

Sweden's Riksbank to keep rates on hold; June cut remains possible

We don't expect a rate cut from the Riksbank this month – though with the ECB poised to cut rates twice more, we think Sweden will follow suit with one final cut in June. Despite that, the coming weeks could see a good opportunity for the krona to rally against the euro



Riksbank Governor Erik Thedeen

The Riksbank could be pressured into one more cut in June

Sweden's Riksbank told everyone back in March that its rate-cutting cycle was likely finished. But with US tariffs now in place and given everything that's unfolded since, we think the Riksbank will probably be forced to go back on its word.

Admittedly, that is unlikely at the 8 May meeting, where we expect policymakers to keep rates at 2.25%. But we're leaning towards one final rate cut in June.

That's not because much has changed on the domestic front. The Riksbank expects Sweden to benefit from a cyclical upswing this year, helped by recent rate cuts. Remember that Sweden is more sensitive to changes in interest rates than many of its peers, owing to a greater share of variable-rate lending. That meant Sweden was hit more acutely when rates went up, but has benefited more quickly now that they are falling.

Consumer confidence has fallen dramatically



Source: ING, Macrobond

Admittedly, the recent run of macro data isn't totally inspiring. The first glimpse of first-quarter GDP was flat. Worryingly, consumer confidence has started to collapse. That suggests the Riksbank might have to temper its GDP outlook when it next releases forecasts in June, given the uncertainty surrounding tariffs. Goods exports to the US account for about 3% of Swedish GDP.

The good news, at least, is that unemployment has fallen back below the 2024 average, though the data has been unhelpfully volatile recently. Inflation, meanwhile, has generally tracked the Riksbank's March forecasts.

Instead, the impetus to cut rates a little further probably comes from what the European Central Bank is doing. We expect two additional cuts from Frankfurt, and we think that will ultimately nudge the Riksbank into one more cut too.

EUR/SEK can fall in the near term

Short-term rate differentials are consistent, with EUR/SEK trading just below 11.0. When adding in other market factors (like equities and back-end yields), our model returns a near-term 11.85 fair value. The current overvaluation in EUR/SEK probably mirrors the excess reserve inflows into the euro coming from the USD. With the Trump administration seemingly moving from the tariff threat phase to the trade negotiation phase, the euro can shed a few more gains. Risk sentiment recovery argues for a weaker EUR/SEK in the near term, and we think a correction can extend to 11.80.

There is a risk, however, of a few rougher months ahead for risk assets and high-beta currencies like the Swedish krona as global trade/growth takes the hit from tariffs, and we don't see a leg lower in EUR/SEK in the coming weeks morphing into a sustainable downtrend. As discussed in this note, the Riksbank may well cut in June, and the domestic picture should prove less supportive for the krona. We think there will be opportunities to bounce back above 11.00 this summer before a neater decline takes shape in EUR/SEK from the third quarter.

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