

Riksbank preview: Another cut on the path to 2%

We expect a consensus 25bp rate cut this week in Sweden. Despite a soft start to the fourth quarter for GDP, forward-looking activity indicators are signalling that rate cuts are turning the tide for the Swedish economy, and we expect the Riksbank's terminal rate at 2.0% – above that of the ECB. This can favour a moderately lower EUR/SEK in 2025



Riksbank Governor Erik Thedén

A bit more fuel to support the activity rebound

Until last week, Sweden's central bank was tied with the Bank of Canada in the race to cut rates the farthest in 2024. The Riksbank cut rates by 50 basis points in November alone and we expect a further 25bp move to 2.5% on 19 December, in line with consensus.

Those rate cuts are bearing fruit. Remember Sweden's mortgage market is heavily based on floating-rate lending. That meant rate hikes hit the economy harder and more rapidly than elsewhere. But now rates are falling again, sentiment in the property market has rebounded, transactions are up and house prices are rising at almost 8% year-on-year. Consumer confidence has surged this year and is back to pre-Covid levels.

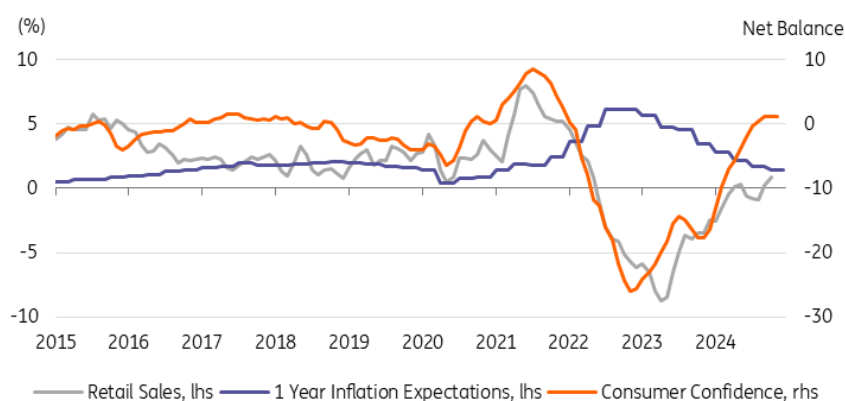
The jobs market has stabilised too. Sweden’s unemployment rate, though volatile, appears to have stopped rising. Redundancy levels have levelled out, albeit a little above what was typical pre-Covid.

None of that means the Riksbank is in a position to stopping cutting rates just yet, though the end of the cutting cycle may not be far away.

Growth, judging by the official GDP data, has been fairly lacklustre. The most recent data on household consumption was weak, despite that improvement in sentiment. And while the recent run of inflation data has been hotter than the Riksbank had expected in its September forecasts, there’s little reason to expect a material uptick in 2025. Going into spring wage talks, both employer and employee inflation expectations look pretty tame. That points to an outcome that’s fairly consistent with the Riksbank’s 2% inflation target.

Add in the risks from Donald Trump’s trade war for Sweden’s relatively export-orientated economy, and we think there’s scope for both a cut this week and two more next year, ultimately taking the policy rate to 2%. We expect that path to be largely reflected in the Riksbank’s updated interest rate projection this week.

An improving outlook for Sweden



Source: ING, Macrobond

Krona’s stability looks here to stay

EUR/SEK one-month historical volatility has plummeted since mid-November, and is now at three-year lows. We believe this is the consequence of a similar risk premium attached to SEK and EUR when it comes to Trump’s protectionist agenda as well as the relative predictability of the Riksbank and the European Central Bank’s rate cutting cycles.

We have held a neutral short-term view around the 11.50 mark for the pair since the US election, and we suspect that this week’s Riksbank announcement shouldn’t have major FX implications. However, looser monetary policy in Sweden is starting to show beneficial signs for domestic activity, allowing markets to anchor the Riksbank’s terminal rate expectations to 2% while those on the ECB have been repriced markedly lower. This is mirrored by a EUR:SEK two-year swap rate differential back at zero after having peaked above 40bp in late August.

If the prospect of larger ECB cuts compared to the Riksbank proves true, there will be a compelling argument for a structural shift to lower trading range in EUR/SEK. That said, the higher beta of SEK

to market sentiment still puts a floor on how far EUR/SEK can drop in what we expect to be turbulent time for the currencies of open economies under Trump 2.0. In our current assessment, that floor should be 11.00, and our mid-year 2025 EUR/SEK forecast is 11.30.

Authors

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.