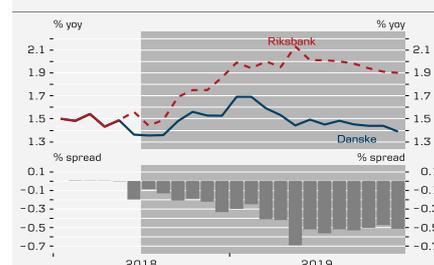


Flash Comment

Minutes focus on core CPIF which undershoots again

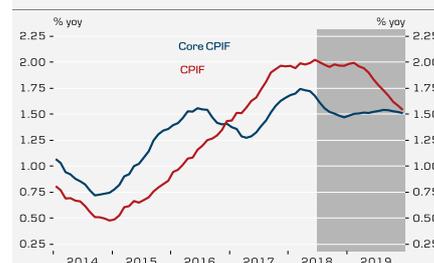
- June inflation.** CPIF and CPIF excl. Energy at 2.2% and 1.4% y/y respectively were both 0.2pp below Riksbank. Despite widespread stories in the media that prices on charter packages have been plunging, SCB reported increases in foreign airline tickets and charter packages of 26-27% m/m! Electricity rose 5.5% m/m, while clothing dropped 5.2% m/m. The outcome was in line with our forecast, except for food which dropped more than expected, -0.7% mom (no apparent FX effect here). We note that services inflation continued to slow, services excl. housing dropped to 1.7% y/y. Overall services dropped to an even lower level, 1.5% y/y, its lowest since December 2015. Looking forward, we expect both headline and core CPIF to continue to undershoot Riksbank's forecasts. In particular, we see core inflation remaining below the Riksbank's 2% target over the entire forecast horizon.
- Riksbank minutes.** The main impression we have of the minutes is that discussion is concentrated on the importance of the underlying inflation trend (CPIF excl. Energy). This should not come as a surprise given the wording in the Monetary Report, but it still demonstrates that the majority of the board is dissatisfied with underlying inflation, mainly services inflation, and will tread carefully unless the trend starts to reverse. The majority stresses the importance of underlying inflation in order to retain headline inflation at target going forward (when the effects of energy and the weak SEK abate). This is demonstrated by how Af Jochnick argues: *'...it is reasonable for us to try to see through temporary effects from energy prices in our monetary policy deliberations in order to focus on the level of trend inflation instead'*. Jansson is referring to services inflation: *'...the present rate of increase in services' prices is not sufficiently strong for the Riksbank to be able to stabilise inflation close to the target going forward'*. Ingves and Skingsley seems to argue in a similar way. Hence, services inflation will be crucial going forward. On the other hand, Flodén has become less concerned, at least in the short term, and is open to a rate hike sooner than suggested by the trend in underlying inflation. The weaker SEK and higher energy prices, he argues, have made it possible to steer away from negative rates faster, and by Q3 in 2019 he sees the rate trajectory back on the current repo path.
- Conclusion.** Based on the inflation data and the Riksbank board's discussion, we believe it is reasonable to stick to our base scenario where we only see a slim chance of a rate hike this year. There is disappointment among the majority of the board at the decline in services inflation. The Riksbank is aware that unless services price inflation starts to pick-up, its inflation outlook for 2019 will most likely prove too optimistic.
- Pricing.** As the majority of the board seems determined to make sure CPIF meets its target by focusing on underlying inflation, the move higher in rates after the announcement last week seems to us to have been too hasty.

Core CPIF to undershoot Riksbank



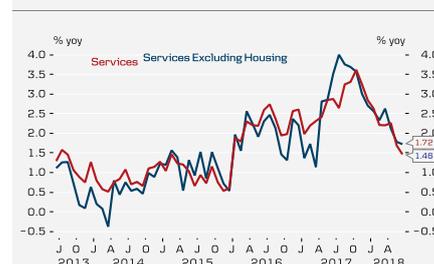
Source: Riksbank, Danske Bank

12m trend has changed - core sets long-term convergence



Source: Danske Bank

Services inflation down again



Source: SCB

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Disclosures

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