

Flash comment Riksbank -75bp as expected

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Therese Persson
Macro analyst
thp@danskebank.se
+46 8 568 805 58

Joel Rossier
Fixed income strategy
joero@danskebank.se
+46 8 568 805 98

Stefan Mellin
FX strategy
mell@danskebank.se
+46 8 568 805 92

Jesper Petersen
FX strategy
jesppe@danskebank.se
+46 8 568 805 85

Michael Grahn
Chief economist
mika@danskebank.se
+46 8 568 805 88

Filip Andersson
Head of Research Sweden
fian@danskebank.se
+46 8 568 805 64

- Overview:** The 75bp hike to 2.50% and a the slightly higher rate path was bang in line with our expectations. They will also end QE reinvestments as of year-end. The revised rate path is still somewhat shy of market expectations, and hence somewhat dovish. The new path indicates approximately 30bp in February, which is sufficiently in line with our expectations of 25bp, but also giving the option to 'go bigger' should it be warranted. All in all, the outcome was pretty much as expected and thus market reactions (both rates and FX) should be relatively muted on the basis of this and if anything, with a slightly dovish tilt.
- Inflation/Macro:** As expected, Riksbank revised its 2023 GDP forecast lower while raising core inflation by almost a full percentage point to 5.5 % [4.6 %]. A bit surprisingly, they keep the unemployment forecast unchanged at 7.9 % obviously having a quite optimistic view about demand in the coming. A worsening labour market is something we have highlighted as the main risk that could push the Swedish economy into bigger troubles. It is obvious that Riksbank puts more emphasis on core inflation developments: this is cited as being the prime for hiking more than previously forecast. As the Riksbank puts it, "the risk of the current high inflation will become entrenched is still substantial".
- Policy rate path:** The new policy rate path is indicating a somewhat higher peak-rate of 2.84% (previously 2.52%) being reached in spring 2023. Backing out (from averages for Q1 and Q2 2023) what the current rate path is signalling for the coming meetings we see 30bp for the February meeting and another 4bp for the second meeting of the year (26-april). Interestingly enough the Riksbank has removed its easing bias at the end of the forecast period and they expect the repo rate to remain at its peak rate until the end of the forecast period.
- QE reinvestments:** As we expected, the Riksbank is ending its QE reinvestments as of year-end and will let their current holdings roll-off passively, i.e. no selling of assets. This as the average maturity of the portfolio is rather short and roughly half of all holdings (490bn) will have reached maturity by end of 2025.
- SEK comment:** The initial reaction is for a somewhat weaker SEK, which seems warranted given the slightly dovish rate path (compared to market pricing). As for direct SEK-related comments, there is an article in the MPR discussing 'Why has the krona weakened this year?', where global financial uncertainty and widening rate spreads (vs the USD) are to blame according to the Riksbank. They still expect the SEK to strengthen over the 'long term', however, although the KIX-path is lifted (outcome-adjusted). As for the SEK-inflation-channel, the Riksbank downplays the importance of the SEK as a driver of Swedish inflation, which is quite at odds with their history view on the matter (remember Jansson's 'Game over' back in 2015). In sum, we don't see anything in either monetary policy or the Riksbank's communication here and now that change the outlook for the SEK over the coming quarters, where we expect a further weakening.

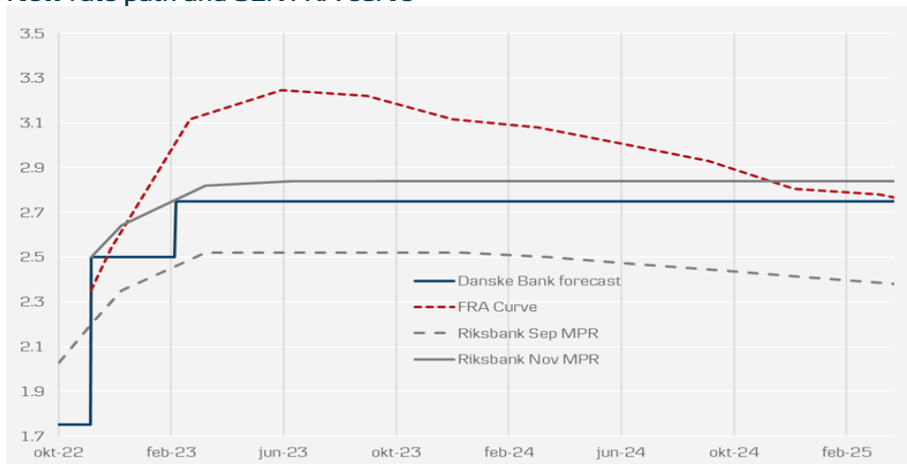
Overview of macro forecasts

	Riksbank Nov 24	Ministry of Finance Nov 8	NIER Sep 28
GDP (cal adj)			
2022	2.7 (2.7)	2.6	2.7
2023	-1.0 (-0.5)	-0.4	0.1
CPIF			
2022	7.6 (7.8)	7.9	7.7
2023	5.7 (5.1)	5.2	4.6
CPIF excl. Energy			
2022	5.9 (5.8)	n.a.	5.6
2023	5.5 (4.6)	n.a.	4.2
Unemployment (%)			
2022	7.4 (7.5)	7.4	7.4
2023	7.9 (7.9)	7.7	7.7

Note: Riksbank September 2022 forecast in brackets.

Source: Riksbank, NIER, Swedish Government

New rate path and SEK FRA curve



Source: Riksbank, Danske Bank

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