

## Riksbank November preview: 50bp cut likely, but watch post-US election volatility

We expect a 50bp rate cut by Sweden's Riksbank at the 7 November meeting. This is a consensus view that is almost fully priced in by swap markets, but there is a marginal risk that a SEK selloff led by the US election outcome could prompt a more cautious Riksbank cut. Still, our base case is that EUR/SEK can stay below 12.0 even if Trump wins

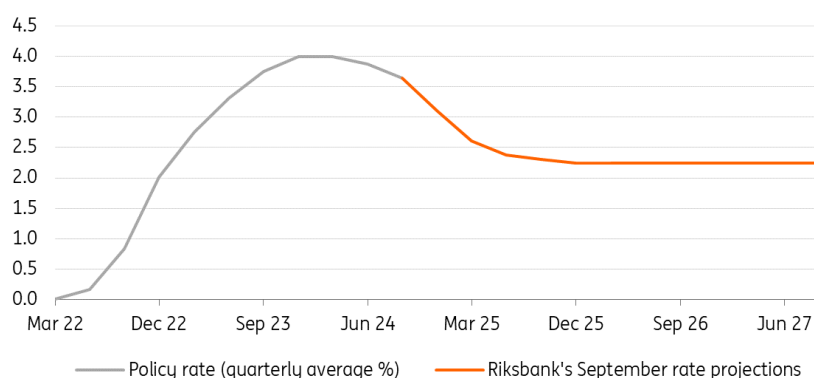


The Riksbank is expected to cut rates by 50bp to 2.75% on 7 November. Consensus has also recently shifted to the dovish end of the spectrum. Market pricing is 46bp – which roughly translates into an 85% implied probability of a half-point cut.

We are in the 50bp camp, and think we'd probably need to see a substantial post-US election SEK selloff to prompt a smaller Riksbank move. In terms of forward guidance, the Riksbank will probably try to avoid sending the signal that 50bp moves are the new normal, and may instead hint at a

more gradual rate cutting path ahead, largely in line with market pricing.

## Riksbank's rate projections may be a bit too hawkish



Source: Riksbank, ING

## Increasingly dovish communication by Riksbank

The minutes of the Riksbank's 25 September meeting showed that mounting concerns about economic activity were leading more and more Board members to open the door to faster easing. This growing focus on activity is increasingly being incorporated into the Riksbank inflation mandate, mirroring the recent change of stance by other developed central banks like the European Central Bank and the Bank of Canada.

As Deputy Governor Aino Bunge put it “a slowdown in demand was necessary to tackle high inflation but, similarly, a recovery in demand is now needed to stabilise inflation going forward”. Governor Erik Thedeen said that a 50bp cut would still be consistent with a “cautious” approach to monetary easing, and the latest data has significantly increased the chances of an outsized rate cut in November.

## Slower inflation and prolonged recession argue for faster easing

Sweden's Economic Tendency Indicator, a closely monitored high-frequency activity gauge, received some support into mid-2024 as the Riksbank started to relieve the highly rate-sensitive Swedish households from elevated borrowing costs. It has, however, slowed to below 94 over recent months, and the October reading was the lowest since March.

GDP contracted for a third consecutive quarter in 3Q, by -0.1%. While this is some improvement from the very soft -0.8% QoQ in 2Q, it was below the +0.3% consensus and the Riksbank's +0.2% forecast. Unemployment rose again in September, from 8.3% to 8.6% - some 1.5% above the pre-pandemic five-year average.

On the inflation side, the latest developments have continued to be benign. CPIF, excluding energy, slowed further from 2.2% to 2.0% in September, while headline CPIF inched lower to 1.1%, in line with the Riksbank forecasts. The October inflation report is released 90 minutes before the Riksbank announcement on 7 November, probably too late to influence the decision.

## A severe SEK selloff might tilt the balance to 25bp

What has greater potential to impact the Riksbank's November decision is possible market volatility after the 5 November US election. There are a few points to consider in this regard.

First, there is a chance the new president-elect won't be called before the Riksbank meeting on 7 November at 09.30 CET. Given the large number of mail-in ballots and potential counting disputes, the result may only become clear after a few days, as happened in 2020.

What really matters for the Riksbank is SEK volatility. The Board is more relaxed on the exchange rate now that inflation has fallen, and one can argue that with growth in focus, a weak krona might be a net benefit. However, policymakers may prefer to delay a 50bp move to December should SEK be in the midst of a violent selloff.

We think markets are pricing in a SEK-negative Trump win meaning ample room for a krona recovery if Harris wins. Based on whether the Republicans can secure both the Senate and the House, a Trump win could add different degrees of extra pressure on SEK, although more against the US dollar than against the euro. A EUR/SEK rally up to around 1.5% may be disregarded by the Riksbank, but should the pair trade above 12.0 on 7 November, the Board's consensus might shift to 25bp, delaying an outsized move till December.

Considering the recent EUR/SEK rise is likely embedding some Trump risk, our base case is that the pair can hold below the 12.0 mark even in the event of a Trump win, allowing the Riksbank to deliver a 50bp cut. After all, the prospect of protectionism would only raise the growth concerns that have fuelled the more dovish communication in September.

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