

Riksbank review – Start of a gradual cutting cycle

8 May 2024

FILIP ANDERSSON

Head of Research Sweden
fian@danskebank.se
+46 (0) 8 568 805 64

MICHAEL GRAHN

Chief Economist Sweden
mika@danskebank.se
+46 (0) 8 568 805 88

STEFAN MELLIN

FX Strategy
mell@danskebank.se
+46 (0) 8 568 805 92

JOEL ROSSIER

Fixed Income Strategy
joero@danskebank.se
+46 (0) 8 568 805 98

GUSTAV SUNDÉN

Macro Analyst
gusu@danskebank.se
+ 46 (0)76 721 67 16

Marketing communication. This communication is 'marketing communication' and is not intended to constitute 'investment research' as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication.

Riksbank review: Riksbank moves early and starts the cutting cycle

Conclusion: A 25bp cut in line with market expectations, but contrary to our call for a first cut in June. Communication is similar to March, with two additional cuts expected during H2 in a main scenario (also in line with our call for Sep and Dec cuts). Muted market reactions in fixed income, with a slight outperformance vs EUR, but a more pronounced FX reaction, in line with what we expected for this scenario.

Riksbank still citing international developments and SEK as risks..

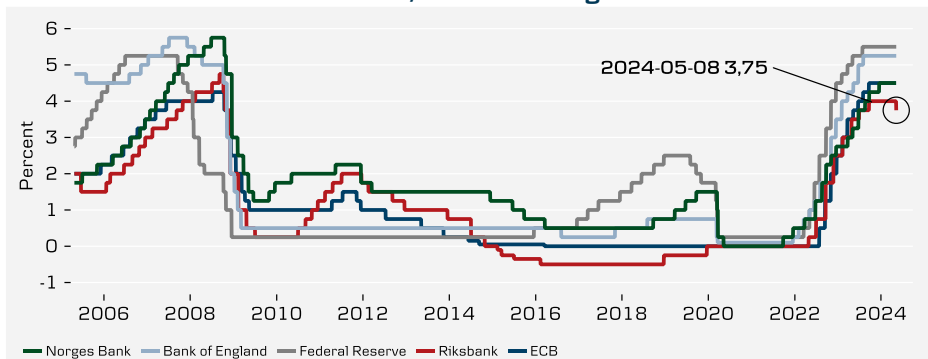
“A number of risk factors, primarily linked to international developments and the krona exchange rate, can cause inflation in Sweden to rise again. Moreover, rapid and large rate cuts could lead to a sharp increase in demand again and reignite inflation. This suggests monetary policy should be adjusted gradually.”

...but also plays down the pass-through effect on inflation

“If the strong developments in the United States continue, the Swedish krona could depreciate even further and lead to higher import prices for businesses. However, the effect on inflation depends on their pricing behaviour. It is uncertain to what extent they can continue to pass on the increased costs to consumer prices in a weaker economic situation.”

Source: Riksbank

Riksbank moves ahead of ECB, Fed and Norges Bank



Source: Macrobond

Fixed Income: The May cut was priced to some 80%, and hence the market reactions have so far been fairly muted, with front-end FRAs outperforming EUR by some 3-4bp. The June meeting is now priced for 8bp, which seems reasonable in our view. Further out, we believe the market is pricing too gradual cuts and that the risk/reward is for more cuts looking into 2025. We continue to look for lower front-end pricing and relative steeper curves.

Macro: Overall, the monetary policy update contains surprisingly much discussion (disproportionately much in our opinion) regarding the strong economic outlook in the US. They acknowledge that the Swedish GDP-indicator for Q1 was low, but according to their forecast. However, they forecast increased growth going forward given higher real wages, increasing optimism among household and stronger expected business activity moving ahead. Unemployment in Q1 (8,3%) was somewhat higher than they expected, and they perceive that all indicators point towards an increase going forward. It is welcome that they refer to the Q1 number instead than the highly volatile monthly statistic. Even other indicators that they highlight such as newly registered job openings, redundancy notices and bankruptcies do all not look too promising. We still think they give an unjust representation of the Swedish labour market and underestimate how it will contribute to growth moving ahead. The unemployment should be interpreted as capacity measure which currently increases due to inflows from the non-labour force rather than from lower employment. Employment on the other hand remains stable, moving sideways while hours worked rises, which in our view are more important when gauging the economic outlook. This as employment is more connected to the income side of the economy and hours worked to the production side.

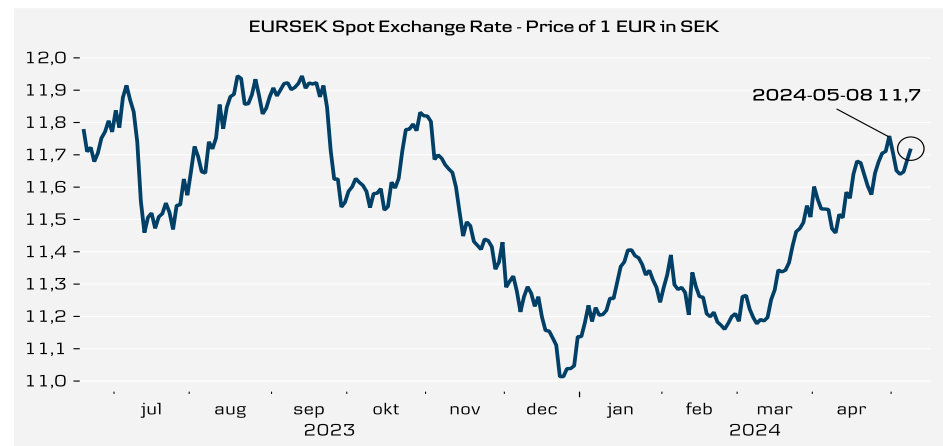
Regarding the domestic inflation outlook, they basically deem that everything looks promising as the March outcome was much lower than their forecast. They state that prices of both goods and services increased more slowly than expected in March. It is worth highlighting though that it is not entirely true as the service inflation in March (4,8% YoY) was equal their forecast for the sub-index.

Riksbank review: Riksbank moves early and starts the cutting cycle

FX: While it was the wrong decision in our view, the response in SEK FX is rationale, a reflection of relative monetary policy, similar to after the hawkish read of Norges Bank last week, and in line with our reasoning beforehand. We warned that if the market is seeing this as the Riksbank is about to frontload rate cuts and giving up on the SEK, including toning down the pass-through, then EUR/SEK might take out year highs (11.77) before long and then pave the way for a test of ATH (just below 12.00). That said, the decision largely priced in as indicated by post-decision re-pricing of the FRA curve - imagine what would have happened if they had decided to stay on hold! The upside potential in EUR/SEK is more limited if the Riksbank can convince markets about its gradualist approach with (only) two cuts in H2 which so far seems to be the case with EUR/SEK only slightly higher after the press conference. In addition, EUR/SEK spot is already stretched (two standard deviations) overbought relative to our short-term rates model. We remain short EUR/SEK in [FX Trading Portfolio - Sell EUR/SEK, 5 April](#).

Riksbank forecasts: Given that we expected the Riksbank to stay on hold and deliver the first cut in June, we adjust our call accordingly and remove our baseline forecast for 25bp in June, but otherwise keep our call unchanged (25bp cuts in September and December). This is also in line with the Riksbank's guidance for two more cuts during H2. The risks to the call is on the downside as we see it, and we deem it fair that the market is putting some probability for a cut in upcoming June meeting (8bp at time of writing). As we argued in our preview, the Riksbank will see two more inflation prints ahead of the meeting, which will be important input. Should inflation continue to undershoot the Riksbank forecast, an additional cut in June cannot be ruled out. Especially as the Riksbank tones down the pass-through effects from the weaker SEK. A June cut was also not fully ruled out by Thedéen at the press conference.

Renewed SEK weakness following Riksbank decision



Source: Bloomberg, Macrobond

Riksbank pricing per meeting

	RB pricing per meeting (effective meeting dates, bp)	Change on day (bp)
15 maj	-25	-5
03 jul	-8	+3
21 aug	-11	+0
02 okt	-11	+0
13 nov	-11	+0
08 jan	-11	+0
05 feb	-10	+1
02 apr	-10	+0
Σ	-97	-1

Source: Danske Bank. Note: Past performance is not a reliable indicator of future results

Disclosures and disclaimers

The following disclaimer and disclosure apply to all communication as such, though for the parts that refer to the term “investment recommendation”, the disclaimer and disclosure are only applicable as far as the communication falls under the definition in Regulation [EU]No 596/2014. This communication has been prepared by personnel in the LC&I Sales & Trading departments or non-independent Research departments of Danske Bank A/S. The views set forward in this communication may differ from views or opinions in other departments of Danske Bank A/S. It constitutes a short-term view and is subject to change and Danske Bank A/S does not undertake to notify any recipient of this communication of any such change. Details of the producer’s previous investment recommendations on the relevant financial instrument and all previous investment recommendations made in the past 12 months by the producer will be available upon request.

LC&I’s Sales & Trading departments’ or non-independent Research departments’ personnel are not independent research analysts, and this communication is not intended to constitute “investment research” as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication. The personnel in LC&I’s Sales & Trading departments or non-independent Research departments may be remunerated based on investment banking revenues. Danske Bank A/S may hold a position or act as market maker in any financial instrument discussed herein. Prices and availability are indicative and may change without notice.

This communication is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments. Danske Bank A/S is not acting as an advisor, fiduciary or agent. Recipients of this communication should obtain advice based on their own individual circumstances from their own tax, financial, legal and other advisors about the risks and merits of any transaction before making an investment decision, and only make such decisions on the basis of the investor's own objectives, experience and resources.

This communication has been prepared independently and solely on the basis of available information that Danske Bank A/S considers to be reliable, but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this communication and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this communication.

For current disclosures of Danske Bank A/S’ interests and potential conflicts of interest regarding issuers and financial instruments subject of investment recommendations please refer to the following webpage: <https://danskeci.com/ci/research/disclosures-and-disclaimers>.

Please note that while information on the great majority of relevant issuers and financial instruments are contained on this website, it may not contain information on all relevant issuers and financial instruments. The absence of information on any relevant issuer or financial instrument should not be seen as an indication that Danske Bank A/S does not have any interests or potential conflicts of interest on the issuer or financial instrument. Please contact your Danske Bank A/S representative for information regarding any issuer subject of investment recommendation that is not mentioned on <https://danskeci.com/ci/research/disclosures-and-disclaimers>.

Danske Bank A/S is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank A/S is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority [UK]. Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank A/S on request.

This communication is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S’ prior written consent.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this communication is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This communication is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the United States

This communication was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The communication is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this investment recommendation in connection with distribution in the United States solely to 'U.S. institutional investors'.

Any U.S. investor recipient of this communication who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

This communication is for the general information of our clients and is a 'solicitation' only as that term is used within CFTC Rule 23.605 promulgated under the U.S. Commodity Exchange Act. Unless otherwise expressly indicated, this communication does not take into account the investment objectives or financial situation of any particular person.

Report completed: 8 May 2024 at 12:00 CET

Report disseminated: 8 May 2024 at 12:30 CET