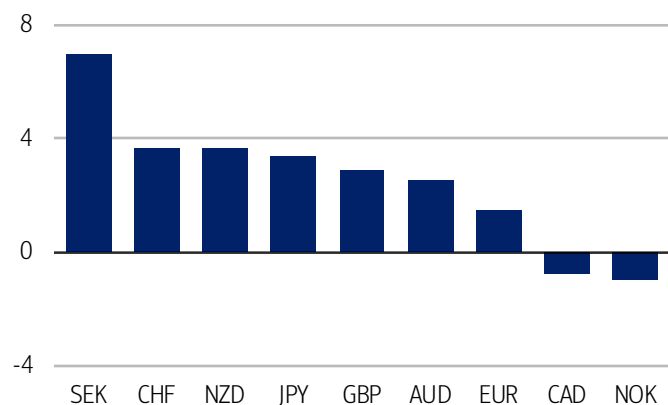
We recently revised our EURSEK profile slightly higher: we expect EURSEK at 11.10 and USDSEK at 9.65 by end-24. We revised NOKSEK down but still expect it higher (1.02).

Risks: Fed/risk sentiment, Swedish property markets

Our main risk scenarios involve a less soft (or even stronger) USD vs our base case and softer risk sentiment—these scenarios pose downside risks to SEK. We can also easily envisage “harder landing” scenarios for Sweden if Swedish inflation proves stickier than we expect and/or the Riksbank stays high for longer than we expect.

Exhibit 45: SEK has staged a remarkable rebound in Q4 unlike NOK

G10 FX vs USD since Sep 22, 2023 (percent)



Source: Bloomberg, BofA Global Research. Data as of Dec 7.

BofA GLOBAL RESEARCH

Exhibit 46: EURSEK recoupling with EURUSD in Q4

EURSEK vs EURUSD



Source: Bloomberg, BofA Global Research. Data as of Dec 1.

BofA GLOBAL RESEARCH

Annex: economic forecasts

Exhibit 47: BofA Sweden inflation

Updated forecasts

	HICP					CPI				
	NEIG	Unprocessed Energy 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	7.85	-13.66	10.03	10.18	10.12	7.13	6.35	7.65	9.26	6.37
Aug-23	7.46	-21.00	8.77	9.20	9.10	5.99	4.53	6.75	7.45	4.73
Sep-23	7.54	-25.83	9.71	7.34	7.73	6.10	3.65	6.78	6.48	3.95
Oct-23	6.13	-18.39	8.87	6.49	6.88	5.69	3.95	5.92	6.52	4.16
Nov-23	6.23	-23.43	9.68	5.68	6.34	5.62	3.18	5.91	5.62	3.53
Dec-23	4.85	-33.01	9.40	5.04	5.76	6.06	1.42	5.56	3.81	1.94
Jan-24	3.17	-19.12	6.93	3.33	3.93	6.08	2.53	4.87	4.33	2.65
Feb-24	2.06	-14.61	0.72	2.08	1.84	5.71	2.11	4.18	3.70	2.22
Mar-24	2.74	-14.06	0.98	0.62	0.67	5.23	1.91	4.19	3.36	2.02
Apr-24	2.53	-12.12	5.63	0.73	1.53	5.00	2.11	3.97	3.26	2.19
May-24	2.09	-5.83	6.96	1.06	2.02	4.34	2.32	3.40	3.19	2.36
Jun-24	1.92	-11.26	4.35	1.10	1.64	3.96	1.54	3.11	2.32	1.63
Jul-24	0.53	-3.92	3.10	0.34	0.80	4.08	1.62	2.62	2.19	1.71
Aug-24	0.14	-5.90	4.22	0.83	1.39	4.25	1.54	2.54	1.85	1.57
Sep-24	0.71	-5.21	2.68	1.02	1.30	3.62	1.46	2.41	1.61	1.46
Oct-24	0.76	-5.36	0.99	0.82	0.85	4.11	1.53	2.71	1.52	1.54
Nov-24	0.37	-5.07	0.96	0.66	0.72	4.01	1.38	2.49	1.28	1.37
Dec-24	0.30	-4.29	0.65	0.60	0.61	4.10	1.42	2.51	1.31	1.40

Source: BofA Global Research, Statistics Sweden

BofA GLOBAL RESEARCH

Exhibit 48: BofA Norway inflation

Updated forecasts

	HICP					CPI				
	NEIG	Unprocessed Energy 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	6.65	-7.79	12.81	6.87	7.75	6.28	5.63	6.52	5.39	6.35
Aug-23	6.80	-16.51	11.95	6.93	7.68	6.30	4.85	6.62	4.84	6.30
Sep-23	6.15	-29.96	9.32	5.98	6.49	5.78	2.81	5.99	3.34	5.66
Oct-23	6.03	-23.64	11.16	6.65	7.33	6.17	3.66	6.13	4.05	5.97
Nov-23	6.85	-26.00	11.01	7.05	7.65	5.83	3.70	6.35	4.12	6.12
Dec-23	6.50	-19.95	13.20	7.67	8.49	5.73	4.45	6.09	4.60	6.20
Jan-24	4.96	-15.71	13.72	7.01	8.00	6.52	4.51	5.79	4.44	5.92
Feb-24	5.21	-9.73	8.00	7.77	7.83	6.41	5.16	5.86	4.88	5.91
Mar-24	4.29	-12.24	8.21	9.76	9.55	6.46	4.92	5.44	4.69	5.83
Apr-24	4.00	-12.80	5.05	7.75	7.37	6.02	4.27	5.08	4.04	5.25
May-24	3.68	-9.62	3.16	6.36	5.91	5.35	3.92	4.57	3.69	4.60
Jun-24	3.14	-8.76	-2.12	5.88	4.67	5.17	3.43	4.23	3.26	3.96
Jul-24	1.95	-2.83	-3.85	4.42	3.17	4.68	2.95	3.41	2.74	3.06
Aug-24	2.31	5.41	-4.08	4.46	3.17	5.14	3.97	3.84	3.55	3.45
Sep-24	2.02	17.02	-2.93	5.31	4.09	5.63	4.92	3.95	4.33	3.70
Oct-24	1.85	6.61	-4.45	4.27	2.97	5.25	3.84	3.67	3.43	3.20
Nov-24	1.46	9.04	-5.14	4.19	2.80	5.34	3.83	3.53	3.52	3.22
Dec-24	1.03	8.49	-5.18	3.94	2.58	5.24	3.58	3.26	3.31	3.00

Source: BofA Global Research, Statistics Norway

BofA GLOBAL RESEARCH

Exhibit 49: Sweden Economic forecasts

Recession in 2023, 2024. Inflation to fall back towards target around mid-2024

		2020	2021	2022	2023	2024	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP	% qoq							0.5	-0.8	-0.3	-0.2	-0.1	-0.1	0.2	0.3	0.3	0.3	0.3	0.3
	% qoq ann.							2.0	-3.2	-1.2	-0.8	-0.3	-0.2	0.8	1.2	1.2	1.2	1.2	1.2
	% yoy	-2.3	5.9	3.0	-0.3	-0.4	1.1	1.3	-0.4	-1.4	-0.8	-1.4	-0.6	-0.1	0.4	0.8	1.1	1.2	1.2
Private Consumption	% qoq							-1.0	-0.3	-0.6	-0.2	-0.1	-0.1	0.2	0.3	0.3	0.3	0.3	0.3
	% yoy	-3.2	6.2	1.9	-2.4	-0.5	1.1	-1.9	-3.4	-2.3	-2.0	-1.2	-1.0	-0.2	0.3	0.7	1.1	1.2	1.2
Government Consumption	% qoq							0.9	0.4	0.0	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
	% yoy	-2.0	2.9	0.1	2.1	1.6	2.0	2.4	2.6	1.7	1.6	1.2	1.3	1.8	2.0	2.0	2.0	2.0	2.0
Investment	% qoq							-0.6	-0.1	-0.6	0.0	0.1	0.2	0.3	0.4	0.4	0.4	0.4	0.4
	% yoy	1.5	6.8	6.1	-1.0	0.1	1.5	2.1	-1.8	-2.7	-1.4	-0.7	-0.4	0.6	1.0	1.3	1.5	1.6	1.6
Final Domestic Demand ¹	% qoq							-0.4	-0.1	-0.4	0.0	0.1	0.1	0.3	0.4	0.4	0.4	0.4	0.4
	% yoy	-1.6	5.3	2.5	-0.8	0.2	1.4	0.3	-1.4	-1.4	-0.9	-0.4	-0.2	0.6	1.0	1.2	1.5	1.5	1.5
Net exports ¹	% qoq							0.3	-0.2	1.5	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% yoy	0.0	0.2	-0.6	1.9	0.4	-0.1	1.4	2.1	2.6	1.4	1.0	1.1	-0.4	-0.2	-0.1	-0.1	-0.1	-0.1
Stockbuilding ¹	% qoq							0.6	-0.5	-1.4	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
	% yoy	-0.8	0.5	1.2	-1.4	-1.0	-0.2	-0.4	-1.2	-2.7	-1.3	-2.0	-1.6	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2
Current Account Balance	% of GDP	5.9	6.8	5.0	5.0	4.9	4.7	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Industrial production	% qoq							2.8	-3.6	2.6	0.2	-0.6	-0.3	0.4	0.6	0.2	0.2	0.2	0.2
	% yoy	-5.0	7.0	2.2	0.6	0.0	0.0	1.5	1.2	6.1	0.1	3.5	-0.9	-2.2	2.0	-1.4	1.9	-0.3	0.1
Unemployment rate ²	%	8.5	8.9	7.5	7.6	8.0	8.1	7.4	7.5	7.8	7.9	7.8	7.9	8.0	8.2	8.2	8.2	8.1	8.0
CPI Inflation (harmonised) ²	% yoy	0.7	2.7	8.1	5.9	1.9	1.7	9.1	6.9	4.8	2.9	2.3	2.0	1.6	1.6	1.8	1.7	1.7	1.8
CPI ²	% yoy	0.5	2.2	8.4	8.5	2.5	1.6	11.4	9.8	7.7	5.3	3.8	2.9	1.9	1.5	1.7	1.6	1.6	1.7
CPIF	% yoy	0.5	2.4	7.7	6.0	1.9	1.7	8.9	6.9	5.0	3.3	2.4	2.2	1.7	1.5	1.7	1.7	1.7	1.7
Policy Rate ⁴	%	0.00	0.00	2.50	4.25	3.25	2.00	3.00	3.75	4.00	4.00	4.00	3.75	3.50	3.25	3.00	2.50	2.25	2.00

Notes: ¹ Contribution to GDP growth ² quarterly averages ³ Period averages ⁴ Period averages, quarterly change. Source: BofA Global Research, Statistics Sweden, Bloomberg BofA GLOBAL RESEARCH**Exhibit 50: Norway Economic forecasts**

Growth to slow in 2024, inflation to persist

		2022	2023	2024	2025	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25
GDP (mainland)	% qoq					0.2	1.1	0.6	0.4	0.1	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.4
	% qoq ann.					0.9	4.3	2.3	1.6	0.5	0.2	0.2	0.6	0.4	0.4	0.8	0.8	1.2	1.6	1.6	1.6
	% yoy	3.7	1.1	0.5	1.2	5.2	4.8	2.7	2.3	2.1	1.1	0.6	0.4	0.3	0.4	0.5	0.6	0.8	1.1	1.3	1.5
Private Consumption	% qoq					-3.1	3.8	0.1	4.1	-5.2	0.4	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.4
	% yoy	6.3	-1.1	0.6	1.2	9.3	9.8	2.0	4.7	2.4	-1.0	-0.9	-4.6	0.8	0.5	0.6	0.6	0.8	1.1	1.3	1.5
Government Consumption	% qoq					-0.8	0.4	0.6	0.9	0.4	0.9	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
	% yoy	1.0	2.4	1.4	1.2	2.2	1.2	-0.2	1.1	2.3	2.8	2.5	2.0	1.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Investment	% qoq					4.2	0.6	2.0	-1.9	1.0	-0.7	0.0	0.2	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
	% yoy	7.6	0.2	1.2	2.3	7.2	8.0	10.6	4.9	1.7	0.4	-1.6	0.5	0.0	1.2	1.7	2.0	2.1	2.2	2.3	2.4
Final Domestic Demand ¹	% qoq					-0.8	2.1	0.7	1.7	-2.2	0.3	0.1	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
	% yoy	5.3	0.2	1.0	0.3	6.7	6.9	3.3	3.7	2.2	0.4	-0.1	-1.6	0.9	0.9	1.0	1.1	1.2	1.4	1.5	1.6
Net exports ¹	% qoq					-1.7	-0.9	2.0	-2.2	0.9	-0.6	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
	% yoy	-2.0	-0.6	-0.4	0.0	-2.0	-3.7	0.6	-3.0	-0.3	0.0	-2.1	0.1	-0.9	-0.4	-0.2	-0.1	-0.1	0.0	0.0	0.0
Stockbuilding ¹	% qoq					2.8	-0.1	-2.1	0.8	1.6	0.4	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0
	% yoy	0.5	1.4	-0.1	-0.3	0.3	1.5	-1.3	1.4	0.2	0.7	2.8	2.0	0.3	-0.1	-0.3	-0.4	-0.4	-0.3	-0.2	-0.2
Current Account Balance	% of GDP	30.3	14.3	8.9	0.0	28.6	25.0	39.7	27.0	21.2	12.7	12.7	11.0	10.2	9.3	8.5	7.7	6.9	6.2	5.5	4.7
Industrial production	% qoq					1.8	1.3	2.0	-2.0	-7.7	0.0	1.6	0.0	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.6
	% yoy	2.6	-7.2	1.9	2.4	2.2	2.8	2.4	2.4	3.0	-6.6	-7.8	-8.1	-6.2	1.8	2.4	1.4	2.0	2.3	2.4	2.4
Unemployment rate ²	%	1.8	1.8	2.2	2.5	2.1	1.7	1.7	1.7	1.7	1.8	1.9	2.0	2.1	2.2	2.3	2.4	2.4	2.5	2.5	2.5
CPI Inflation (harmonised) ²	% yoy	6.2	5.5	3.9	2.9	3.8	6.4	7.4	7.3	7.5	7.0	4.4	3.3	4.3	3.5	3.7	4.2	3.7	3.2	2.7	2.2
CPI ²	% yoy	5.8	5.31	3.7	2.8	3.8	5.8	6.7	6.6	6.6	6.5	4.5	3.7	4.3	3.4	3.4	3.9	3.4	3.0	2.6	2.1
CPI-ATE ²	% yoy	3.9	6.1	3.68	2.2	1.9	3.2	4.8	5.8	6.2	6.7	6.1	5.6	5.1	3.5	3.0	3.1	2.6	2.5	2.0	1.9
Policy Rate ³	%	2.75	4.50	4.00	2.75	0.75	1.25	2.25	2.75	3.00	3.50	4.25	4.50	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75

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

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