

No policy change from the Riksbank, but more division among policymakers

As expected, the Swedish central bank left policy unchanged at -0.5% and guided towards a hike at the end of this year. But a second dissenting voter wants a more hawkish policy stance



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Today's policy meeting at the Riksbank was widely expected to be uneventful, with Swedes more focused on this afternoon's World Cup match against the Swiss but the central bank delivered a bit more news than anticipated.

The policy rate was left unchanged at -0.5% and the rate path also is the same, indicating a first rate hike "towards the end of the year" according to the policy statement. In practice, this means a hike at either the October or December meeting.

But Deputy Governor Floden dissented from the decision, arguing for a steeper rate path to indicate the first hike in September or October. This adds a second hawkish dissenter to Deputy Governor Ohlsson, who again advocated raising rates by 25bps at this meeting.

Ultimately, we think the Riksbank is unlikely to raise rates this year. Underlying inflation shows little sign of picking up, and if

anything is likely to underperform the Riksbank's forecast over the summer

Both also voted against the monetary policy committee's (MPC) decision to extend again the mandate for foreign exchange rate intervention. That mandate, intended to stem excessive krona appreciation, seems less immediately relevant now as the krona has weakened. But the decision to extend it yet again suggests it may be on the way to becoming a permanent feature of the Riksbank's policy toolbox.

The economic forecasts are largely unchanged, aside from a few changes resulting from the higher energy prices since the April forecasts. Headline inflation forecast was revised up to 2.1% in both 2018 and 2019, vs 1.9% in both years previously. But the core inflation forecast, which in our view is the more important factor, was left unchanged (though strangely has been moved to a less prominent position in the monetary policy report).

GDP growth was revised down by 0.1pp in 2018 and 2019. More interestingly, the Riksbank revised up its estimate for potential GDP growth to 2.2% from 2.0%. This is a more unusual revision because it means the central bank has changed its view of the underlying speed limit for the economy. Higher potential growth means the Riksbank believes the Swedish economy can grow faster without generating above-target inflation, which is arguably a dovish signal for rates.

Overall, the market has taken today's decision as a hawkish surprise. The krona has strengthened, with EUR/SEK trading at 10.36 vs 10.42 earlier this morning. Short-term rates have also moved up a bit to reflect a higher probability of the Riksbank actually delivering a rate hike this year. This seems a fair reflection of today's policy statement, which on the face of it raises the chances of a rate hike this year.

But we think that ultimately the Riksbank is unlikely to raise rates this year. Underlying inflation shows little sign of picking up, and if anything is likely to underperform the Riksbank's forecast over the summer. The ECB's decision to keep rates unchanged until after the summer of 2019 will have made the dovish majority on the Riksbank MPC worry about the risks of hiking too early.

We'd expect these concerns to emerge in the minutes of today's meeting (and perhaps to some extent in Governor Ingves' press conference later this morning), and we continue to expect a downward revision to the interest rate forecast this autumn.