

## Lower Swedish inflation creates headache for Riksbank

January's shock inflation figures come at an awkward time for policymakers, who only a few weeks ago opted to raise interest rates. But despite the fairly muted outlook for inflation, we aren't convinced rates will move again in either direction any time soon



Shoppers in Stockholm

### Disappointing CPIF figures

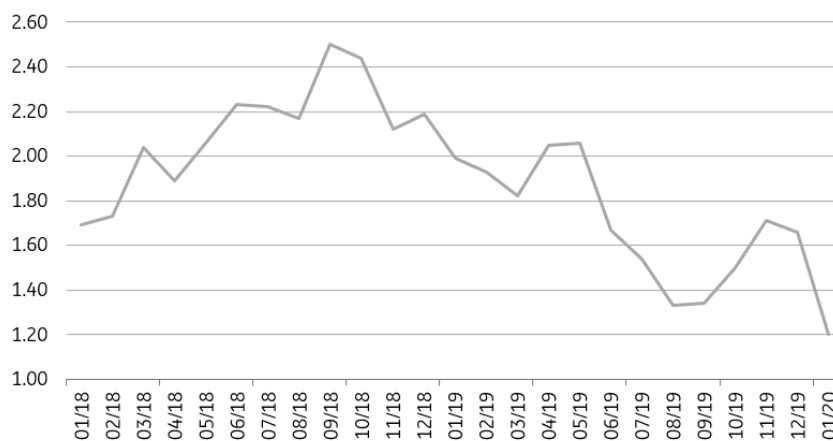
Swedish inflation came in much lower than expected in January, which comes just a month on from the Riksbank's repo rate hike at the end of 2019. Headline CPIF fell from 1.7% to 1.2%, noticeably below the Riksbank's latest 1.5% projection. This is partly down to warmer weather lowering electricity prices, but there was also an unexpected drag from communication costs, which seems to be down to lower telecom equipment prices. There was also a small downward impact from the annual changes to the inflation basket.

# 1.2% Jan CPIX

Lower than expected

This is undoubtedly a headache for the Riksbank, but we'd caution against assuming that policymakers will think about lowering rates again in the near-term. Policymakers have signalled a weariness about negative interest rates becoming a permanent state of affairs, while they had already pencilled in a decline in CPIX over the next few months (albeit not quite this quickly).

## Sweden CPIX (YoY%)



Source: ING, Bloomberg

## Expect the focus to quickly shift to wages negotiations

The Riksbank's focus will also be more squarely focused on the centralised wage negotiations due to be wrapped up in the spring. These will affect around 2.8 million workers. Policymakers remain cautiously upbeat on the rate of pay growth over the next few years, partly because it projects robust productivity growth in 2021/22.

But the risk is that the wage negotiations don't result in a material improvement relative to the 2017 round. The jobs market appears to be deteriorating, although admittedly the official unemployment numbers are still pretty volatile. Inflation expectations among both employee and employer organisations have also become more muted.

## Riksbank unlikely to change rates anytime soon

All of this emphasises that December's repo rate hike is unlikely to be repeated. We suspect it would require a fundamental and prolonged revival in global growth for policymakers to start thinking about resuming their tightening cycle again. The risks presented by the 2019 Covid-19 outbreak mean the recent levelling-off we've seen in economic sentiment may not translate into anything more just yet. The bottom line is that interest rates are unlikely to move in either direction any

time soon.

For FX markets, the disappointing inflation outlook should ensure that the Swedish krona will continue to offer the lowest yield among its G10 cyclical peers, making it unattractive to own during periods of rebounding risk appetite. If anything, SEK remains an attractive funding currency in the relative value space.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).