

Riksbank Comment

On a steady course

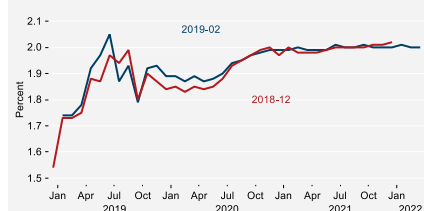
- Main takeaways:** There are no changes of significance compared with the December policy meeting. The GDP estimate for 2019 is lowered by two-tenths to 1.3% (w/w). The unemployment forecast is unchanged, with the inflation forecast practically unchanged, the repo rate forecast unchanged implying the next hike in Q3 (presumably September) and approximately two hikes per year through to the end of the forecast period (Q1 22). The press release mentions slower international growth but also stresses that the Riksbank expects economic conditions to remain strong in coming years. The Riksbank repeated that normalisation of monetary policy must be very gradual.
- Our take:** Considering that many institutions such as the IMF and the EU Commission, not to mention private banks, have scaled back their growth forecasts, the Fed has made a pause and the ECB has softened its tone of late, the Riksbank appears to be remarkably unaffected. We could take this as a 'hawkish' sign. Having said this, we believe that the Riksbank, a bit like the ECB, is in assessment mode; it is buying itself time to see how data unfolds and, not least, what the ECB comes up with in March. One piece of news though is that the just-expired mandate to governor Stefan Ingves and deputy governor Kerstin af Jochnick to intervene in SEK in order to prevent a too-rapid appreciation of the krona was not renewed.
- Fixed Income:** By and large, we think the fixed income market was pretty much prepared for the result of the February policy meeting. As mentioned, that the Riksbank seems quite relaxed considering recent bad data news and softer messages from other central banks could be seen as a little hawkish but we would not make a lot of this. The April meeting is probably more important and we keep our receiver position in FRA Sep-19. In addition, we would say that today's policy message suggests that it would be natural if the Riksbank decided to stop reinvestments of coupons and redemptions when the full reinvestment of SGB 1052 (maturing 3 March 2019) has been executed in the summer.
- FX:** EUR/SEK immediately fell from 10.50 to below 10.45, where the SEK was supported by (perhaps) a less dovish statement than expected (see above) and the decision to remove the FX intervention mandate, which gave Ingves and af Jochnick the option to RAPIDLY intervene if the krona were to appreciate too fast. This is no longer deemed necessary, which makes sense given that inflation is closer to target and given the substantial depreciation of the SEK. In our view, it sends the signal that the Riksbank is currently less worried about the SEK. This has been confirmed already by members' communications in the recent Riksbank Minutes. While we see a positive reaction in the SEK, it is worth emphasising that the SEK still suffers from negative carry. We see EUR/SEK around 10.40 in 1-3M.

Chart 1. Riksbank pricing

RIKS Implied fr RIBAs		
20 feb	+0	-0
08 maj	+0	-0
10 jul	+2	-0
11 sep	+5	+1
30 okt	+5	+0
08 jan	+5	-0
19 feb	+4	-0
06 maj	+4	+0
Σ	+25	+1

Source: Danske Bank

Chart 2. CPIF excluding energy insignificant change



Source: Riksbank

Chief Analyst
 Michael Boström
 +46 8 568 80587
 mbos@danskebank.se

FX Strategy
 Stefan Mellin
 +46 8 568 80592
 @stefanmellin
 mell@danskebank.se

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Michael Boström, Chief Analyst, and Stefan Mellin, Analyst.

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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