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SWEDEN

Riksbank hints at 2019 hike, defying ECB dovishness

The ongoing weakness in the Swedish krona means the Riksbank appears to be taking a more relaxed stance towards prospective ECB easing than in years gone by. Policymakers are hinting that a rate hike could come later this year, although we still have our doubts



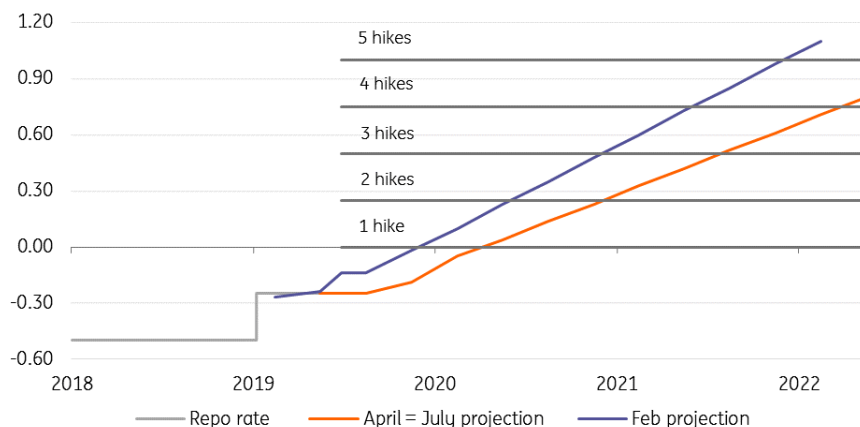
A modestly hawkish outcome from the July Riksbank meeting

The Riksbank has opted to keep the repo rate on hold at -0.25% at its July meeting, but as ever the focus is on what policymakers have to say about the future path for rates. In what is probably a modestly hawkish move for markets, the Riksbank (RB) has kept its interest rate projection unchanged from April.

While it's true the domestic fundamentals haven't really shifted – for instance inflation has come in pretty much exactly in line with the RB's forecast – the major change is that global central bank expectations have completely collapsed since the last meeting just over two months ago. All else being equal, we'd have expected that to have modestly lowered the rate path. But following an in-depth look at krona fair value, the central bank is now forecasting a weaker currency over the forecast period and this appears to be the offsetting factor for lower overseas rate expectations.

All of this goes to show that the Riksbank is relatively unfazed by the prospect of a dovish ECB. While policymakers have often closely mirrored eurozone policy in the past, the fact that the krona has got steadily weaker over recent months has seen the RB take a more relaxed stance towards potential currency strength at recent meetings.

The Riksbank has kept its interest rate projection unchanged from April



Source: Riksbank, ING

Domestic and global risks suggest rates likely to remain on hold for the time being

But while we don't expect the Riksbank to follow the ECB into policy easing any time soon, we aren't convinced the Riksbank will increase interest rates either – or at least, not as soon as the central bank's guidance suggests.

While policymakers left global growth forecasts more or less unchanged, this is premised on the "information now available", hinting that they are quite aware that an escalation in trade tensions may yet throw a spanner in the works.

We also think there are risks to the domestic outlook. The Riksbank is projecting a pick up in wage growth next year, but a slight dip in inflation expectations among labour organisations suggests that the risks surrounding next spring's wage negotiations are biased towards a more lacklustre pay settlement.

All in all, we expect the Riksbank to keep rates on hold for the foreseeable future.

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