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Article

Riksbank: Another delay, more SEK weakness

Yet again, Riksbank delayed the timing of its first interest rate increase. Despite the new communication, we don't look for a December hike and see the probability of a February hike below 50%. We remain firmly bearish on the Swedish krona and target EUR/SEK 11.00

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Riksbank keeps the door open for a December hike, but signals likely delay

The dovish majority remains unsure whether hiking rates this year is sensible. We think their cautious approach will mean policy stays unchanged for some time yet.

The Riksbank left policy unchanged today, keeping interest rates at -0.5%. But the interest rate forecast and policy statement signalled a somewhat later hike is likely, removing the chance of a hike at the next meeting in October.

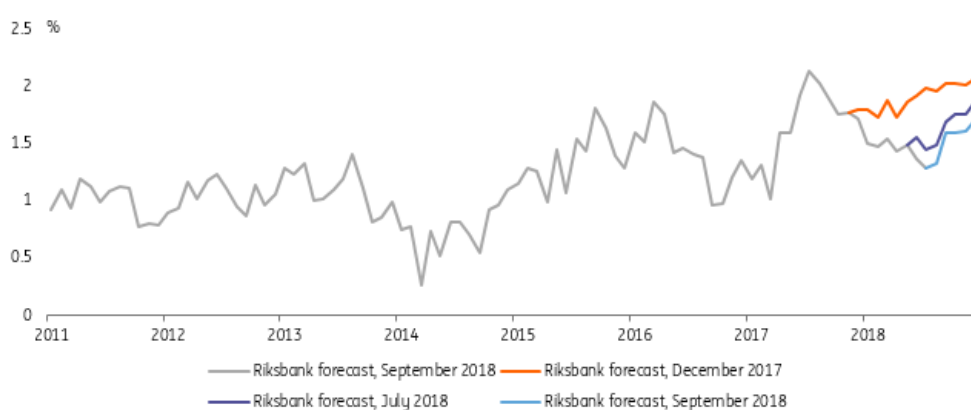
The statement says that rates will increase “by 0.25 percentage points either in December or February”. This is at odds with the interest rate forecast, which indicates no probability of a December hike, and less than a 100% probability of a February hike.

The policy statement also makes clear that the Riksbank sees risks skewed to the downside, arguing that dealing with excessively low inflation is more difficult than addressing too high inflation. That suggests they are more likely to opt for February than December. The forecast for core inflation – the key to the Riksbank’s policy stance – was also revised down to show 1.7% core inflation in December (Figure 1).

Two MPC members voted against the change in policy. Henry Ohlsson wants to hike rates now, while Martin Floden is in favour of hiking in October (and wanted this reflected in the interest rate path).

Our view remains that the Riksbank is unlikely to raise interest rates in December. While the probability of a hike in February is reasonably high given the explicit commitment to hiking at one of two meetings (which is more precise than previous policy statements), the Riksbank’s history of delaying hikes again and again means we still see further delays until later in 2019. We thus see the probability of a February hike below 50%, in contrast to the latest Riksbank communication.

Figure 1: Core inflation, actual and Riksbank forecast



Source: Riksbank

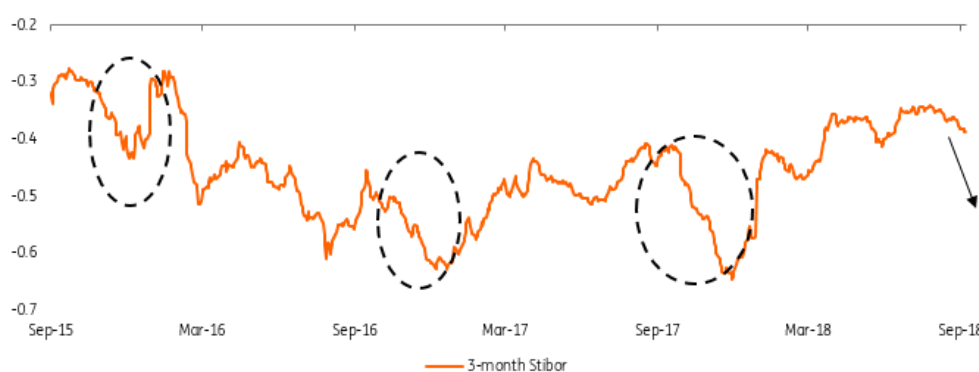
SEK: Bearish view intact

Despite the signal for a hike in either December or February, we remain firmly bearish on the Swedish krona and expect EUR/SEK to reach the 11.00 level by the year (see [SEK: Swimming naked](#)). Not only has the Riksbank got a strong track record of delaying the signalled hikes (today’s meeting being a case in point), but in our view the probability of December or February hikes in great part depends on the SEK price action / weakness (though note that the Riksbank has been continuously staying on hold despite SEK weakening materially and persistently vs its own forecast). This means SEK weakness must come first for the Riksbank to react (if it reacts...). Hence,

we don't believe the Riksbank policy stance will be a catalyst for SEK strength. Riksbank will, in our view, only put a limit on the scale of SEK weakness, but only if SEK weakens first. Hence our firmly bearish SEK view.

Apart from our dovish Riksbank view, other factors should continue weighing on SEK. On a seasonal basis, SEK tends to weaken during fourth quarters due to the sharp decline in the inter-bank Stibor rates (due to the resolution fund consideration) as per Fig 2. This should keep idiosyncratic pressure on SEK. Bar the upcoming elections and still relatively dovish Riskbank, we believe the fragile risk environment and the ongoing trade war overhang should be also negative for SEK. Note that Sweden is a small open economy, meaning it is very vulnerable to concerns about the direction of global trade which should, in turn, weigh on SEK. We target the EUR/SEK 11.00 level in 4Q 2018.

Figure 2: Seasonal decline in Stibor to weigh on SEK 4Q 2018



Source: ING, Bloomberg

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