

Sweden: Little help from Riksbank expected

Investors have high expectations ahead of today's Riksbank meeting. Will policymakers deliver and stem the krona's weakness?



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SEK: Little help from the Riksbank expected

Expectations are running high ahead of today's Riksbank policy meeting ([see Riksbank Preview](#)). Although the Swedish krona is meaningfully weaker vs the Riksbank's forecast, our base case remains a modestly dovish Riksbank tone with the bank likely signalling a delay to interest rate hikes due to concerns about low Swedish core inflation. With market participants looking for the Riksbank to give a rope to the battered SEK, a dovish bias today is likely to weigh on the currency and move EUR/SEK back above 10.60 level ahead of this week's elections.

USD: The risk of escalating trade wars is back

The US dollar should retain support today, with the solid August ISM non-manufacturing being positive for the currency. Aside from that, the US public consultation period on the effect of Chinese tariffs ends today which brings back the risk of a more meaningful escalation of trade

wars (i.e. the ongoing threat of more tariffs on \$200 billion of Chinese exports to the US) and more negative headline news. This should keep the ongoing pressure on emerging market currencies in place and make EM FX segment rebounds short-lived and shallow. While most EM currencies are cheap following the sell-off of recent months, the spectre of trade wars (and implications for global trade) means rather limited potential for near term stabilisation/rally.

EUR: The euro lacking near-term catalysts for strength

The risk of return of trade war rhetoric poses a modest downside risk to EUR/USD today, particularly following the disappointing German July factory orders this morning. In the UK, the pound reversed most of its gains following yesterday's brief rally triggered by news that both Germany and UK eased their initial Brexit demands. This was in effect seen as reducing the probability of the cliff-edge Brexit in April next year. Yet, with Germany stating thereafter that its position has not changed, the pound gave up the previous gains, with its price action underscoring the fragile nature of GBP rallies.

RSD: Central bank staying on hold

There's little reason for the National Bank of Serbia (NBS) to change its policy stance with only a minor uptick in July inflation to 2.4% from 2.3% in June, and core inflation muted at 0.9%, versus the 0.8% in June. The downside pressures on EUR/RSD also seem to have diminished, which removes our main motivation for an eventual dovish stance of the central bank. EUR/RSD to stay above the 118 level.