

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.

Important disclosures and certifications are contained from page 4 of this report.

2 January 2025

Riksbank – December 2024

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

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

JESPER FJÄRSTEDT
FX Strategy
jesppe@danskebank.se
+46 (0) 8 568 805 85

JOEL ROSSIER
FI Strategy
joero@danskebank.se
+46 (0) 8 568 805 98

Danske Bank

Riksbank review – December 2024 Minutes

Conclusion

- While the press release at the December meeting stated that the *“policy rate may be cut once again during the first half of 2025”*, the rate path but also the minutes released today reveal that the most Riksbank members are eyeing a cut in either January or March (Q1), rather than later during H1.
- On the exact timing, Jansson seemingly prefers January ahead of March and Bunge makes a similar comment. Breman says *“beginning of 2025”*, while Thedén and Seim seem to be on the more hawkish side, not specifying the exact timing but sticking to *“H1 2025”*.
- Our call is for the Riksbank to pause in January and cut in March (and June), but there is clear uncertainty about the exact timing and today's minutes give some support to a January cut if anything. Current market pricing and also the rate path suggesting a 50/50 distribution between January and March seems fair at this point.

Anna Breman

Breman highlights the balancing act between supporting the economy while also making sure inflation don't accelerate. In her assessment *“.. A cut of 0.25 percentage points at today's meeting and a further cut of 0.25 percentage points at the beginning of 2025 will manage this balancing act.”*

On the economic recovery, Breman sees a risks to the economic activity to be on the downside, *“..as households and companies may refrain from consumption and investment if there is considerable uncertainty over the economy”*, but sums it up saying that the outlook for both inflation and economic activity for Sweden in 2025 *“is good”*.

Breman considered a larger 50bp cut at the meeting *“But I support a cut of 0.25 percentage points as the positive effects of this year's rapid rate cuts are expected to have a greater impact on economic activity next year.”* Overall, Breman seemingly has a more negative risk profile on the economic development and she also highlights that the Riksbank must be prepared to rapidly adapt policy to changed conditions.

Aino Bunge

She supports both the proposal to cut the policy rate to 2.5 per cent at this meeting and the forecasts and assessments made in the draft MPR. The view from the last meeting in November remains largely unchanged. Inflationary pressures have stabilized in line with the target, which is very positive, but economic activity remains weak.

At the last meeting in November, she emphasized that the larger cut was a matter of making monetary policy easing somewhat more 'front-loaded' and she argues that the policy rate will probably be cut again when the Board meet after the festive season. Bunge appears to be more worried about downside risks going forward, pointing to the alternative scenario where economic activity does not pick up speed as expected suggesting further stimulation may then be needed. As the draft report notes, there are both domestic risks and international risks that could cause such a development. She concludes that that further policy rate cuts may be needed.

Per Jansson

Jansson highlights a shift in his perception between the November and December meetings, saying that *“the overall inflation picture has deteriorated somewhat. Underlying inflation has risen unexpectedly and it is not clear that this development is driven by effects that will wear off rapidly. The international environment appears to be becoming more inflationary, but at the same time there is considerable uncertainty about future global economic developments and growth prospects for our closest neighbours have deteriorated in the short term.”* Jansson highlights that it is not only energy prices, but also core inflation measures that have disappointed, referring to the Riksbank's median measure of underlying inflation standing at 2.6% YoY for November.

On the exact timing of the next cut, Jansson seems to prefer January over March *“I believe this cut needs to come quite early in the year, in January or possibly at the meeting after that in March.”*



Riksbank review – December 2024 Minutes

Anna Seim

Seim supports both the decision to cut the policy rate by 0.25 percentage points to 2.5 percent and the policy rate path suggesting another rate cut in the first half of 2025. She also mentions that there are signs that inflation may surprise on the upside.

Seim emphasizes that monetary policy must be forward looking and that the previous cuts have yet to reach full impact *“I am convinced that the rate cuts already made, together with the strengthening of real incomes caused by the lower inflation, will make a tangible contribution to the recovery of the economy in 2025 and onward”*. She then argues that they should examine the effects of the previous cuts before deciding on the next step.

Seim raises the updated assessment of the neutral interest rate with the interval 1,5-3 percent *“My assessment is that we are now conducting a monetary policy that can essentially be considered neutral. I do not believe it will be possible to determine if it is marginally contractionary or expansionary until later when we are actually able to observe which policy rate has closed the inflation and GDP gaps.”*

Erik Thedéen

Governor Thedeén supports the proposal to cut the policy rate by 0.25 percentage points to 2.5 per cent on the back of the assessments made in the draft MPR. On inflation, he emphasizes that temporary, unexpected fluctuations in energy prices are probably something we will have to live with going forward, and monetary policy neither can nor should try to parry them. Looking forward, he expects many Swedish households will benefit from rising real wages, falling mortgage rates and the fiscal stimulus measures that have been decided. Lower interest rates and an upturn in consumption will also strengthen companies' revenue and stimulate investment. The conditions for higher growth and rising employment are thus favorable.

Thedeén note that the interest rate decision means that the policy rate has been cut by 1.5 percentage points in 2024. After such a significant change in monetary policy he believes it is it is natural to ask how much lower might the policy rate need to be cut for the support to economic activity to be sufficient? The simple, short answer is that it is too early to be certain..

Thedeén concludes that monetary policy will no longer have a contractionary effect, once the cuts have attained their full effect and that it will soon be appropriate to wait and see before making any further changes to the policy rate



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: 2 January 2025 at 10:30 CET
Report disseminated: 2 January 2025 at 10:40 CET