Danske Bank

Investment Research

Flash comment Riksbank – November 2023 Minutes

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Riksbank Minutes:

- **Thedéen:** takes a neutral stance to monetary policy, arguing that Riksbank needs to take a "wait and see"-approach in the current situation. He points to a slight weakening of the economy, for instance the labour market and production. Moreover, inflation has been in line with forecasts, the Krona has strengthened, corporate price plans have fallen back, several measures of core inflation and "momentum" inflation has dropped below the ordinary 12-month inflation rate. That said, monetary policy needs to remain tight and Riksbank is prepared to tighten policy again at coming meetings if needed. A risk is that a Krona re-weakening might affect monetary policy going forward. He says there are good arguments, a better working market, to increase bonds sales further.
- **Breman:** Leaving the policy rate unchanged was well-balanced as better inflation prospects and increasingly weak economic activity with a slowdown in labour markets outweighs the still weak SEK. She admits that the SEK has strengthened recently but is worried that this was a short-term move only which could be reversed easily. The 'short-term' momentum in inflation is pointing in the right direction looking at measures that is excluding the most volatile components the inflation numbers have fallen substantially. However, she still sees upside risks to the inflation path (mentioning risks such as: geopolitics, military armament, near-shoring, green transition, demographic changes) and stands ready to further increase the policy rate if needed. QT has worked well and she is "…positive that we may come to decision at our next monetary policy meeting to further expand the sales of government bonds".
- **Jansson:** Jansson has clearly left the hawkish stance from September when he saw risk that the policy rate path would prove to be too soft. He, the inflation-hawk, even comes across as rate-dovish. He admits that his view on monetary policy has not changed somewhat but actually quite considerably. He points at three factors that have led to this. First, the outcomes for inflation give clear reason for optimism, the outcome for October paints a significantly brighter picture than previously and that the overall picture is that inflationary pressures are clearly easing. Secondly, it is increasingly clear that the Swedish economy is currently cooling down which means that the risks of inflations will be smaller. In this context, he says "there is of course absolutely no point in tightening monetary policy more than necessary." Thirdly, recent developments in the krona mean that the risk of cumbersome inflation impulses has decreased, creating some breathing space. He points at the decision to increase the pace of government bond sales may also help to reduce the risk from a weaker krona. He concludes by saying that there is now sufficient information to not raise the policy rate further.
- **Flodén:** describes an optimistic view of Swedish inflation now. The weaker SEK has had a greater impact on prices than what they anticipated although he still highlights that it is unjustified weak. Travel prices has a way bigger impact this year because of its larger weight in CPI making prices increases for one year ago contributing way more. He highlights the importance of corporate price plans and both highlights that they are still too high in NIER's survey but moving in the right direction and while they have decreased significantly in the Riksbank's own business survey. He sees no risk for a wage-price spiral as wages are developing in a welcomingly modest pace in comparison to the inflation environment we are in now. Overall, even though the latest inflation print was marginally above their forecast he thinks looking at the broader picture that the inflation outlook looks much brighter. However, upsides risks remain to inflation backlashes and that it is still not unlikely for a rate hike in the beginning of the next year.
- **Bunge:** clear signs that monetary policy is having a contractionary effect and that demand is falling in the Swedish economy, which suggests reduced inflationary pressures going forward. Considerable uncertainty remains however, especially connected to the global economic outlook. Vital to see the lower price plans to be confirmed by actual pricing developments. Upside risks to inflation mainly from companies' pricing behaviour and the SEK. Downside risks not least related to the weak economic outlook and a worsening of the labour market. Monetary policy needs to remain contractionary for a relatively long period. Open to further hikes, if warranted by inflation numbers. Also open to increased QT at the next meeting, citing that "this is positive" regarding QT working well and the report stating that the volumes might be increased at the next meeting.

Conclusion: The unanimous decision gets confirmed when reading the individual reasoning. The biggest shift comes from Jansson who is turning clearly less hawkish. In general there is still a large worry for a re-weakening of the SEK and potential upside risk to the inflation path. All members of the executive board expressed the possibility for a further hike and support the current rate path indicating a 10bp hiking bias. A further increase in sales of government bonds has been mentioned as a possibility and a positive such by all the members (except Flodén who does not mention QT). We think an increase in QT volumes is more or less a done deal and a welcome tool to sound hawkish without having to increase the policy rate at the upcoming meeting.

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