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All Signal, No Noise

MARKET ANALYSIS

Riksbank Preview: September 2021

Statement/ Monetary Policy Report release: 08:30BST, Tuesday 21 September 2021
Press conference: 10:00BST, Tuesday 21 September 2021

Contents

Will the repo rate path stay flat?

20 September, Tim Davis

The September Riksbank meeting and accompanying Monetary Policy Report will be watched for any clues of a hawkish pivot.

The main metric to watch will be the Riksbank's repo rate path. In recent meetings (including the last meeting in July), the repo rate path has been left at zero throughout the policy horizon through to Q3-24. The September meeting will not extend the forecast profile and will continue to forecast through Q3-24 rather than adding an extra quarter. The most effective way for the Riksbank to convey a message that normality is returning would be to add some probability of a rate hike into the Q3-24 projection.

This is seen as a risk, but not a base case, in almost every sell-side preview that we have read. GDP growth has come in higher than expected both domestically and internationally. However, concerns over the delta variant going into winter have intensified somewhat. Against this backdrop, inflation has been higher than expected. The Riksbank had forecast CPIF at 1.43% for August (2.36% actual, 93bp higher) and forecast CPIF excluding energy at 0.95% (1.39% actual, 44bp higher). The recent commentary from Ingves, Floden and Skingsley suggest that the Riksbank continue to see the pickup in inflation as transitory but it is likely that we will see an increase in the short-term inflation forecasts.

Most expect the Riksbank will maintain caution amid the still high uncertainty ahead of winter, having been burnt in the past by forecasting higher rates but not being able to follow through with their plans. Consensus now seems to be looking towards the November meeting to include a probability of a hike in Q4-24 (as the extra quarter is added to the forecast horizon).

Regarding QE, a commitment to continuing the announced schedule of asset purchases into year end and to reinvest maturing proceeds therefore is expected to be reiterated. There is an outside chance of an announcement about whether the reinvestments will proceed at a constant pace (or whether there will be any front-loading of 2022 reinvestments). And also there could be an announcement regarding the breakdown of reinvestments across different fixed income assets. However, again these are more likely to come in November.

Sell Side Previews (A-Z)

Barclays

- "We expect the Riksbank to hold rate at zero, and also keep its rate path at zero over the entire forecast horizon."
- "As the forecast horizon is set to be pushed out by one quarter, there is a risk of non-zero rates indicated at the end of the forecast period."
- "We think the bank's dovish bias will continue to pin the rate at zero, but rhetoric could turn more constructive."
- "An inflation projection upgrade is necessary, as recent inflation has consistently surprised to the upside"

Bank of America

- "We expect the Riksbank to reiterate its patient strategy, but forecast now keeping rates on hold through 2023 – with a hike in late-2024 potentially – rather than through 2024 previously"
- "We doubt the Riksbank will risk running ahead of others, particularly the ECB, which will likely keep SEK in check for some time"

Citi

- "Although the economic tendency survey sits near all-time highs and August CPIF came in materially higher than forecast, we do not believe this is enough to drive the Riksbank to pull back from its intentions to utilize the asset purchase envelope, especially as its purchases will already be at a much tapered pace."
- "In the last MPR the Riksbank forecasted unchanged rates through the forecast horizon… with the latest "big" inflation expectations report still showing inflation expectations well anchored below target through the forecast horizon and much uncertainty still prevailing, we do not think the Riksbank will budge, remaining dovish."

Danske Bank

- "We also do not expect any changes to the repo rate path end-point at this meeting (November more likely)."
- "In November, we also expect the Riksbank to present the QE allocation for Q1 22 [reinvestments]. It cannot be ruled out that this is presented at this meeting though."
- "Our base case is that the allocation in 2022 will look similar to 2021, where the already large holdings in nominal SGBs are a restriction for the Riksbank and covered bonds still have a large free float available to buy… We expect a smooth pace over the quarters, but would not rule out another year of front-loaded purchases."

Goldman Sachs

- "We expect the Riksbank to remain on hold until late-2024, given the Riksbank's two 25bp hikes just prior to the pandemic. The risks around this forecast is likely to be skewed towards an earlier lift-off though, should the current inflationary pressures prove to be more persistent and de-anchor Swedish inflation expectations."

Handelsbanken

- “We believe there is a slight probability of a rate hike being indicated for Q4 2024… The Riksbank will probably not want to make a big thing out of an upturn at the end of the repo rate path. Instead, they will state that it’s a matter of a slow, gradual reversal of the support that monetary policy has provided during the pandemic.”
- Regarding QE “We expect the Riksbank to follow the previous strategy and to reinvest in maturities until after the repo rate has been hiked. However, the Riksbank has the luxury of being able to delay any announcement, and we are not expecting any new information regarding the long-term plans for the balance sheet in connection with the September meeting.”

JP Morgan

- “We think that the rate path will be lifted in 2021, but we lean towards the November meeting instead of September. Admittedly, it would in many ways make sense to lift to the rate path already now on the back of higher-than-expected inflation and GDP data, more hawkish central banks abroad as well as the government´s decision to lift most COVID-19-related restrictions on 29 September. However, after many years of overshooting rate path projections, there is fundamental dovish stance within the Riksbank.”
- “the forecasts on inflation and GDP should be lifted... The Riksbank will, however, likely reiterate that any temporary overshooting of inflation is only a good thing as it could “help to more clearly anchor price and wage expectations in a way that is compatible with close-to-target inflation”.”
- “In line with earlier communication, we expect QE net purchases to end by year-end and that the size of the balance sheet will be kept unchanged in 2022… if history is any guidance, the repo rate is required to reach a certain level before the balance sheet is allowed to shrink. That was the Riksbank´s playbook in 2017 which we do not think has changed. Given our call of no rate hikes in the next couple of years, we think that the risk of the balance sheet shrinking next year is relatively low.”
- Think the Riksbank will wait until November to take formal decision on pace and composition of reinvestments.
- “In 2022, around SEK153bn of the Riksbank’s holdings will mature which implies that the quarterly pace of purchases will decline from SEK68.5bn in 4Q2021 to around SEK40bn in 1Q 2022 (assuming even quarterly pace in 2022). This is a relatively large decline. The Riksbank may therefore decide to frontload purchases in 1Q 2022”

Morgan Stanley

- “Following an August uptick in inflation, and with growth and labour market data coming in strong following the reopening of the economy, there is now a chance that the Riksbank will pencil in a small 10bp hike at the end of their forecast horizon, in 3Q24.”
- “On balance, we think they will wait for November to signal a 4Q24 move, when we expect them to also present their QE purchasing plans for 2022.”

NatWest Markets

- “The Riksbank is expected to keep its policy settings unchanged with a more optimistic tone referencing the steady economic recovery and improving inflation outlook as restrictions are eased.”
- “The recent jump in inflation adds to the risk of a small lift towards the end of the repo rate path. However, given that the central bank will most likely want to see a more permanent move close to the inflation target, it’s too early to expect a significant hawkish monetary policy shift next week. Rather, the November meeting is the one where to expect a change in guidance.”

Nordea

- “By all indications the Riksbank will leave its monetary policy unchanged on 21 September. However, it is becoming increasingly difficult for the bank to justify the support measures adopted when the pandemic hit.”
- “The Riksbank’s statement on 21 September will hardly involve any major changes, though. Most likely the repo rate will remain unchanged at zero and the purchase programme will continue as planned this year. But a Riksbank exit is approaching – and it may be earlier than in general anticipated.”
- “Our baseline scenario is that purchases of additional bonds will end as planned around the turn of the year. We believe that the proceeds from maturing bonds will be reinvested and that the balance sheet will stay largely unchanged next year.”
- “However, the surprisingly strong economic growth increases the likelihood of the Riksbank trimming its balance sheet already during next year… In such a scenario the bank may stop reinvesting the proceeds from maturing mortgage bonds during the course of 2022.”
- “An early trimming of the balance sheet will not in any case be signalled at the Riksbank’s monetary policy meeting on 20 September... What could happen next week is that the bank indicates that it is drawing up a plan on how to scale down its crisis measures; this would increase the likelihood of the balance sheet actually being trimmed next year.”
- “It is an open question whether the endpoint of the rate path, which as in the July report relates to Q3 2024, will be revised up from zero or not. If this does not happen now, much suggests that the endpoint will be above zero in the November report.”

SEB

- “We expect monetary policy to be unchanged in the Monetary Policy Report (MPR) on 21 September, with the repo rate path signalling an unchanged policy rate until at least Q3 2024 and QE purchases continuing according to plan”
- “However, with CPIF ex energy very low and inflation expectations mostly below target, we think the board will wait for more confirmation that the recovery is on track and that inflation is rising before signalling that the repo rate will rise at some point.”
- “We think that the board is moving towards a slightly more hawkish monetary policy stance over the next 6-12 months. We think the first move will be to include a rate hike in the far end of the repo rate forecast and our main scenario is that this will take place in the 25 November MPR”
- “We predict that the Riksbank in the second half of next year will start to re-invest less than maturing bonds and let the balance sheet decrease slightly This is unlikely to be communicated before the April or even July meeting next year and is contingent on that the recovery continues according to current forecasts and inflation does not surprise on the downside”
- “We expect the forecast for headline CPIF to be raised... Still, we expect the Riksbank to continue predicting that inflation will remain below the target for most of the forecast period.”
- “We predict that the share of government bonds in the QE purchases will rise in 2022 but that the Riksbank may wait until November before announcing the exact amounts.”

Swedbank

- “In its upcoming rate decision, the Riksbank is likely to leave monetary policy unchanged.
- “If [macroeconomic] development this fall stays positive, a forecast of a repo rate hike by the end of 2024 could be in the cards at the November meeting.”
- “We expect an upward revision of the inflation path for the next year, while the view regarding underlying inflation is largely left unchanged.”
- “We don’t anticipate any new decisions on asset purchases this time. The plan for net purchases this year and reinvestments in 2022 should remain unchanged.”
- “Besides inflation expectations we, and probably the Riksbank, will focus a little extra this time on wage expectations... In the wake of the recovery, labor shortages have become a growing problem... In Sweden’s case we don’t expect much upward pressure on wages because of this, but we do think conditions in the labor market warrant slightly higher wage drift in the coming years.”

TD Securities

- “We expect the ECB to leave its deposit rate unchanged until 2025. An unchanged Riksbank repo rate forecast would be consistent with this path”
- “Pressure is growing on the Executive Board to at least acknowledge some probability of a hike by 2024—both Floden and Breman raised this possibility in the June policy meeting. A slight upward tilt in the repo rate path is unlikely to surprise investors too much, but could set in motion a wider debate about what to do with the Riksbank's broad policy toolkit in 2022 and beyond.”

mni Central Bank Watch - Riksbank

September 20, 2021

MNI Riksbank Data Watch List

Inflation		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
CPI	% y/y	2.1	1.8	↑	1.40	↑					1.43
CPIF	% y/y	2.4	2.1	↑	1.50	↑					1.27
CPIF Excl Energy	% y/y	1.4	1.2	↑	1.2	↑					0.33
PPI	% y/y	13.5	5.6	↑	-0.8	↑					1.59
Economic Activity		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Swedbank Manuf PMI	Index	60.1	65.7	↓	61.8	↓					0.56
Private Sector Production	% y/y	10.5	10.7	↓	-4.10	↑					0.87
Economic Tendency Survey	Index	121.1	118.7	↑	103.80	↑					0.96
Swedbank Service PMI	Index	64.7	71.0	↓	62.80	↑					-0.20
Monetary Analysis		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
M3 Money Supply	% y/y	9.98	12.47	↓	16.90	↓					-0.71
Lending to HH	% y/y	6.30	5.68	↑	5.53	↑					1.79
Lending to Non-Fin Corp	% y/y	0.12	-0.12	↑	2.70	↓					-0.49
Avg. new HH loan rate	%	1.50	1.56	↓	1.53	↓					-1.25
Consumer / Labour Market		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Retail Sales YoY	% y/y	5.43	7.22	↓	2.43	↑					0.62
Consumer Confidence	Index	108.6	111.4	↓	97.6	↑					0.82
Unemployment Rate	%	8.0	9.4	↓	9.30	↓					-1.62
Household Consumption	% y/y	6.4	8.4	↓	-3.90	↑					0.49
Markets		**Current**	**3m ago**	**3m Chg**	**6m ago**	**6m Chg**	**2Y History**	**Hit / Miss**	**Vs Trend**	**Surprise Index**	**Z-Score**
Equity Market (OMXS30)	Index	2324	2242	↑	2010	↑					1.81
Sweden 10-Y Govt Bond	%	0.32	0.45	↓	0.42	↓					-0.86
SEK Yield Curve (2s-10s)	bps	57.8	71.8	↓	67.2	↓					-1.02
SEK KIX TWI	Index	114.53	113.62	↑	113.01	↑					0.75

Source: MNI, Bloomberg

Executive Board Comments

Ingves, 9 September

- “The most important thing is to continue [expansive monetary policy] for long enough to be sure that we can leave this episode behind.”
- Bloomberg also reported that he said that after a long period of low inflation, “nothing radical has happened over summer to change that picture”

Floden, 31 August

- “We can achieve a basically as expansive monetary policy with less asset purchases.”
- “I’m not convinced that asset purchases are currently important to achieve the desired financial conditions.”
- Bloomberg also reports that Floden said that a rate hike may be necessary toward the end of the Riksbank’s forecast period.

Floden (Minutes)

- "The economic recovery appears to be continuing and seems to be somewhat faster than we anticipated in April. In parallel with this growing optimism, the pandemic has nevertheless continued to cause concern... The risk of setbacks remains."
- "It is good that inflation expectations have risen to levels that are in line with our inflation target. And there is no harm in inflation periodically overshooting 2 per cent after a decade dominated by below-target inflation outcomes; inflation has been lower than 2 per cent 100 of the last 120 months. My assessment is that inflationary pressures are still weak."
- "Although the risk that inflation and inflation expectations fall to problematically low levels has decreased during the year, the risk of such a scenario is nevertheless greater than the risk that inflation rises in a problematic way. I therefore do not rule out a situation in which more expansionary monetary policy may be justified. In that case, a rate cut is close at hand."
- "I am not convinced that it will be appropriate to hold the repo rate at zero per cent for the whole three-year period in our forecast. Compared with the forecast from the monetary policy meeting in April, we are now adding a new quarter, the third quarter of 2024. Which monetary policy will be appropriate in three years' time is of course almost impossible to judge today. But based on the development in our forecast, I think that a rate rise during the second half of 2024 may be justified."

Skingsley 27 August

- “On the whole, I do not think that the picture of the economic situation has changed in any dramatic way this summer. On the one hand, the Swedish economy is now growing at a slightly faster pace and inflation has become slightly higher than we had forecast in July. But on the other hand, inflationary pressures remain weak and the uncertainty surrounding the pandemic has essentially increased.”

Skingsley (Minutes)

- "A useful rule of thumb is to assess appropriate monetary policy based on what inflation is forecast to be 12-24 months from today. CPIF inflation is expected to be on average 1.7 per cent between summer 2022 and summer 2023. Excluding energy prices, the CPIF if expected on average to be 1.6 per cent during the same period. There is thus, in my opinion, good reason to maintain the degree of expansionary monetary policy described in the draft Monetary Policy Report."

- "Based on a medium-term perspective, inflationary pressures are still too low to justify a change towards less expansionary monetary policy."
- "Experience from earlier years in the 2010s shows that inflationary pressures in Sweden tend to be on the low side, even in periods when resource utilisation is high."
- "If monetary policy is to function as a powerful tool that can be used quickly to counteract economic downturns and rising unemployment, inflation needs to be stabilised around the target. Only then can the repo rate be raised again, which creates scope for future monetary policy efforts when justified."

Jansson (Minutes)

- "The reasons for not choosing a more expansionary monetary policy, which for me in this situation would require us to cut the repo rate, are, as I see it, basically the same as in April."
- "The decisive factor here is that there are no signs of the confidence in the inflation target starting to waver; on the contrary, it has strengthened somewhat during the first half of the year."
- "I perceive the reasons for not choosing to make monetary policy less expansionary to be, if anything, even stronger. Despite the recovery being clear and appearing to be strong, the risk of the economy overheating is very small."
- "That inflation is now overshooting the target slightly at the end of the forecast period does not change my view on monetary policy in the coming years. This is not an argument for tightening policy but, if anything, is just positive and desirable, in order to strengthen the role of the inflation target as the reasonable starting-point for the inflation rate on average."

Breman (Minutes)

- "In the near run, inflation that is temporarily above the target is unproblematic. Neither is it a problem if inflation expectations were to go slightly higher. On the contrary, this could instead help to anchor inflation and inflation expectations close to the target in the long run."
- "In the minutes of our last meeting, I stressed that my hope is for the next step to be a rate rise rather than a rate cut. Thanks to the recovery beginning to get a foothold, this hope has been strengthened. Already at today's meeting, I could have envisaged a repo-rate path that indicates a rate rise at the end of the forecast period. The reason why I am refraining from entering a reservation is that the repo-rate path is a forecast and that inflation on average has been below target for a long period."
- "I would like to conclude by emphasising that the repo-rate path and the plan for asset purchases are a forecast and not a promise. If the outlook for inflation weakens, especially if confidence in the inflation target was under threat, we can cut the repo rate or make monetary policy more expansionary in some other way. But, if inflation were to risk overshooting the target substantially and persistently, less expansionary monetary policy, for example a rate rise, could be justified during the forecast period.".

MNI Policy Team Insight

Prices Put Focus On Riksbank Rates Forecast

20 September 2021, By David Robinson

Sweden's Riksbank will likely raise much of its inflation projection through to next summer in its monetary policy report on Thursday, due to base effects as the pandemic crisis eases, but could wait to get a better fix on whether price rises prove sticky before adjusting a projection for rates to stay unchanged at zero for the full three-year horizon.

The Riksbank could also provide some form of guidance to suggest that a change to the rates projection may soon be forthcoming, and some analysts expect this to occur in the November meeting, with an indication of a move from zero at the end of the three-year period. But some members of the central bank's board have argued that there is no rush to tighten after a prolonged period of inflation undershooting and the economic shock of Covid.

Inflation on the target CPIF measure, which measures consumer prices with a fixed interest rate, spiked to 2.4% on the year in August, above the Riksbank 2.0% goal and far outstripping the 1.4% forecast in the July MPR. The central bank's assumption that inflation would soften this summer and trough at 1.2% in July has proven to be unfounded.

COVID UNCERTAINTY

First Deputy Governor Cecilia Skingsley, in a speech late last month, acknowledged that the central bank had under-estimated the pace of recovery and the strength of inflation, but she stressed high uncertainty due to rising Covid cases around the world and questioned how far the underlying situation had really changed.

While activity and inflation have surprised on the upside, "inflationary pressures remain weak and the uncertainty surrounding the pandemic has essentially increased," said Skingsley, who has been among those board members arguing to leave stimulus in place.

Recently-reappointed board member Per Janssoon said in the July minutes that inflation dynamics did not point to less expansionary monetary policy and that he would "welcome further upward revisions to the longer-term forecast."

The view that previous inflation undershooting can justify overshooting, by strengthening the credibility of the inflation target -- an implicit form of average inflation targeting -- is clearly present on the board/
