

## Sweden's Riksbank set to cut rates for a third time

Sweden's Riksbank has signalled it will cut at every remaining meeting this year, and a 25bp reduction on Wednesday looks like a done deal. However, Sweden's economy is showing hints of recovery, meaning the terminal rate may not be that far away now. We expect EUR/SEK to stabilise into the US election risk event



Erik Thedéen, governor of the Riksbank

### The economy is showing some more encouraging signs

Sweden's Riksbank is poised for its third rate cut since May, marking it out as one of the most dovish developed market central banks this year. It's not always been this way. Just 12 months ago, the Riksbank was aiming to outpace the European Central Bank on policy tightening in a bid to support the krona, often in vain.

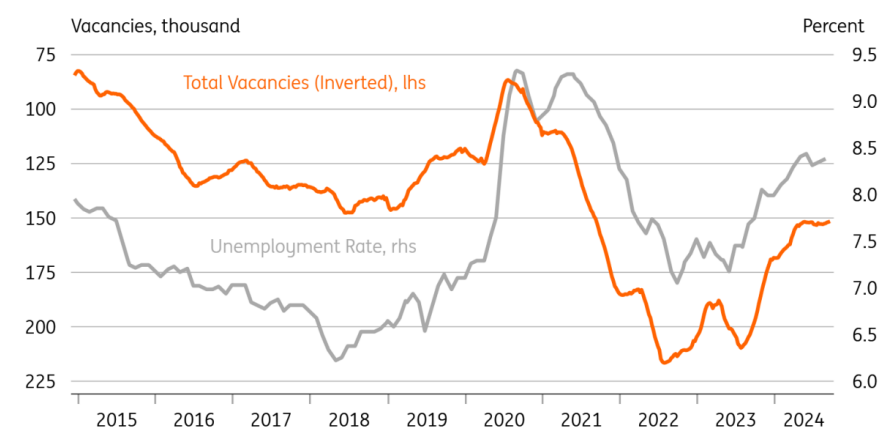
But much like the Bank of Canada – the other stand-out dove this year – Sweden's central bank has had to face up to a highly interest rate-sensitive economy that has taken more of a battering than most over the past year or so.

Maybe that's starting to change. Consumer sentiment has turned dramatically more positive over recent months and that's starting to stem the tide of falling retail sales. Sentiment is much

improved in the housing market too, and we've seen a material recovery in real estate transactions. With more rate cuts on the way, that's only likely to continue.

The other good news is that the deterioration in the jobs market has, for now at least, stalled. Vacancies have stopped falling and the unemployment rate, having risen by more than a percentage-point from its low, has stabilised too. It's too early to say whether the tide is turning here. Remember that both redundancy and bankruptcy levels have stayed pretty elevated. And the labour market is a lagging indicator after all.

## Sweden's jobs market has stabilised



Source: Macrobond

Time will tell whether Sweden is entering something of a cyclical rebound. But if it is, we suspect this is highly contingent on the Riksbank delivering the rate cuts it has promised so far. In addition to a 25 basis point cut this Wednesday, Governor Erik Thedeen has suggested we could see cuts at the two remaining meetings later this year. That's a message we'd expect to be reiterated this month and we have no reason to doubt that those cuts will be delivered.

If they are though, that would get the Riksbank to a more neutral level of interest rates sooner than most of its peers. That suggests that rate cuts are unlikely to continue beyond the winter.

## SEK: Stabilisation possible as easing fully priced

The Swedish krona has had a relatively calm month of September, with EUR/SEK trading mostly below 11.40. From a rates perspective, there are no strong indications that the pair should be trading higher, and given the rather explicit guidance by the Riksbank, markets are already fully pricing in three cuts by year-end.

External factors remain more important than the Riksbank policy for SEK at this stage. The larger-than-expected rate cut by the Federal Reserve is generally positive news for high-beta currencies, and so is the perceived good momentum of Kamala Harris in the polls. The US election in November will be a quite binary event for SEK, given its exposure to global trade and geopolitical risk. For now, we think EUR/SEK can keep stabilising and even attempt to trade below 11.30 into November, despite Riksbank easing.

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