Sweden's Riksbank doubles down on future rate cut guidance

Even as the Federal Reserve and European Central Bank remain cautious on the timing of future easing, the combination of higher interest rate sensitivity and a more predictable path to lower wage growth makes an easier case for the Riksbank to keep cutting rates. We retain a neutral/slightly bearish outlook on EUR/SEK this summer

Another rate cut is coming in August

Sweden's Riksbank has kept rates on hold at its June meeting, something that had looked like a foregone conclusion following recent comments from bank officials. Even so, at the margin, the new statement reads more dovish than before. The Riksbank is now signalling "two or three" further rate cuts this year, having simply forecasted two back in May. We're in the camp looking for three more moves in 2024.

All of this marks a departure from the rate hiking cycle, where the Riksbank made no secret that it wanted to move faster and more aggressively than the European Central Bank. But the result is that Sweden's more interest rate-sensitive economy is coming under more noticeable pressure, which means the Riksbank can more confidently commit to further easing at a time when the ECB is becoming more cautious again. Swedish officials are also making a big thing of the fact that inflation expectations are much lower, which should feed into more modest wage settlements at the next round of talks in early 2025.

There are risks of course, the most obvious of which is the krona. We return to that below. But the unemployment rate will be pretty important too. This has been ticking higher in recent months, and associated rises in layoffs and bankruptcies suggest this could go higher still. The Riksbank agrees, though expects things to turn around early next year. That forecast appears to be intrinsically linked to future rate cuts being delivered. The risk, however, is that the labour market – as a lagging part of the economy – continues to weaken even after a string of rate cuts are implemented.

The bottom line is that we expect the next rate cut at the August meeting, with a total of three cuts this year.

Impact on SEK

EUR/SEK traded higher after the Riksbank's announcement as the guidance for two or three cuts in the second half of the year was more dovish than in May (only two cuts). That was despite a recent slowdown in the disinflationary process and better activity figures in Sweden. This is essentially telling markets that the Riksbank is increasingly optimistic about a further slowdown in inflation and that rate cuts may well accelerate now that SEK has appreciated.

We have been stressing how NOK appears better positioned than SEK this summer, when we expect supported risk sentiment to allow good performance in high-beta currencies. The policy divergence should drive NOK/SEK higher in our view. When it comes to EUR/SEK, we retain a neutral/slightly bearish outlook for the third quarter, as we see Riksbank cuts and a EUR recovery at least partly offsetting the risk-on positive effect on SEK. 11.20/11.40 may be the range in the short-term, although a move to 11.00 by September cannot be excluded.

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