

## Riksbank signals yet another delay

As expected, the policy rate remains at -0.5% and the Swedish central bank shifted its anticipated first rate hike into Q4



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The Riksbank's policy statement today is pretty much what most observers had expected. A run of disappointing core inflation figures has prompted the policy committee to shift the expected date for its first rate hike from Q3 to Q4. The new rates forecast is perhaps a little more dovish than anticipated, showing less than a full hike by December.

The inflation forecast has been revised down in the near term, with core inflation about 0.2pp lower for Q2 and 0.1pp lower in Q3. But higher energy prices and the weakened currency provide some offset to the reduced domestic price pressure, which means the Riksbank still thinks inflation will remain around 2%. The GDP forecast is a little lower in 2018 (2.6% vs 2.8%) but correspondingly higher in 2019 (2.0% vs 1.8%).

A key issue for the Riksbank is the currency. Despite a 6% depreciation since late January, the bank remains convinced that the krona is set to appreciate. The new forecast assumes a roughly 5% appreciation by year end. But the removal of a reference in the policy statement to the risk from a rapid appreciation suggests the policy committee is less concerned that a stronger currency will undermine inflation.

As for whether the Riksbank will actually deliver a hike in December, its track record suggests more delays ahead. We still think a 10bps in December is plausible, especially if the krona remains weak, but wouldn't rate it more than a 50-50 chance at this point. The likelihood of a further delay into early 2019 and perhaps even later has increased significantly.