

Flash Comment - Riksbank to hike 75bp +50bp from here

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Updated Riksbank call: We now expect 75bp in April and 50bp in June to 4.25%

We change our Riksbank call from +50bp in April and +25bp in June to +75bp and +50%, resulting in a peak policy rate of 4.25% (3.75% earlier).

- February inflation numbers came in higher than expected with CPIF ex E reaching a new high of 9.3% y/y, way above the Riksbank's forecast of 8.0%. The gap between the Riksbank forecast and actual outcome therefore has widened from 0.6% in January to an enormous 1.3% in February and is likely to increase further in March. The Riksbank will therefore be forced to deviate from their most recent rate path forecast (indicating 25bp or 50bp hike in April) and deliver a 75bp hike. Especially after Board members already yesterday during the parliamentary hearing delivered a hawkish message, emphasizing the willingness to act accordingly on the back of incoming data.
- We also lift our June call from 25bp to 50bp as our inflation forecast does not indicate that the Riksbank will have enough positive data to lower the pace to 25bp increments. Inflation levels for May will still be way too high and we won't have enough months of lower inflation by the time of the June meeting (core inflation levels of almost 8%).
- We refrain from adding further rate hikes beyond June for the time as we increasingly expect economic activity taking a turn lower in the coming months, at the same time as we should have seen a sequence of consecutive lower inflation prints by September. One should not forget about the large interest sensitivity of Swedish households and the fact that monetary policy actions do act with a lag and we therefore still have not experienced a full pass-through of recent aggressive rate hikes, not to mention the ones to come. We therefore still expect first rate cuts in Q1-2024.
- Market pricing** at the time of writing is at +55 for April and +40bp, therefore on the low side compared to our call.
- FX comment:** With relative rates in the driver's seat, the Riksbank alongside the ECB tomorrow will be key. On the one hand, SEK could be supported as there is room to price in more on the Riksbank ahead of April and June, in our view. However, on the other hand the more they hike, the worse the outlook for the housing market, economic activity and thus the SEK. It's a balancing act.
- [More on inflation on next page](#)

Way too high and too broad based February inflation outcome

	Forecast	Outcome	Diff	NEW Weight CPI/CPIF	Mom contribution CPI/CPIF
Food	2.50	2.74	0.24	13.3%	0.03
Alcohol	0.10	0.41	0.31	3.5%	0.01
Clothing	3.00	3.89	0.89	4.3%	0.04
Rent	0.90	0.50	-0.40	9.8%	-0.04
Electricity	-5.00	-8.94	-3.94	3.7%	-0.14
Furniture	1.00	2.06	1.06	6.2%	0.07
Health	0.75	0.77	0.02	3.4%	0.00
Fuel	-2.00	-1.84	0.16	2.1%	0.00
Cars	0.25	0.50	0.25	4.4%	0.01
Transportation services	1.00	2.92	1.92	2.4%	0.05
Communication	-0.50	0.09	0.59	3.0%	0.02
Recreation	0.25	1.99	1.74	13.2%	0.23
Restaurants	0.50	1.32	0.82	8.6%	0.07
Miscellaneous	0.50	1.02	0.52	7.5%	0.04
CPI m/m	0.70	1.1	0.40		
CPIF m/m	0.60	0.9	0.30		
CPIF ex Energy m/m	0.90	1.5	0.60		
CPI y/y	11.50	12.0	0.50		
CPIF y/y	9.00	9.4	0.40		
CPIF ex energy/y	8.60	9.3	0.70		

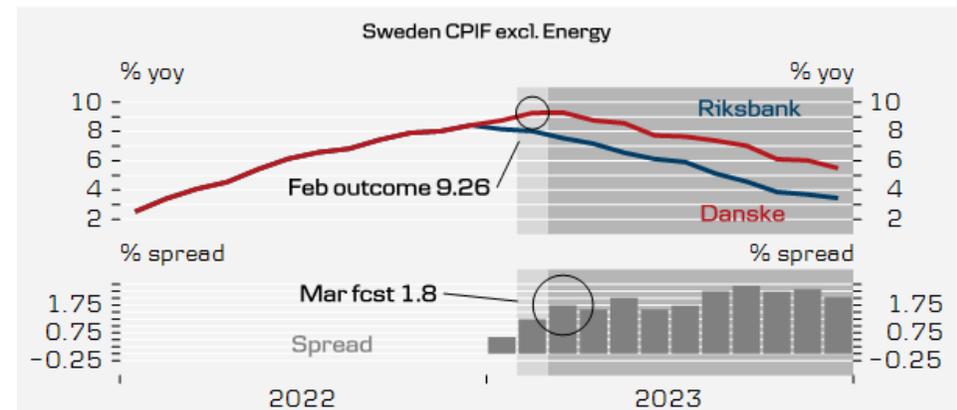
Source: SCB, Danske Bank

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Inflation has continued to accelerate

- February core inflation rose much more than expected and the 9.3 % yoy outcome was 1.3 percentage points higher than Riksbank's most recent forecast. This was a very bad outcome not only because of the high print but also as many components surprised on the upside i.e. inflation continues to be broad-based. Not only food but also clothing, furniture, hotel/restaurant and recreation rose more than expected. Over the past couple of months core inflation has continued to accelerate. Therefore, we have raised our forecast expecting core inflation to remain at 9.3 % yoy in March. Such an outcome would be 1.8 percentage points higher than Riksbank's forecast. In sum, we have revised the core inflation peak both higher and further out in time. Obviously, Riksbank will have to tighten even more.
- We expect mainly consumers and the housing market to come under intense pressure from soaring interest rates, noting that this applies to many businesses too. Consequently, we will reduce our 2023 forecasts for private consumption and residential property prices. For the latter we now see a 25 % decline from top to bottom vs previously 20 %. Needless to say, the tightening of monetary policy raises the risk for a deeper recession for the economy as a whole.

CPI ex Energy is expected to be 1.8 p.p than Riksbank forecast in March



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

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