

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.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.