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19 December 2024



Riksbank – December 2024: 25bp cut but a hawkish signal

We now expect two cuts in March and June to 2.0%
(previously 1.75%)

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Riksbank - 25bp cut but a hawkish message

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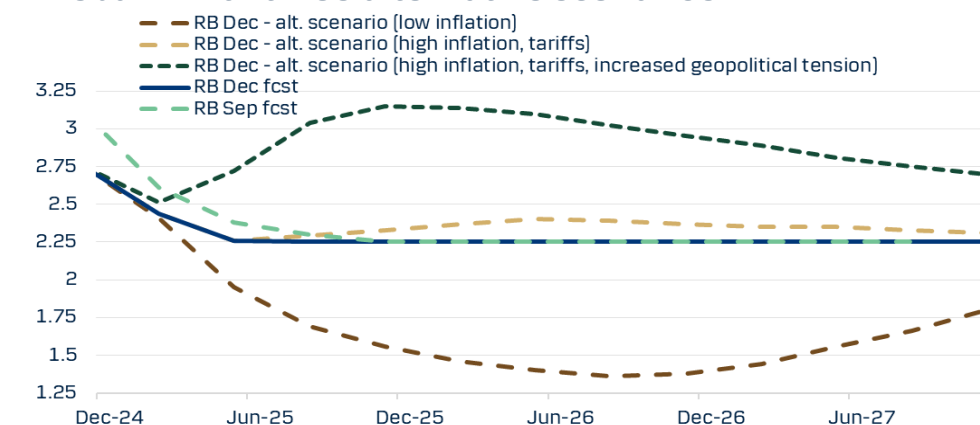
- As expected, The Riksbank cut the policy rate by 25bp to 2.50%, but in terms of the outlook the message was hawkish in relation to our expectations and compared to market pricing. The Riksbank is signalling that it plans to cut once more during H1 25 (we expected 1-2 cuts in guidance) and looking at the rate path the probability seems rather evenly distributed between the January and March meetings. The end point of 2.25% in the rate path was unchanged compared to September and again higher than we envisaged at this point (2.10%).
- Overall, the Riksbank forecast seems a bit on the optimistic side. As the economy remains weak ('mild recession'), with a negative GDP gap that is not closed until 2027, inflation more or less at target and the forecast of international policy rates revised lower, it can be questioned if a more expansionary policy is not needed than a rate path ending up at the mid-point of their neutral rate assessment (1.5%-3.0%). In the Q&A, Governor Thedéen suggested that current policy actually may be expansionary already, at this point, a hawkish remark as we see it.
- Especially, one can highlight the contrast between the MPR at this point compared to the November meeting, where the Riksbank seemed clearly more concerned about the growth recovery stalling, which motivated the larger 50bp cut (clearly on the dovish side to the September path). In this report, the notable change is an upward revision of near-term inflation, but a roughly unchanged picture of the economic recovery compared to the September forecast. Hence, there is seemingly a shift compared to November where the inflation outlook perhaps weighs more than growth concerns.
- In our view, the risk picture to the Riksbank's main scenario is clearly on the downside looking into 2025. That said, given the hawkish message from the Riksbank, we adjust our call upwards and now see **two more cuts (March and June) from here down to 2.00%** (1.75% previously) **with a pause in January**. The timing of these cuts is uncertain and while our own take would be that the Riksbank should continue to 'front load' cuts, the wording of 'a more tentative approach' and 'carefully evaluate the need for future interest rate adjustments' suggests that it seems ready to 'skip' the January meeting.

Riksbank signals one more cut in either January or March

Announcement date	Market pricing		Danske Bank forecast		Riksbank Dec24 MPR	
	Implied Change	Level	Change	Level	Implied change	Level
2024-12-19	-0.25	2.50	-0.25	2.50	-0.25	2.50
2025-01-29	-0.13	2.37	0.00	2.50	-0.14	2.36
2025-03-20	-0.12	2.25	-0.25	2.25	-0.11	2.25
2025-05-08	-0.03	2.22	0.00	2.25	0.00	2.25
2025-06-18	-0.05	2.17	-0.25	2.00	0.00	2.25
2025-08-20	-0.05	2.12	0.00	2.00	0.00	2.25
2025-09-23	-0.03	2.09	0.00	2.00	0.00	2.25
Accumulated 2025	-0.41		-0.50		-0.25	

Sources: Riksbank, Danske Bank. Note: Past performance is not a reliable indicator of future results

Riksbank with three alternative scenarios



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Riksbank - 25bp cut but a hawkish message

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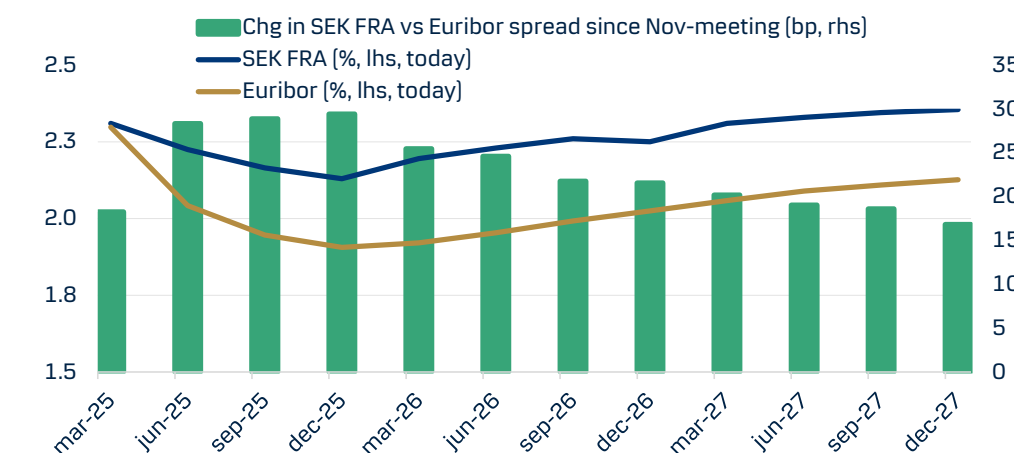
- **Macro.** Riksbank's December forecast shows a slight downward revision to the growth outlook for both 2024 and 2025. This mainly seems to be the result of a more pessimistic view on international trade as net exports are reduced significantly for both years. Domestic demand is revised slightly higher. The forecast for the unemployment rate was kept unchanged.
- Inflation has been revised higher, both CPIF and CPIF excl. Energy. For 2025, Riksbank raised the forecast for both energy and underlying inflation. The latter will remain above 2% throughout 2025 the detailed monthly forecast shows. In particular, the path for CPIF exc. Energy has been lifted by some 0.4 percentage points in the near-term.
- **Fixed Income.** The more hawkish stance from the Riksbank got reflected in a SEK rates underperformance, where the short-end (up to two years) widened some 10bp against EUR rates and longer rates some 5bp. Market pricing indicates now some 18bp in cuts for the upcoming January meeting and an additional 9bp for the March meeting. The market move suits our trade recommendation where we are paid 5y SEK swaps against receiving 2y EUR swaps. Already ahead of today's meeting we were looking for a positive spread between the ECB against the Riksbank (25bp), and we increase the expectation for the spread to 50bp with our updated call (Riksbank at 2.00% vs ECB at 1.50%). Despite the flattening move in the SGB curve we do see some performance in our short 10y SGB vs received 5y EUR swap due to the general Sweden underperformance. Our current trade recommendations can be found on slide 5.

Riksbank forecasts - December MPR vs September MPR

	2024	2025	2026	2027
CPIF	1,9 (1,7)	2,0 (1,6)	1,9 (1,9)	2,0
CPIF-XE	2,7 (2,6)	2,2 (2,0)	2,0 (2,0)	2,0
GDP	0,6 (0,8)	1,8 (1,9)	2,6 (2,5)	2,1
Domestic Demand	0,1 (-0,2)	2,1 (2,0)	2,6 (2,5)	1,7
Net Exports	0,1 (0,9)	-0,4 (0,0)	0,0 (0,0)	0,3
Unempolyment	8,4 (8,4)	8,4 (8,4)	8,0 (8,0)	7,7

Sources: Riksbank

SEK FRA underperformance vs Euribor since the November meeting



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



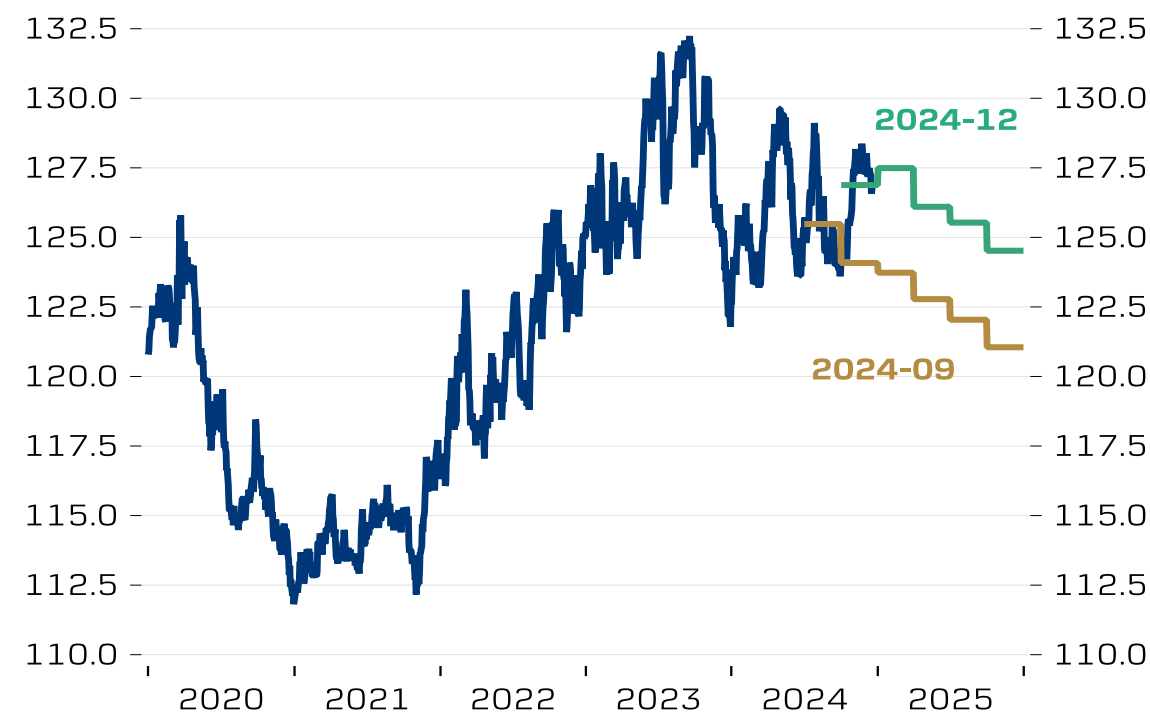
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- FX.** From a communication point of view, it is business as usual for the SEK from the Riksbank. The SEK is one of the potential inflation risks still in play for next year, but (as always) the Riksbank sees the SEK as undervalued and its KIX forecast is basically just a copy-paste from the September forecast indicating a gradual SEK appreciation over the coming years. As for the SEK implications of the policy decision, we see the hawkish shift in guidance as a potential boon for the SEK in the near-term, further amplified by current levels already signaling a substantial overshoot versus rates-implied 'fair value' in various SEK crosses. A January 'skip' would in isolation support downside in EUR/SEK given current pricing. Furthermore, as our updated call entails that the ECB will out-cut the Riksbank in 2025 and that we will end up with a policy rate differential of 50bp in Q3 (in favour of Riksbank/SEK), medium-term SEK-headwinds from monetary policy are moderated somewhat. However, structural investment flows are likely to remain a medium-to-long-term headwind for the SEK and in our view a 50bp rate gap in favour of the SEK will not prove enough to change this. Additionally, our continued call for US outperformance during 2025 is usually not conducive for broad SEK strength. As such, we see scope for a near-term correction lower in SEK-crosses, further supported by today's policy decisions, but in the longer run we continue to see a weaker SEK.

KIX forecast a "copy paste" but again at a higher starting point

KIX and Riksbank forecasts



Sources: Riksbank, Danske Bank. Note: Past performance is not a reliable indicator of future results



Open trade recommendations

Type	Trade	Idea	Opened	Start	Target			Status
					/Stop	Now	P/L	
Swap (EUR) vs SGB steepener	Sell SGB1066 (May-35) vs receive 5y EUR swap	SGBs expensive and massive SGB1066 supply coming up. 5s10s curvature too flat and SEK vs EUR 5y swap spread too inverted	2024-12-17	2.0	30/-10	6.1	4.1	Hold
SGB ASW box steepener	Sell SGB1053 (Mar-39) ASW vs Buy SGB1056(Jun-32) ASW	SGB ASW box too flat and QT supply large for 1053 then 1056 (in risk terms)	2024-11-14	7.1	18/0	10.9	3.8	Hold
Buy 2y Covered Bond ASW	Buy SHYP1591(Jun-26) ASW	2y segment elevated and covered bond trading wide vs swap in that part of the curve	2024-06-27	14.5	0/25	11.2	3.3	Hold
Covered vs SGB tightener	Buy SWH197 (Mar-27) vs Sell SGB1059 (Nov-26)	2y covered bonds attractive and negative view on 2y SGB	2024-12-12	47.5	30/60	48.5	-1.0	Hold
Steepener	Rec 2y EUR vs pay 5y SEK swap out of H5	SEK to underperform vs EUR and curvature still too flat	2024-12-17	20.0	45/5	28.3	8.3	Hold



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