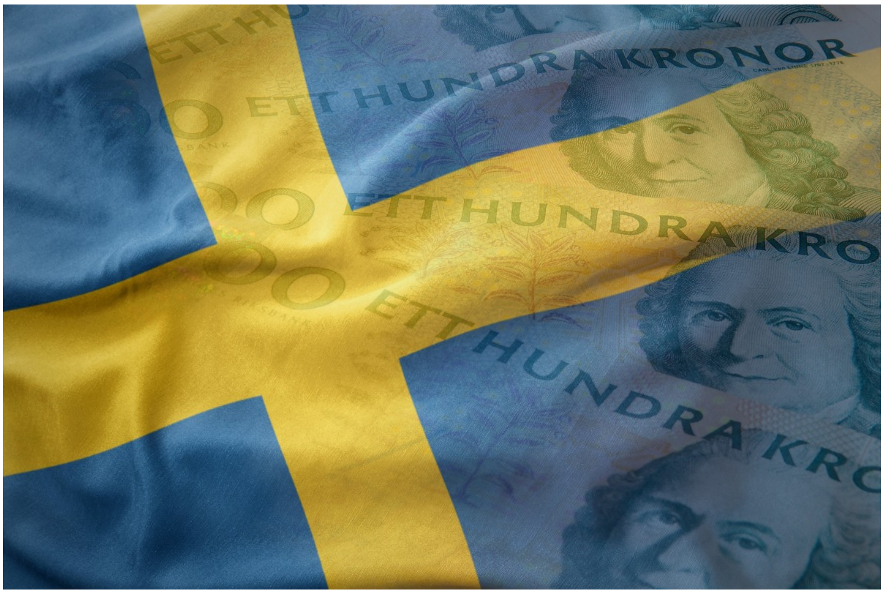
Riksbank to further delay rate hike

The Riksbank took markets slightly by surprise this month, by maintaining that interest rates could rise later this year or in early 2020. But amid rising global uncertainty and some risks to the domestic outlook, we still think this is unlikely to materialise – or at least, not as soon as policymakers suggest



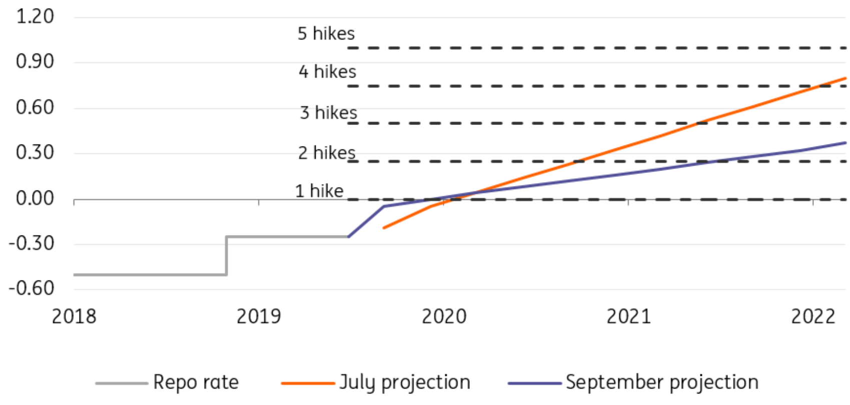
Source: Shutterstock

Unlikely to cut despite ECB easing

What the Riksbank's latest announcement tells us is that the central bank is going to be much more reluctant to follow the ECB towards policy easing at this stage. Despite some energy-related weakness over the next few months, CPIF inflation should stay broadly around the target.

But more importantly, the krona has weakened consistently over the past year, and policymakers have signalled they are more relaxed about the currency. In fact, recent forecasts have assumed a mild SEK appreciation over coming years – but if anything, our FX team thinks there are downside risks in the near-term for the currency as global trade concerns mount.

Riksbank rate projection remains a little optimistic



Source: ING, Bloomberg

We think there is little justification to hike...

There also appears to be some more general reluctance to take rates further into negative territory. It's worth also noting that one of the more dovish members of the committee – Kerstin af Jochnick is due to move to the ECB. Her successor hasn't yet been announced, but in theory, this could alter the hawkish/dovish mix among voting members.

... but rather a further delay

However, we see three key reasons why the planned rate hike from the Riksbank will probably be delayed further:

The Riksbank continues to expect wage growth to gradually accelerate through 2020 and 2021, on the back of rising productivity growth. But this will depend on the wage negotiations that will culminate in an agreement in spring next year – and there are some signals that this could produce a more subdued result. Inflation expectations have been slipping, including among labour organisations. There also downside risks to the central bank's productivity assumptions.

The effects of the 2017 house price fall are still feeding through. The good news is that house prices have since stabilised, although we expect the effects of the earlier price decline to continue to weigh on household spending. Housing starts have slowed, although there is a clear risk of a sharper deceleration in the number of construction projects being commenced.

Don't forget too that a majority of homeowners are on floating interest rates – and while the global plunge in market rates should give consumers a helping hand – it is a consideration if the Riksbank begins to raise interest rates. A future rise in mortgage rates, combined with the ongoing ripple effects from the earlier price decline, could pose risks for the domestic economy.

Escalating trade tensions also pose a risk for Sweden's relatively open economy. The Riksbank did acknowledge this in its latest statement, but its forecasts for the US and eurozone look too optimistic compared to ING projections. While our trade team ultimately expects that eurozone car tariffs will be avoided, it may not be until the second quarter of 2020 before a truce between the

US and China emerges.

> While we expect the Riksbank to retain its tightening bias, we suspect they will be forced to push back the timing of its next move again. For now we expect rates to remain on hold for the foreseeable future.

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