

Strong CPI gives a one-off boost to Swedish krona

July Swedish Inflation numbers surprise meaningfully on the upside, boosting the krona.



2.2%

July CPI year-on-year

Against 1.9% consensus

July CPI increased 2.2% YoY (vs 1.9% consensus) and the underlying CPI rose to 2.4% YoY (vs 2.1% consensus), in turn prompting EUR/SEK to break through the 9.50 level. However, we expect the boost to SEK from a strong CPI release to be one-off (ie, lasting today or this week), as we expect the Riksbank to continue erring on the side of caution and not meaningfully changing its neutral policy stance for now. This is because:

- The central bank's concern about an overly strong SEK hampering CPI outlook (indeed, should the Riksbank suddenly start normalising policy, SEK would likely rally meaningfully)
- The Riksbank's likely preference to wait for the ECB announcement on the form of QE

tapering.

On the latter, with the currently strong EUR increasing the odds of a dovish form of the ECB QE tapering, the Riksbank is likely to wait for the ECB and then see how to adjust its policy stance. Overall, we continue to look for a rather gradual, slow-burning downside to EUR/SEK over the coming months (more based on solid domestic Swedish activity data, rather than suddenly hawkish Riksbank). We target EUR/SEK 9.20 by the year-end. Still, the anticipated lack of the Riksbank's hawkish response does not take away the great 2017 prospects for SEK, with SEK being the best performing G10 currency so far this year (benefiting from the higher EUR/USD overlay and being modestly up against EUR itself). This is in line with our view expressed in the 2017 FX Outlook, that 2017 will be "The year of the SEK".