

## Riksbank Review: June 2023

[Monetary Policy Statement link](#)  
[Monetary Policy Report link](#)  
[Press conference \(in Swedish\)](#)  
[Statement on hedging FX reserves](#)

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### Another 25bp to come, but little commitment beyond

3 July, Tim Davis

Going into the June Riksbank meeting we had noted in our preview that we thought there was a greater chance of a hawkish surprise than most analysts would suggest – and in some ways we got that. The Riksbank hiked 25bp as expected, but also noted in their forward guidance that “The forecast is for the policy rate to be increased at least one more time this year.” Most analyst previews that we had read were looking for a 3.85-3.90% peak in the rate profile, but it actually came in at 4.05%.

Active sales of government bonds were also accelerated to a pace of SEK5bln/month – however this was at the lower end of analyst expectations and below investor expectations of SEK5.75bln/month (as per the SEB Investor Survey). There had also been some expectations (although generally not a central view) that the Riksbank would conduct sales during the previously announced summer break of July and August at a reduced pace – the Riksbank preferred to keep the summer break in place, however.

The increase in the pace of QT and the signalling of a further hike were largely tied to a weaker than expected SEK. And this rationale was pushed even further with the Riksbank also presenting its alternative scenario with a weaker exchange rate and stronger passthrough to inflation in which the policy rate peaked above 4.50%.

Looking ahead it appears as though the Riksbank is committed to a 25bp hike in September and wants to keep its options open beyond then to see where the exchange rate settles, reassess the inflation outlook and to see whether other central banks such as the ECB are in approaching the end of their hiking cycle.

### mni Central Bank Watch - Riksbank

July 02, 2023

MNI Riksbank Data Watch List						2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
<b>Inflation</b>										
CPI	% y/y	9.7	12.0	↓	11.50	↓			0.66	
CPIF	% y/y	6.7	9.4	↓	9.50	↓			-1.73	
CPIF Excl Energy	% y/y	8.2	9.3	↓	8.0	↓			-0.58	
PPI	% y/y	-2.1	9.3	↓	19.5	↓			-1.43	
<b>Economic Activity</b>										
Swedbank Manuf PMI	Index	40.6	46.9	↓	46.1	↓			-1.71	
Private Sector Production	% y/y	0.7	1.9	↓	2.60	↓			-0.28	
Economic Tendency Survey	Index	90.3	88.9	↑	86.80	↑			1.51	
Swedbank Service PMI	Index	50.2	46.3	↑	54.30	↑			-0.44	
<b>Monetary Analysis</b>										
M3 Money Supply	% y/y	-3.25	0.70	↓	3.91	↓			-2.09	
Lending to HH	% y/y	1.50	2.68	↓	4.07	↓			-1.32	
Lending to Non-Fin Corp	% y/y	7.84	12.66	↓	16.14	↓			-1.44	
Avg. new HH loan rate	%	4.27	3.86	↑	3.48	↑			1.41	
<b>Consumer / Labour Market</b>										
Retail Sales YoY	% y/y	-5.43	-8.50	↑	-5.17	↓			-0.79	
Consumer Confidence	Index	71.7	65.6	↑	60.6	↑			1.56	
Unemployment Rate	%	7.9	8.2	↓	6.40	↑			0.84	
Household Consumption	% y/y	0.0	1.3	↓	0.00	↑			0.34	
<b>Markets</b>										
Equity Market (OMXS30)	Index	2310	2224	↑	2043	↑			0.94	
Sweden 10-Y Govt Bond	%	2.55	2.26	↑	2.45	↑			0.92	
SEK Yield Curve (2s-10s)	bps	-92.1	-62.2	↓	-35.8	↓			-1.61	
SEK KIX TWI	Index	130.48	125.73	↑	125.03	↑			1.59	

Source: MNI, Bloomberg

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## Sell Side Previews (A-Z)

### Bank of America

- “The Riksbank seems to be saying 'probably one more hike then let's see'.”
- “The Monetary Policy Report suggests to us that the Riksbank is trying to shift even more data dependent.”
- “We expect one more 25bp rate hike from the Riksbank in September to 4.0% terminal. We previously forecast 3.75% terminal. We forecast the policy rate at 3.25% at end-2024 (+25bp) and 2.0% at end-2025 (unchanged).”

### Danske Bank

- “We stick to our call for a final 25bp in September to 4.00%.”
- “The MPR in our eyes signals an increased awareness of the SEK.”
- On the FX reserves hedging: “It is hard not to see this as a monetary policy signal though, given that the krona exchange rate is instrumental for monetary policy. This is not an FX intervention here and now but a signal that it may come later on – a veiled intervention?”
- “Even though this is claimed not to monetary policy, we see it is as being related.”

### DNB

- “The rate path was raised more than we had anticipated, which, in our view, can be attributed to persistent service inflation, higher international rates, and a weaker SEK, representing upside risk.”
- “While the weaker SEK was assessed to not be a major contributor to inflation development so far this year and is not expected to have a large impact going forward, there is a risk that unless the Riksbank follows international rates, the SEK will not strengthen as much as implied by their forecast. This reasoning was underscored by the provided scenarios.”

### Goldman Sachs

- “We continue to expect a final 25bp hike in September for a terminal rate of 4%, and see upside risks to this projection should the Krona continue to depreciate.”
- “We see the main risk in the development of the Krona: the MPR alternative policy scenarios focus on inflation and the exchange rate, and we see upside risks to our terminal rate forecast should the Krona continue to depreciate.”

### Handelsbanken

- “Today's actions from the Riksbank were a touch more hawkish than what we anticipated at this meeting, implying that the Riksbank is now almost in agreement with our own policy rate forecast.”
- The forecast changes signal “an increased awareness of a deeper entrenched inflation problem — something we forecast will continue to haunt the Riksbank after the summer.”
- “We stick to our forecast for two more 25bp hikes, in September and November, taking the policy rate from 3.75 to a 4.25 percent peak.”
- “Cautious rate cuts may begin next summer, when we forecast inflation to be approaching the 2 percent target on a sustained basis.”

### ING

- “There's little reason to doubt that the Riksbank will go ahead with another rate hike at its September meeting. But ultimately Swedish policymakers face a growing trade-off between hiking to bolster its ailing currency, and avoiding a deeper correction in the housing market.”
- “We expect a rate hike in September, but if the Fed and ECB have paused rate hikes by the fourth quarter, then the Riksbank might be content with keeping rates on hold in November.”

### JP Morgan

- “The Riksbank said it will consider hedging its FX reserves. This should not be confused with actual FX interventions, but technically speaking it is (minimal) SEK positive flow-wise.”
- The “meeting was roughly neutral relative to our expectations.”
- “We see a final rate hike of 25bps in September and a terminal rate at 4.0%.”

### Morgan Stanley

- “The weak currency was a clear focus [last week], with an announcement of possible hedging of “a part of FX reserves” tantamount to backdoor intervention.”
- “Given the pre-commitment to “at least another hike” this year, the decision can be described as a hawkish 25bp hike. We expect a 25bp move in September, to a terminal rate of 4.0%.”
- “The higher-for-longer messaging remains in place, with rate cuts expected only from late 2025. Given our inflation - and ECB forecasts - we still see rate cuts in 2H24.”

### Nomura

- The Riksbank “disappointed market expectations for a terminal rate somewhat above 4.25%, but surprised our dovish expectations.”
- “Largely a reaction to continued SEK weakness rather than domestic inflationary concerns. Therefore, we believe FX is now the driving seat and if there is continued SEK weakness this will drive policy rates higher. However, the outlook for inflation still looks promising, and we expect activity to be weak.”
- “We are now forecasting the Riksbank to raise its policy rate two more times at both its September and November meetings by 25bp, bringing it to a terminal rate of 4.25%.”
- “We still think rate cuts will come sooner rather than later because the Riksbank will have to reverse course in the face of a weaker economy. However, we now expect the Riksbank to hold its nerve for longer and only start cutting rates in Q2 2024.”

### Nordea

- “Today’s message from the Riksbank was fairly in line with expectations.”
- “The SEK remains the biggest risk in our view. There are three inflation readings ahead of the September meeting. The Riksbank’s updated forecasts are well in line with our view on CPIF and CPIF ex. energy. However, the Fed as well as the ECB have two rate announcements before the Riksbank’s September meeting and have signalled further rate hikes, which could add pressure on the SEK.”
- “We keep our forecast that the Riksbank will hike rates by 25bp in September to 4.00%, and stay on hold during the remainder of 2023. However, there is a clear risk that the SEK will continue to weaken, which could trigger rate hikes beyond 4.00%.”

### SEB

- “The decision to partly hedge the currency reserves will render a positive flow of up to SEK 100bn... The amount looks modest and is unlikely to stop the trend of SEK falling. However it is a sign that the weakened exchange rate is pressuring Riksbank and more measures could be implemented should we approach 12.00 in EUR/SEK.”
- “We raise our forecast and predict at least one more hike.”

### Swedbank

- “The Riksbank put more emphasis on the effects of the weak exchange rate and suggested that the impact may be larger now than usual. Also, it signalled more attentiveness to the exchange rate by including an alternative scenario with a weaker SEK.”
- “Now expect that the Riksbank will also hike in November, to a terminal rate of 4.25%. We continue to view inflationary risks as tilted to the upside, not least due to the record weak SEK. That, coupled with surprisingly hawkish decisions from other central bank recently, is likely to keep the Riksbank in hiking mode for longer.”

# MNI POLICY TEAM INSIGHTS

## Swedish Central Bank Signals Another Hike

By David Robinson, 29 June 2023

The Riksbank raised its policy rate by 25 basis points to 3.75% following its June meeting and signalled a likely cycle peak just over 4.0%, together with unveiling plans to accelerate the pace of government bond sales.

While most analysts predicted the 25bp hike, markets had partially priced in 50bp, but the Swedish central bank's executive board also said its forecasts suggested that the policy rate "will be raised at least one more time this year." In addition, from September it will step up the pace of sales of government bonds to SEK5 billion per month from SEK3.5 billion.

Its quarterly forecasts showed the policy rate peaking at 4.05%, before declining only very slowly back to 3.75% at the end of the three-year forecast.

Inflation forecasts were virtually unchanged, with the target CPI measure seen falling from 5.9% this year to 2.4% next year, rather than the 2.3% foreseen in the previous forecast round, and then down to 1.8%.

The weak krona, which has dropped to its lowest levels since the global financial crisis, was cited as a factor keeping inflation higher, and Bank economists warned that the pass-through to prices from currency depreciation could be greater than in previous episodes.

## MNI INTERVIEW: Riksbank Only Needs Gradual Hikes - Gov Thedéen

By David Robinson, 29 June 2023

Sweden's rising inflation risks justified a move by the country's central bank to signal more monetary tightening than previously anticipated, though price pressures for the moment are low enough to permit a more gradualist approach to rate hikes than taken in other developed nations, Riksbank Governor Erik Thedéen told MNI.

The Riksbank earlier on Thursday increased its policy rate by 25 basis points to 3.75%, and raised its projected cycle peak, signalling another hike is likely this year. While the Bank of England and Norway's Norges Bank both hiked 50 bps this month, Thedéen said the Riksbank had room to move more slowly. (See MNI RIKSBANK WATCH: Swedish Central Bank Signals Another Hike)

"They have slightly different inflation dynamics. The UK is a little bit of a special case because they have, I would say, worse dynamics than we have. Much higher wage growth, for example. In Norway they paused, and then went for this hike of 50. I think we have room to do this a little bit more gradually," Thedéen said in an interview.

While the inflation projections in the Riksbank's Monetary Policy Report were little changed from those published at the time of its last decision April, it raised its projected rate peak to just over 4.0% from 3.6%.

"It is more the risk profile that has increased," said Thedéen, pointing to future inflation risks even though the baseline forecast stayed largely unaltered. "I think that points to a more gradual approach."

### WEAK KRONA

The Riksbank also published an alternative scenario in which krona weakness contributed to higher inflation, with the policy rate rising to 4.5% in response. The krona has hit its weakest levels since the global financial crisis but Thedéen warned against any assumption that currency moves would determine monetary policy.

"People are focusing too much on the krona, period. We focus on inflation," he said, though he acknowledged the risk that publishing the alternative scenario could turn still more attention to the currency.

"We had that internal discussion .. We have a scenario dependent on the krona .. What we are trying to persistently communicate is that the krona has an input to inflation. That is why it is relevant, it's not relevant per se," he said.

The Riksbank could have drafted a scenario in which the krona weakened further and inflation still fell if other factors pushed in the opposite direction, he said.

#### UNDERLYING INFLATION

The déen stressed that what matters most to the Riksbank are underlying inflation pressures and these were key to the extra 25bp hike included in its June forecasts.

"The story is that, of course, we are focusing a lot on the underlying [inflation] as we know that the dynamics of the headline [inflation] are very much a story about energy prices. If we don't get underlying inflation right then we will not succeed with headline inflation either," he said.

"It is very much also about risk. So, basically, we have a high underlying inflation, it seems to be fairly persistent in some parts of retail, in the service sector and that is why we increased the risk there. And that is also supported by pretty strong demand. And then, of course, the krona adds to that risk," the Riksbank head said.

The central bank also stepped up the pace of asset sales, to SEK5 billion a month, but The déen said this was due to strong demand for earlier sales and a desire to help market liquidity.

Asked if this quantitative tightening weighed on inflation The déen said "Marginally. I would say normalisation of the balance sheet, better functioning of government security markets, that is the external effects. The effect on inflation is marginal because the effects on interest rates are marginal."

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