

## Riksbank set for 50bp rate hike on weak krona and tight jobs market

Further weakness in the Swedish krona and the prospect of higher wage growth point to a larger rate hike than the Riksbank had signalled in November. From an FX perspective, a hawkish 50bp move seems necessary to avert another leg lower in SEK. Expect a further 25bp hike to follow in April

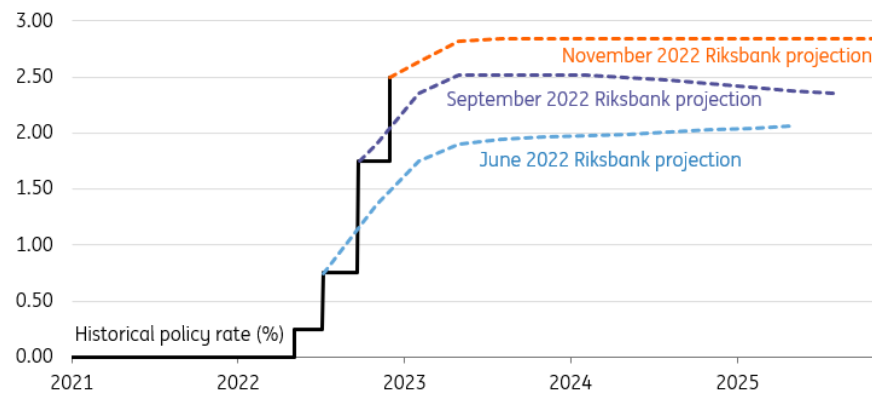


Source: Shutterstock

### Riksbank set for a 50bp rate hike

The Riksbank signalled back in November that it was very close to the top of its tightening cycle, and its published interest rate projection pointed to one final 25bp hike this month. But since then, the European Central Bank has become yet more hawkish even as the Federal Reserve indicates it's nearing the peak. On a trade-weighted basis, the krona is even weaker than during the financial crisis. According to the Riksbank's in-house KIX exchange rate index, SEK is almost 5% weaker than it had projected back in November.

## Riksbank interest rate projections at recent meetings



Source: Riksbank

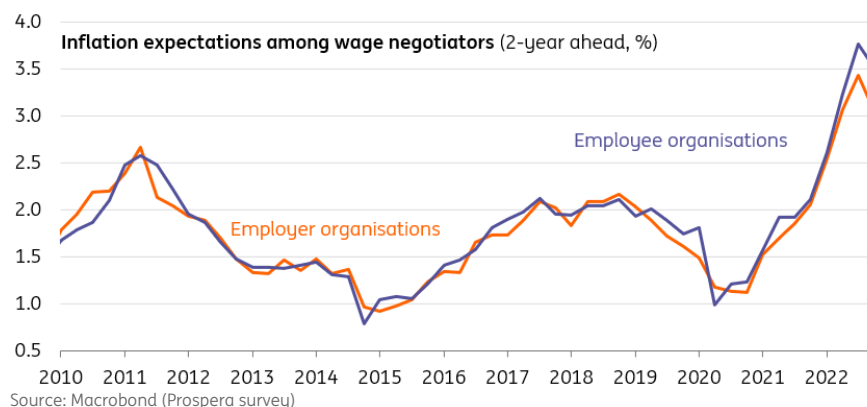
## Wage negotiations and a tight jobs market point to another hike in April

The jobs market is also historically tight. Wage negotiations are underway, and inflation expectations among both employer and employee organisations are off their highs but remain well above the levels we've seen over the past decade. Around 90% of Swedish employees have their wages set by collective-bargaining, among the highest rate in Europe, and these talks will set the tone for pay growth across the economy.

All of that suggests the Riksbank will hike by 50bp this week, and signal there's more to come. But this is where life gets complicated for new Governor Erik Thedén. The reality is that Sweden's economy is under pressure, particularly when it comes to housing. 44% of Swedish households have a mortgaged property, and two-thirds of this lending is on floating rates. Unsurprisingly, house prices are so far down 15% from the peak. The latest activity data doesn't look pretty either, with fourth quarter GDP coming in sharply negative.

Against the backdrop of this growth/inflation trade-off, we think the Riksbank will signal one further hike in April worth 25bp. That's likely to mark the top of this cycle.

## Inflation expectations among employee/employer organisations are high



Source: Macrobond (Prospera survey)

## Counting on the Riksbank to halt the SEK slump

It's hard to see a sharp recovery in the very near term for the krona. Markets are [increasingly pricing in](#) the risk that the Swedish economy will face a black swan scenario of high inflation, recession and housing crash: EUR/SEK is trading around 2.5% below its short-term fair value, according to our calculations.

There is no quick fix to restore confidence in the krona, and data will play a big role along the way, but for now, a hawkish 50bp hike by the Riksbank is a necessary move to try and halt the SEK slump.

A dovish surprise would risk sending the wrong signal to markets: that fighting inflation is no longer the primary goal. That may ultimately cause more pain through imported inflation as SEK accelerates its fall and the ripple effect to the mortgage market may be even worse than a 50bp hike. Staying hawkish and preventing a fall in SEK rates appears to be the only way forward for the Riksbank at the moment.

EUR/SEK is trading around 11.40 at the time of writing, still relatively close to the 11.68 record highs from March 2009. Averting a SEK slump to those record levels is job number one for the Riksbank right now, and we think a hawkish 50bp hike today can reduce pressure on the krona.

Our longer-term view is that EUR/SEK can return below 11.00 by this summer, but it's a narrow path with plenty of risks. It's simply undeniable that the outlook for SEK has become much more binary: with many negatives in the price, an improvement in Sweden's economic outlook can boost SEK; a black swan scenario could instead push EUR/SEK well above 12.00 (as discussed in our [2023 scenario analysis](#)).

### Authors

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

#### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto: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>.