

Riksbank Preview: July 2020

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MNI View: QE Now or September

Tim Davis

The July Riksbank announcement is most likely to see the repo rate path set at zero for the next three years with a decision on how much to expand QE likely to be postponed until the September meeting. There is a very strong consensus among analysts that this will indeed be the case. The consensus among market participants who answered SEB's survey was less clear cut however, with 90% expecting an expansion to QE this year with 40% expecting July, 45% expecting September and 5% expecting December.

We would agree with consensus that the biggest risk is an early expansion to QE, and our conviction that it will remain unchanged is not high. Indeed, an early expansion to QE is exactly what the ECB did at its June meeting. There was still scope to buy more bonds under PEPP, but the programme size was increased to show the ECB's commitment to the policy for a longer period of time and to provide the market with more certainty. The ECB will hope that this extra certainty will help the transmission mechanism by lowering the risk premia, and we would definitely not rule out the Riksbank making a similar decision.

Economic data has been better than expected and we would expect only one forecast rather than two scenarios. However, we don't think the market will pay too much attention to the growth forecasts other than to put the repo rate path and verbal guidance into context.

Summary of Analyst Views

- Most expect no change to rates or to QE at this meeting.
- The biggest risk is an increase in QE. A number of analysts expect an increase to be announced this year, but most think that July is too soon given that the Riksbank still have so much of their purchase programme to complete. However the biggest risk analysts see at this meeting is that an early expansion is announced.
- In the April MPR, the Riksbank showed two scenarios of how growth, inflation and unemployment would proceed. Every preview we have read that mentions the forecasts expects the Riksbank to return to just one central forecast at this meeting.
- The vast majority expect the repo rate path to be extended for the full forecast horizon (unlike the 1-year ahead published in April). And the unanimous base case view is that rates will be at zero until the end of the projection. JP Morgan says that it can't rule out some probability of a negative rate in the repo path while Nordea say there could be a "cosmetic increase" at the end of the profile.
- Most analysts expect that the Riksbank will not rule out negative rates in the future – but that the Riksbank will highlight there is little reason for negative rates now given that demand cannot be stimulated by negative rates alone.

mni Central Bank Watch - Riksbank

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	0.0	1.0	↓	1.80	↓					-2.34
CPIF	% y/y	0.0	1.0	↓	1.70	↓					-1.16
CPIF Excl Energy	% y/y	1.2	1.6	↓	1.8	↓					-1.14
PPI	% y/y	-3.8	-1.2	↓	1.2	↓					-1.26
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	39.2	52.9	↓	46.5	↓					-2.13
Private Sector Production	% y/y	-9.0	2.1	↓	0.60	↓					-2.26
Economic Tendency Survey	Index	75.2	92.6	↓	93.90	↓					-0.61
Swedbank Service PMI	Index	40.9	56.1	↓	48.30	↓					-1.20
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	14.89	7.21	↑	8.74	↑					2.54
Lending to HH	% y/y	5.10	5.17	↓	4.99	↑					-0.09
Lending to Non-Fin Corp	% y/y	5.63	3.85	↑	4.40	↑					1.18
Avg. new HH loan rate	%	1.55	1.56	↓	1.48	↑					0.74
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	2.40	4.30	↓	1.60	↑					0.27
Consumer Confidence	Index	84.0	89.2	↓	94.8	↓					-0.47
Unemployment Rate	%	9.0	8.2	↑	6.80	↑					1.52
Household Consumption	% y/y	-10.0	0.9	↓	2.20	↓					-2.04
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market (OMXS30)	Index	1664	1482	↑	1772	↓					0.54
Sweden 10-Y Govt Bond	%	-0.03	-0.13	↑	0.16	↓					0.21
SEK Yield Curve (2s-10s)	bps	27.5	14.8	↑	46.5	↓					0.33
SEK KIX TWI	Index	118.21	124.85	↓	120.50	↓					-1.48

Analysts' Key Comments (A-Z)

Barclays

- Expects the Riksbank to keep rates and QE unchanged but sees risks of a “pre-emptive announcement of more QE purchases”.
- Expects the repo rate path to remain at zero through the forecast horizon.
- Expects one growth forecast rather than two scenarios and the forecast to be “closer to the positive scenario projected in the last monetary policy report”.

Citi

- Citi does not expect any change to the policy rate but states that “there is the potential that the Bank sounds more open to the possibility of negative rates during the economic recovery.”

Commerzbank

- Expects “no change to the Riksbank’s strategy” at this meeting.

Danske

- Expect no policy changes and argue that it is “probably too early for the [Riksbank] to detail bond purchasing plans after October.”
- Danske believes “there is a tiny probability that it may announce how to proceed with the purchase of corporate bonds, however.”
- Expects one set of growth forecasts and an upward revision to growth expectations.

Goldman Sachs

- Expect rates on hold with no change to QE.
- Sees a small risk of a cut into negative territory at future meetings.

HSBC

- Expects upward revisions to growth forecasts and “see no reason for any additional stimulus at this time”

JP Morgan

- Forecast an unchanged policy rate in 2020 and 2021.
- JP Morgan states that “it cannot be ruled out that the Riksbank will lower the path slightly to indicate some probability of a rate cut, in order to make its point that negative rates are still part of the toolbox.”
- JP Morgan argues that given the recent data “the Riksbank scenarios from April look too pessimistic and we think the Riksbank will present an upward revised GDP forecast next week. Nevertheless, we expect the Riksbank language to continue to be cautious”
- Think that “the Riksbank is afraid of entering negative and then getting permanently stuck there.”
- Risks are “clearly skewed” towards a QE extension later this year, particularly as JP Morgan expects the Fed to continue buying bonds and the ECB to announce a PEPP expansion of EUR750bln in Q4. They believe that any QE extension would see purchases concentrated in mortgage bonds.

NatWest Markets

- Expect asset purchases to be extended into 2021 but say “this is more likely to be announced in September than July.” Looks for expansion from SEK300bln to SEK400-500bln with purchases through H1 2021.
- Expect the repo rate path to show no change to the policy rate until 2023.
- Expect only one growth forecast (rather than the two scenarios) and for 2020 growth to be more optimistic than the positive scenario seen in April. NatWest looks for a revision to a “-5 to -6% contraction in 2020 GDP”.
- Expect the Riksbank to verbally state that negative rates remain a possibility but do not expect any near-term probability in the rate path.
- NatWest note that only SEK230bln of the SEK300bln purchase programme has been allocated so far. “This will likely remain primarily focussed on covered bonds, but we also expect an increase in government bond purchases after the large increase in issuance recently announced by the Debt Office.”

Nordea:

- Repo rate forecast at zero. “possibly with a cosmetic increase at the end of the path three years from now.”
- Riksbank likely to present with economic forecasts, not just scenarios.
- Likely to “leave door ajar for a cut” but in “verbal form rather than reflected in the rate path”.
- Nordea note that Riksbank haven’t ruled out a cut “once the situation has normalised” but think more QE is more likely. No new QE likely until September or November, however.
- The Riksbank “may change the system of policy rates longer out. This way the policy rate can be kept at zero while the corridor around the repo rate is widened so that some of the bank’s excess liquidity will be invested at considerably lower levels.” Nordea note that this would be a similar policy to the ECB.

SEB

- “Following the ECB’s dovish decision on 4 June and to avoid a too rapid increase in the SEK, [SEB] expect the Riksbank to announce an extension of its QE programme beyond 2020” with some purchases of corporate bonds.
- Expects one growth scenario which “leans towards [the Riksbank’s] more positive scenario from April.”

TD Securities

- TD Securities looks for an upgrade of the 2020 GDP forecast but for the rate path to be at zero through end 2022.
- TD expects an expansion of QE to be announced in September.

MNI Policy

MNI PREVIEW: Riksbank Won't Go Negative; No Rush To Boost QE

MNI PREVIEW: Riksbank Won't Go Negative; No Rush To Boost QE

By David Robinson

Published 29 June 2020

--Riksbank Board Members Clearly Against Negative Rate, At Least Until Recovery Well Underway

--Current QE Programme Allows Riksbank To Wait Until September Meeting

The Riksbank is set to leave its policy rate unchanged at zero percent at its meeting on Wednesday, and could wait until September before announcing an extension of its quantitative easing programme.

The Riksbank was an early adopter of negative interest rates but, after raising the policy rate to zero at its December meeting, board members are in no rush to cut again, arguing that it would be unwise to squeeze savings rates and reduce incentives for lending in what are still the early stages of its Covid-19 response.

Instead, at its last meeting at the end of April, the Executive Board agreed to purchase SEK85 billion of government bonds and SEK18 billion of mortgage bonds by Sept. 30 2020. Those purchases are within the framework it unveiled on 16 March, near the peak of Covid-19 financial market dislocation, when it sanctioned buying up to SEK300 billion of bonds through to December 2020.

The board could wait until its meeting ending on Sept. 22 before deciding on any modification or extension of QE but board members have stressed they are ready to tweak the programme at any time.

"I'm .. open to the possibility that the various properties in the facilities may need to be adjusted and extended to improve their effectiveness," First Deputy Governor Cecilia Skingsley said at the April meeting.

--NO INCREASE IN QE PACE

While analysts on balance expect no change to QE in July there has been some speculation that the board could announce, or at least signal, an increase in purchases. But, while the total target amount might be adjusted, there seems little chance of any increase in the pace of purchases, given relatively small stocks of outstanding Swedish debt and the Riksbank's already-heavy ownership of government bonds in particular.

The Riksbank has yet to reveal whether it will publish a single, central forecast in the June Monetary Policy Report or stick to what it did in April, when, in response to pandemic, it published two economic scenarios, for GDP to fall by either 7% or 10% in 2020, depending on the severity of the Covid-19 hit.

A return to a collective rate forecast would leave the board facing the tricky question of whether to place any significant probability on a return to sub-zero rates as the economic recovery gets underway. The bar is likely to any such movement is likely to be high, but some board members sounding confident a move back below zero will be possible once banks' opportunities for profitable lending pick up.

"The conditions for repo rate cuts will improve when the rate of spread of the virus starts to decline and society gradually begins to open up," Deputy Governor Per Jansson said in the April minutes

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