

Riksbank Preview: February 2021

**Statement/ Monetary Policy Report release: 08:30GMT, Wednesday
10 February 2021**

Press conference: 10:00GMT, Wednesday 10 February 2021

Focus on Q2 purchases

9 February, Tim Davis

At its last meeting in November, the Riksbank extended its target for QE purchases by an additional SEK200bln to SEK700bln, with the additional purchases to take place by the end of 2021. The Riksbank had already announced that it would continue with QE through H1, so in total SEK400bln of net purchases of QE are now confirmed for 2021. The Riksbank also announced that it would front load its purchases in Q1 and purchase SEK120bln of the assets in Q1.

The first question for the February meeting will be, how much will the Riksbank buy in Q2? There is a risk that the Riksbank continues to front load its purchases, particularly with the current Covid-19 restrictions. We would not rule out the Riksbank continuing the SEK120bln pace seen in Q1 into Q2 (which would be taken dovishly by the market). However, we think its more likely that the Riksbank will slow purchases to somewhere in the region of SEK80-100bln for Q2. Irrespective of what is announced for Q2 purchases we don't think the total SEK400bln of purchases this year will be changed.

The next question is surrounding the repo rate path. We expect this to remain flat for the forecast duration. The Riksbank has left the door open to cut verbally without communicating this through the rate path. As mentioned above, we are only around 1/8 of the way through the 2021 QE programme and the Riksbank (and many other central banks) have argued that negative rates are more effective in the post-pandemic recovery when demand can really be boosted effectively. And pretty sharp rebounds in demand are expected post-pandemic anyway as pent up demand is released and furloughed workers return to work. So at that point it is arguable whether negative rates would be needed at all – which we think its why there is no reflection of negative rates in the repo rate path. It would be seen as a vote of confidence from the Riksbank in the prospects of a recovery if a small uptick was added to the repo rate path towards the end of the forecast horizon. We look for little change to the medium-term growth and inflation forecasts.

Sell Side Summary

- We have read through 13 sellside previews. None look for changes to the repo rate or SEK700bln QE ceiling.
- Only TD Securities explicitly mentions the risk of “some small odds” of a hike being reflected in the repo rate path for 2024. All other analysts’ base cases are for the repo rate path to remain at zero throughout the forecast horizon.
- Of those that specify, the majority’s base case is for Q2 QE purchases to be SEK80bln (a lot of the previews don’t mention the pace). SEB expects SEK100bln.
- Again, of those who specify all analysts look for the breakdown of QE purchases to remain unchanged from the Q1 proportions.
- The Riksbank is expected to maintain a dovish tone and to not verbally rule out rate cuts.

Contents

Page 1:	MNI Market Team Preview
Page 1:	Sell Side Summary
Page 2:	MNI Central Bank Data Watch
Page 2:	Sell Side Previews (A-Z)
Page 5:	Executive Board Comments
Page 7:	MNI Policy Team Insights

mni Central Bank Watch - Riksbank

February 09, 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	0.5	0.4	⬆️	0.70	⬆️					-0.86
CPIF	% y/y	0.5	0.3	⬆️	0.70	⬆️					0.41
CPIF Excl Energy	% y/y	1.2	0.9	⬆️	1.3	⬆️					-0.07
PPI	% y/y	-2.7	-4.2	⬆️	-3.8	⬆️					2.05
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	62.4	58.8	⬆️	52.0	⬆️					1.72
Private Sector Production	% y/y	-1.5	-4.5	⬆️	-8.10	⬆️					0.86
Economic Tendency Survey	Index	100.0	95.7	⬆️	85.10	⬆️					1.07
Swedbank Service PMI	Index	59.3	55.5	⬆️	55.00	⬆️					1.21
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	17.78	14.27	⬆️	15.53	⬆️					1.71
Lending to HH	% y/y	5.40	5.36	⬆️	5.26	⬆️					0.63
Lending to Non-Fin Corp	% y/y	3.28	3.77	⬆️	5.24	⬆️					-1.06
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	-0.60	2.92	⬆️	2.77	⬆️					-1.59
Consumer Confidence	Index	93.1	89.7	⬆️	84.2	⬆️					1.47
Unemployment Rate	%	8.2	8.3	⬆️	9.80	⬆️					-0.52
Household Consumption	% y/y	-6.3	-4.3	⬆️	-6.80	⬆️					-0.35
Markets		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Equity Market (OMXS30)	Index	2003	1718	⬆️	1707	⬆️					2.09
Sweden 10-Y Govt Bond	%	0.18	-0.02	⬆️	0.05	⬆️					0.97
SEK Yield Curve (2s-10s)	bps	51.3	35.2	⬆️	31.2	⬆️					1.35
SEK KIX TWI	Index	113.55	115.99	⬆️	114.65	⬆️					-0.79

Source: MNI, Bloomberg

Sell Side Previews (A-Z)

Barclays

- Expect no change to the QE, rates or the repo rate path.
- Expect the Riksbank "will maintain its dovish bias, highlighting elevated local and global economic uncertainty and slow vaccine roll out".

Citi

- Expect rates on hold.
- "The resilience of inflation expectations should provide comfort to the central bank that downside risks have retracted"

Danske

- "We foresee no changes in the repo rate path (zero), but the RB will verbally keep the door open for a cut later."
- Base case that pace of QE for Q2 will be SEK80bn in line with the Riksbank's previous guidance.
- "Should [the Riksbank] decide to buy more than SEK80bn in Q2, we see it as likely that QE volumes in H2 will be reduced proportionately to reach a total for the year of SEK400bn."
- Base case assumes "the same percentage allocation as in Q1 to each bond class"
- "Do not expect any news on the SEK in the MPR next week. Neither do we anticipate any material changes with respect to the KIX forecast."

Goldman Sachs

- “The Monetary Policy Report will likely highlight the continued downside risk to the forecast from a resurgence in new cases.”
- “We expect the Riksbank to continue to highlight that it will retain a supportive monetary policy stance for some time, but see the risk of a cut in the repo rate back into negative territory as low at this point.”

Handelsbanken

- Expect unchanged policy rate.
- “Expect the Riksbank to decide on purchases of SEK 80 billion for Q2, and eventually follow through on QE envelope in linear fashion, adding another 80 billion in Q3 and Q4, respectively”
- “We expect the Riksbank to refrain from commenting on the QE programme for next year. Ultimately, our forecast is that the Riksbank will expand its balance sheet in 2022 as well, but at a declining pace.”

ING

- “There's very little sign that the Riksbank will shift its stance dramatically this week - though a cautious tone is likely.”
- “The new interest rate projection will probably indicate no change before 2024, and it's worth remembering that the appetite to push rates into negative territory in the event of an adverse shock appears limited”

JP Morgan

- “We expect inflation to be higher than the Riksbank forecast in 2021, mainly due to the recent upturn in energy prices and some technical effects of the re-weighting of the inflation basket, and will ease imminent pressure for a rate cut.”
- “Although the Riksbank is likely to look at the higher inflation as temporary, it could give a helping hand, as it may lift inflation expectations. However, as underlying inflation pressure remains low it will maintain the pressure for a continued expansionary monetary policy. We expect the Riksbank to deliver on its 2021 QE plans, and to keep its balance sheet intact next year by reinvesting maturing bonds.”
- “We continue to see asset purchases as the Riksbank's preferred tool if it is to make monetary policy more expansionary. Although the Riksbank argues that a rate cut is still a possibility, we expect the policy rate to be kept at 0% for the foreseeable future.”
- “A rapid and substantial strengthening of the SEK from current levels is a risk factor to watch.... If inflation expectations start trending down in such a scenario, a rate cut could come into view”

Morgan Stanley

- “We expect the bank to sound dovish and stress downside risks to the outlook. We expect no change to the QE programme or repo rate, and expect the Riksbank to flag again that repo rate cuts can be employed in case further support is needed.”

NatWest Markets

- “Considering the stronger-than-expected economic developments, better anchored long-run inflation expectations and ongoing vaccine distribution both locally and globally, the growth and inflation projections will likely be revised higher. However, given a slowdown in the economic recovery amid rising Covid-19 infections and tightening restrictions, the outlook remains highly uncertain and the Riksbank is unlikely to rule out negative rates from its tool box. We still believe the hurdle to negative rates remains high.”
- “We expect a more balanced policy assessment, with the Riksbank keeping policy rates and QE programmes unchanged, but revising its GDP and inflation forecast higher. The Riksbank will likely reiterate that negative rates remain in their tool box and will provide support if needed. But still we believe the hurdle to negative rates is high given the stronger-than-expected economic recovery, on-going vaccine distribution both locally and globally, and better anchored long-run inflation expectations.”
- “The Riksbank doesn't appear too concerned on recent SEK appreciation”

Nordea

- “We see the repo rate and rate path unchanged at 0.0% up to and including Q1 2024. A few new details about its asset purchase programme should be presented, but overall we expect it to remain unchanged,”
- “The H1 2021 inflation forecast will be revised up unusually sharply.”
- “The higher inflation, improved economy and stronger labour market will not make the Riksbank change course. It lowers the probability of a rate cut in H1 2021, but rate hikes or a reduction of the purchase programme are a very long way off.”
- The Riksbank will likely “describe the economic performance as only “somewhat better” than expected despite the drastic revisions. Instead, risks will be emphasised and overall, the message will probably be comparatively pessimistic,”
- “We look for a lower pace of purchases during Q2 following the brief acceleration at the start of the year. But the allocation between government bonds, mortgage bonds and corporate bonds should remain unchanged. A dovish... would be if the Riskbank continues to buy bonds at the same high pace as in Q1.”
- “The Q2 purchases will be reduced from ~120bn in Q1 to ~90bn.”
- “We expect the Riksbank to leave its repo rate unchanged at 0% in the next few years. The risks to the forecast are skewed towards a rate cut, not in the near term but possibly from H2 2021.”

SEB

- “The repo rate path is expected to signal unchanged repo rate at zero throughout the forecasting horizon and the QE program remain unchanged at SEK 700bn.”
- “Think the board will make the purchases slightly more front loaded. This means that the Riksbank will buy assets for SEK 100bn in Q2, SEK 20bn more than indicated in November.”
- Expect the distribution of purchases to stay in line with Q4.
- The Riksbank “is very likely to highlight that uncertainty is large and say that it stands ready to expand further if needed.”

Swedbank

- “In its upcoming monetary policy decision, the Riksbank is likely to leave the repo rate and repo rate path unchanged at 0%. The plan for this year’s asset purchases isn’t expected to change, either.”
- “The Riksbank’s plan is to slow the rate to approximately SEK 80 billion in coming quarters. At its February meeting, we expect it to announce what it will buy in the second quarter. We think the breakdown from Q1 will stay the same “
- “CPIF path will be revised upward in the short term... think that the Executive Board will leave the medium-term inflation path unchanged.

TD Securities

- Expect policy on hold.
- “The Riksbank could pencil in some small odds of a hike in 2024, as the recovery should be well on track by then.”

Executive Board Comments

Governor Ingves

- "Our forecast includes a limited appreciation of the Swedish krona and this appreciation forms a baseline in our overall forecasting methodology....should the krona appreciate substantially in relation to our forecast, the route to our inflation target will become harder, meaning we will have to think carefully about whether such a development would require an even more expansionary monetary policy." (November Minutes)
- "It is unfortunate that deficiencies on the housing market have not been addressed for a long time and, if this continues, further macroprudential policy measures will be needed once the economic situation has normalised, even more so insofar as the structural deficiencies have not been remedied." (November Minutes)

First Deputy Governor Skingsley

- "Should developments take another course, we stand prepared to adapt monetary policy using our various tools. It is also entirely possible that the policy rate may need to be lowered. Scope for policy rate cuts is, however, limited and needs to be used when it can be expected to have the greatest effect." (November Minutes)
- "The Swedish economy also appears to be doing somewhat better than the Riksbank forecast in November...It will be important to continue the support started during March." "At this point I don't see any reason to be concerned about the exchange rate from an inflation target perspective" (January 13 via Bloomberg)
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Deputy Governor Ohlsson

- "It is an important observation that inflation expectations five years ahead among money market participants have remained at around 1.7 per cent despite the ongoing economic crisis." (November Minutes)
- "Economic activity can be expected to fall, both in Sweden and abroad, this winter. Inflation in Sweden is now well below target. My assessment is therefore that the Riksbank should take further measures to make monetary policy even more expansionary. I therefore support the proposal to expand asset purchases by up to SEK 200 billion until the end of 2021." (November Minutes)

Deputy Governor Jansson

- "The pandemic has picked up pace again. I consider this to be an argument against traditional demand stimuli, including repo-rate cuts....I stand by my previous view that the best course of action at this juncture is to leave the repo rate unchanged, so as not to unnecessarily waste the ammunition we have left." (November Minutes)
- "I would like to emphasise that a repo-rate cut is for me absolutely not a measure that cannot become relevant going forward. If there is a need to make monetary policy significantly more expansionary, it is on the contrary the measure I believe in the most - trying to combat long-term confidence problems for the inflation target using only asset purchases is not something I believe can be done. And, personally, I find it difficult to understand why we would not wish to activate the interest-rate weapon if the credibility of the inflation target were in jeopardy." (November Minutes)
- "We need to be vigilant and see what happens with the krona" (December 16 via Bloomberg)
- Responding to a question from MNI on the effective lower bound, Jansson told an online event hosted by Danske Bank that the Riksbank's experience of below zero rates was positive and that cutting the rate back to -0.5% would not be unworkable. Jansson said he accepted the domestic and global situation was

different now to the last time Sweden had negative rates, but thought the differences were small enough that rates at -0.5% would not be "a very big problem". But he argued against being a leader taking rates deeper into negative territory, although he accepted the Riksbank might have to follow others into "deep negative rates". "I think people think about -3, -4, -5 percent. That I think is an experiment that I would not like Sweden to do first at least. I would like to see how others doing that before," he added. Asked if the Riksbank had evidence that negative rates would work better in a recovery, Jansson told MNI the central bank had not researched whether there was asymmetric effects in different stages of an economic cycle (January 18 via MNI Policy team).

Deputy Governor Breman

- Note that Breman voted for a SEK100bln extension to QE in November (dissented against the SEK200bln extension announced).
- "I do not consider this appreciation in the krona and the risk of it strengthening further in the near term to be an argument for expanding asset purchases. With a floating exchange rate, fluctuations of this nature in the exchange rate are to be expected. There may be situations in which very substantial and lasting changes in the exchange rate provide justification for the Riksbank to act to safeguard price stability, but I do not feel we are close to such a situation at present." (November Minutes)
- "The interest rates on the assets in the current buying programme can probably be kept on low levels by reinvesting principle payments and by making smaller purchases than those now being proposed in the draft decision. My assessment is therefore that SEK 100 billion would suffice to keep interest rates low throughout the economy during the second half of 2021 and provide support to the recovery and inflation."
- "Including treasury bills at this juncture does not provide significantly more support to an economic recovery beyond the support provided by the government bond purchases. My assessment is that this is not an effective tool in the current situation." (November Minutes)
- "If conditions deteriorate even more than we currently expect, and if inflation does not also start to rise towards the target, we are prepared to take new decisions at short notice. In such a scenario, I would not hesitate to expand the purchases further and consider other measures such as a rate cut and/or improved terms for funding-for-lending programmes offered to banks." (November Minutes)

Deputy Governor Floden

- Note that Floden voted against any extension to QE in November.
- "Instead of expanding the programme, I advocate that we communicate clearly that we will ensure that the level of interest rates remains low for a long time to come. In more concrete terms, this would involve us keeping to the previously announced programme of asset purchases for SEK 500 billion until the middle of next year and communicating our preparedness, even in the near term, either to extend the purchase programme, cut the repo rate or otherwise react to developments that otherwise would jeopardise the expansionary impact of monetary policy." (November Minutes)

MNI Policy Team Insights

Data Boost Dims Riksbank Negative Rate Talk

9 February 2021, David Robinson

Better than expected data in recent weeks will likely tilt the scales further away from a return to negative interest rates for the Riksbank, with policymakers set to leave the benchmark Repo Rate and bond buying plans unchanged when they meet this week as data exceeds expectations.

Having expanded and extended its asset purchase programme in November, increasing it by SEK200 billion to SEK700 billion with purchases set to continue through to the end of 2021, the Riksbank has ammunition in the tank for now and the latest collective rate projections showed the repo rate flatlining at zero percent through to the end of the forecast in Q4 2023.

The minutes from the November meeting showed that two members thought that the increase in the size and increased duration of the asset purchase programme was unjustified. There seems to be next to no chance of the Riksbank looking to increase the purchase envelope again in the near-term unless the economic outlook darkens and firmer data are likely to dampen discussion of a return to negative rates.

There had been talk among committee members of returning to a negative rate if conditions warranted it. Martin Floden argued in November that with lending rates already very low increasing QE was unlikely to have any significant effect and his colleague Per Jansson said at a recent press conference that the experience (of negative rates) in Sweden was positive.

RATE PROJECTIONS

The better data since November have suggested that the hit from the Covid pandemic is less than the Riksbank anticipated and it is very likely to push up its near-term growth and inflation forecasts, although it could well shy away from introducing a rate hike into its three-year forecasts in this Monetary Policy Report.

Still battling to get inflation back up to target and with Governor Stefan Ingves saying that policy may have to be reassessed if further krona appreciation adds to disinflationary pressure, the Riksbank is likely to be wary of fuelling expectations of a rate hike.

The recent data have shown the Swedish economy holding up better than many other advanced economies in the teeth of the Covid-19 storm. The latest data put the economic contraction for 2020 at 2.8%, better than the central bank's forecast of a 4% decline.

Subsequent purchasing managers indices have been positive with the Swedbank manufacturing purchasing managers index (PMI) coming in at 62.4, down from 64.7 in December but still well into expansionary territory.

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