

# Riksbank Review: July 2021

[Monetary policy decision link.](#)

[Monetary Policy Report link.](#)

[Press conference link](#) (only available in Swedish)

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## Repo rate path at Zero

2 July, Tim Davis

The main question ahead of the July Riksbank meeting had been whether the Riksbank's repo rate path would be kept at zero through the forecast horizon or if the newly extended quarter of forecasts would include any probability of a rate hike in Q3-24 (as some analysts had pointed out was a risk). The Riksbank decided to keep the repo rate path at 0% throughout the forecast horizon, with the market seeing this as a slightly dovish outcome (bond yields fell while SEK marginally weakened).

Indeed, the main theme of the MPR is that growth is looking slightly better (forecasts revised higher), but this will have little impact on inflation (other than in the near-term). And because inflation isn't really impacted the repo rate path has been left flat for the forecast horizon. Indeed, the Riksbank has joined many other central banks describing a pick-up in inflation as "having a moderate and transient effect on consumer prices."

The Riksbank's statement also points out that inflation and activity are only rising because of the support of monetary policy:

"Inflationary pressures are moderate, but expected to rise in the coming years, when economic activity becomes increasingly strong. The expansionary monetary policy contributes to strengthening economic activity and is thus a prerequisite for inflation to be more permanently close to the target of 2 per cent."

However, the forward guidance is now more balanced. On the side of easier policy, the Riksbank has changed its language from:

"It is also entirely possible to cut the repo rate, particularly if confidence in the inflation target were under threat" to "The Executive Board may cut the repo rate or in some other way make monetary policy more expansionary if inflation prospects weaken."

However, this is now balanced by a statement that:

"A less expansionary monetary policy may be justified if inflation were to risk overshooting the target significantly and persistently."

Attention will now turn initially to the Minutes to see if there were any members who were more in favour of signalling the beginning of normalisation through an uptick at the end of the repo rate path. And to see if any members are concerned that inflation may be anything more than transient. With markets pricing in a more optimistic rate path than the Riksbank forecast, the September and November meetings will continue to be watched to see when the Riksbank first pencil in some probability of a hike.

## Sell Side Reviews (A-Z)

### Barclays

- The MPR “argues that the permanent component of inflation will be rising very gradually, hence it does not require any changes to its current policy stance. This is in line with our view that Sweden will continue to face a strong economic recovery, but with moderate inflation pressures”
- “The bank will continue to look through temporary overshoots of the inflation target, while monitoring inflation expectations, which have moved closer to target more recently. Continued uncertainty regarding how persistent and strong the inflation upturn is going to be will keep the Riksbank on the dovish side for now.”

### Danske

- “The outcome is much in line with expectations, but given the recent steepening of the SEK front-end we think market hawkishness in the front end has potential to fade out as the Riksbank confirms a soft stance.”
- “One could ask why this kind of supercharged monetary policy is needed considering the generally bright outlook. But it is clear that the Riksbank sees it the other way around.”
- “Under the surface though one should keep in mind that in relative terms the Riksbank is already in the process of tapering.”

### Goldman Sachs

- “The MPR took a slightly more hawkish tone than in April, highlighting that less expansionary monetary policy might be necessary if “inflation were to risk overshooting the target significantly and persistently”.
- “We expect the Riksbank to remain on hold until late 2024, when we expect lift-off.”

### JP Morgan

- “The Riksbank July decision was very much in line with expectations.”
- “The risks around monetary policy was slightly more symmetric than before, and although the Riksbank is not there yet, the focus in the upcoming meetings will be on the rate path and any chances that it starts signaling some possibility of a rate hike at the end point of the forecast horizon.”
- See “the policy rate remaining at 0% for the foreseeable future.”

### Nordea

- “Today’s message from the Riksbank is slightly dovish. The Riksbank sees no rate hike during the forecast horizon, underlining that any tightening move remains very distant.”
- “The QE programme will run as planned and previously announced... Our instant view is that the allocation of the purchases for Q4 are in line with our expectations, but perhaps tilted somewhat more to covered bonds.”
- “What the bank basically is signalling is that zero is the new normal.”
- “We keep our forecast that the Riksbank will stay on hold with the repo rate unchanged at 0.00% for the foreseeable future. We expect the Riksbank’s balance sheet to stay broadly unchanged next year, in line with the bank’s current plans.”

**SEB**

- “The report is large in line with the main scenario from our preview, but the slight upside risk to the far end of the repo rate forecast did not materialize.”
- “The verbal easing bias in the press release has, however, become slightly more balanced... This could suggest that the board is taking a small step towards a more balanced view on the repo rate, although the bar for a possible early rate hike is high.”
- “The forecasts for both GDP growth and inflation have been revised higher with a larger upward revision to inflation than we expected. The most important reason for this is, however, higher energy prices and the upward revision to CPIF ex energy is marginal.”

**Svenska Handelsbank**

- “The hawkish tilt that wasn't there... The market reaction was very limited, but 2y bond yields fell 2bp... This reaction may have been due to the Riksbank not signalling a policy rate lift-off in 2024; even though that had not been our call beforehand.”
- “In what could be perceived as flirting with a hawkish tilt, the Executive Board added a phrase to the press release, saying that tightening 'may be justified' if inflation substantially and persistently overshoots. However, we believe this merely reflects that some board members want to remind about potentially higher rates down the road.”

**Swedbank**

- “The monetary policy decision was in line with our expectations. The time for an increase in the rate path is approaching. While we are not there yet, it will be a topic of discussion in the upcoming monetary policy meetings during the autumn (September and November).”

# MNI Policy Team State of Play

## Riksbank Sticks With Zero Rate Forecast

1 July 2021, By David Robinson

Sweden's Riksbank left its key policy rate at zero percent following its June meeting and is still projecting rates to stay at that level for the whole of its 3-year forecast horizon.

The Monetary Policy Report (MPR), published Thursday, projected unchanged rates despite an increased inflation profile. Prices are expected to rise temporarily before receding and then move back just above the 2.0% target on the CPIF fixed-income rate measure as the global recovery strengthens.

Nevertheless, the Riksbank decided it was too early to start signalling tightening either by lowering the asset purchase target or predicting a hike down the road, maintaining the current envelope for asset purchases at SEK700 billion. It reiterated that this would be used fully through to the end of 2021, with purchases slowing as the year progresses to SEK68.5 billion in Q4, and noted "risks associated with reducing stimuli too soon are greater than the risks of keeping them for too long."

### INFLATION

While the current sharp price rises are expected to fade, the Riksbank predicted inflation would remain higher than it previously assumed, raising its CPIF projections to 1.8% from 1.5% for 2021, 1.7% to 1.4% for 2022 and to 1.8% from 1.7% for 2023. The forecast showed CPIF moving above 2.0% from March 2024 and staying above 2.0%.

With the krona projected to remain broadly flat through the forecast on a trade-weighted basis, its dampening effect on inflation is expected to disappear and, as the global economy recovers, the rate of price increases is expected to firm.

That inflation profile could give the Riksbank some grounds to justify showing the policy rate starting to move higher if the recovery remains strong. Market rate expectations ahead of the Riksbank meeting were for the repo rate to rise 0.25 per cent during the second half of 2023, rather than remain unchanged through to the third quarter of 2024 as policymakers forecast.

Nevertheless, the Riksbank continues to place weight on the argument that a period of above-target inflation, after prolonged undershoots, may help strengthen the credibility of the inflation target rather than undermine it.

The MPR contained detailed analysis of supply chain disruptions that have hit Swedish manufacturing, with computer chip and freight container shortages hitting production and bottlenecks fuelling price hikes, but policymakers see the recent sharp price increases in many economies proving temporary as logistic lines are repaired and as base effects from the sharp fall in commodity prices when the pandemic hit evaporate.

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