

Sweden: Estimating the FX impact of the Riksbank's hedging operations

Sweden's Riksbank will publish data for the first week of FX reserve hedging on Friday. Weekly sales above USD 650mln would signal a very aggressive approach, but the size of the operations looks too small to be a sustainable SEK support measure. Hopes of a medium-term SEK recovery should not lie on the Riksbank's hedging but mostly on external drivers



Hedging operations have helped the krona

The Riksbank started hedging Sweden's FX reserves on 25 September. As per its [21 September announcement](#), it plans to sell a total of USD 8 billion and EUR 2 billion of Swedish krona over the course of "4 to 6 months". After that, it will conduct FX swaps operations to maintain the size of FX reserves. This is officially a risk management measure aimed at reducing losses if SEK appreciates; it has no monetary policy implications.

That said, the Riksbank is fighting a tough battle with inflation. It has raised rates by 400bp since February 2022, but a near 10% trade-weighted krona depreciation in the same period has contributed to making prices sticky. Riksbank board members have increased their verbal protest

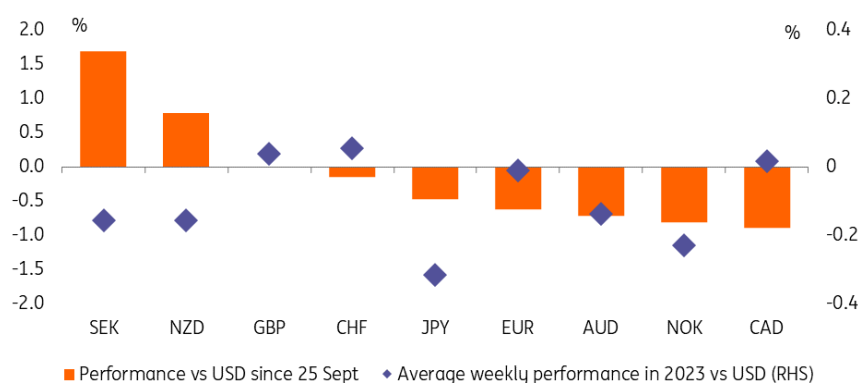
against SEK weakness lately, and there is speculation that the FX hedging operations are covert FX interventions to support the domestic currency.

Last week, the Riksbank [asked the Debt Office](#) to consider pausing or reducing the pace of phasing out of the central government's debt currency exposure. The government has a goal to completely erase currency debt exposure by the end of 2026, which implies selling SEK. However, as the government claims – and the Riksbank also seems to acknowledge – those sales are highly unlikely to influence the exchange rate.

Also, the biggest chunk of FX exposure appears to have been cut already: FX swaps, for instance, have been reduced from SEK 24bn in November 2021 to SEK 1.3bn in March 2023. The Riksbank says it is “unfortunate” that the Debt Office is “selling Swedish krona while the Riksbank is buying krona”. That, in our view, hints at the dual purpose of the ongoing hedging operations: risk management and SEK support.

Regardless of any sort of labelling (FX interventions, mere risk management), the aim for FX analysts like ourselves is gauging the extent to which those measures can influence the exchange rate. Since the start of FX reserve operations, SEK has outperformed all other G10 peers. There was no other clear driver of SEK's strength, and we saw some unusual swings in SEK crosses around the morning hours when the Riksbank was likely to have placed buy orders.

Krona's outperformance mirrors Riksbank's hedging impact



Source: ING, Refinitiv

FX hedging data out on Friday 13 October

The Riksbank said it will publish weekly information on FX hedging operations with a two-week delay. The first hedging data will be published on Friday morning, 13 October, at 10.30 CET and will include figures for the first week of hedging (25-29 September). We have been informed by the Riksbank that the publication will include weekly aggregate figures divided into EUR/SEK and USD/SEK. Data will then be published every following Friday (with a two-week delay, as mentioned).

Why are these figures important? They will tell markets how fast the Riksbank is buying SEK. Remember that the Bank set up a short but flexible window to complete the hedging programme (“4 to 6 months”). Indications that the Riksbank has already started buying SEK aggressively in the first week might suggest they are planning to buy more krona when USD/SEK and EUR/SEK are higher. This would make sense from a risk management perspective (buy more SEK when SEK is

cheaper) but would also have non-negligible FX implications.

Estimates for equally-weighted daily FX sales

We estimated a schedule for FX reserve hedging by the Riksbank under an equally weighted daily purchase approach to provide a benchmark ahead of the release of official data on Friday. We are also estimating here a faster buying schedule along with a slower scenario. We think that a faster buying scenario looks more likely, especially at the beginning of the hedging programme.

Equally-weighted daily SEK buying	Daily USD mln	Daily EUR mln	Daily total (USD mln)	Weekly USD mln	Weekly EUR mln	Weekly total (USD mln)	% of SEK turnover
Average period (5 months)	78	19	98	388	97	491	0.16%
Fastest possible (4 months)	104	26	131	519	130	657	0.22%
Slowest possible (6 months)	65	16	82	325	81	411	0.14%

Source: ING calculations

When accounting for the days of operations in the next few months, we excluded public holidays and assume the Riksbank follows the Norges Bank practice to halt currency purchases one full trading week before Christmas – so on the 15th of December this year.

It is important to stress that all the estimates in the table above imply the Riksbank is buying the same amount of SEK every day, equally divided in USD and EUR according to the sizes of the announced operations in the two currencies. The Riksbank may, however, buy very different amounts every day based on SEK levels and other factors (like liquidity conditions).

We cannot exclude that the Riksbank figures for the first week of hedging will show total FX selling worth more than USD 660mln: that would mean that SEK buying will need to be lower in future weeks and that the Riksbank effectively purchased a considerably higher amount of SEK when USD/SEK and EUR/SEK were high.

FX impact: sustainability doubts

Elevated SEK buying for the first week of hedging would send a strong signal that the Riksbank is ready to buy more SEK when SEK depreciates, potentially putting a limit on how far further selloffs in the krona can go. However, the FX hedging programme is limited in size and is not an FX intervention measure that aims at reducing currency losses (at least not officially). This means that markets know exactly how much firepower the Riksbank has (USD 10bn + EUR 2bn), and it will be easy to estimate how much of that firepower is left as weekly hedging data are released.

Incidentally, the size of the whole programme is not particularly large. According to Riksbank figures up to September 2023, the SEK turnover in EUR and USD crosses was approximately USD 60bn per day, or 300bn per week. Even an aggressive USD 1bn total FX sales in the first week of hedging would be around only 0.33% of the weekly SEK turnover.

Don't count on Riksbank hedging for a sustainable SEK recovery

Given the relatively small size of the hedging programme, it is hard to think that the Riksbank's hedging operations will be able to insulate the krona from severe headwinds due to a sharp deterioration of external and/or domestic conditions. Neither does it look sufficient to drive SEK on its own.

The initially beneficial impact on SEK was, in our view, primarily due to a readjustment in the oversold krona and given the intensively hedged EUR/SEK upside risks around the 12.00 mark. Also, Friday's data will tell us whether the Riksbank has started its hedging operations with substantial amounts, as we mentioned above.

We think the FX hedging operations can keep EUR/SEK around 11.50/11.70 in an environment where SEK faces some external downside pressures, but not excessive, like in the past week two weeks when we did not witness a sharp sell-off in other pro-cyclical currencies. At the same time, Riksbank's SEK buying can make a krona recovery faster. We still think that a sustainable recovery in the undervalued SEK will depend mostly on a combination of a stabilisation in the global risk environment, the dollar decline (brought about by the Fed's transition to easing) and the Riksbank staying hawkish.

We still expect EUR/SEK to trade around 11.50-60 into year-end before starting a decline into the low 11's and move below 11.00 in the second half of 2024, in line with our call for faster-than-expected cutting by the Fed.

In the event of another sell-off in the krona, we think the Riksbank will have to raise rates again. For now, the recovery in SEK means another hike looks less likely. Another option would be to expand the FX hedging programme. That is possible, but it would then be very hard to keep explaining the move as risk management and not a monetary-policy-oriented FX-support measure.

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