

## Sweden's Riksbank ends QE in the most dovish way

The policy rate and interest rate forecast remain unchanged, but the main news is the end of the QE programme, albeit in a very gradual manner that will see net asset purchases continue in 2018



### The QE is ending, but asset purchases continue in 2018

The main news in the Riksbank's statement today is the decision not to add to its QE programme further, although the decision to front-load reinvestments means that asset purchases will continue in 2018 and the first half of 2019. This means the Riksbank's balance sheet will continue to expand in 2018 and early 2019, providing a very gradual path towards exiting the programme.

The policy rate and the forecast for interest rates were both kept unchanged. This means the first rate hike is planned for autumn next year. However, we continue to believe the Riksbank's final decision on when to start to increasing policy rate depends largely on how the ECB times its policy normalisation. That will probably only become clear by next summer. If the ECB extends QE beyond the current end-date of September 2018 (which would push its deposit rate hike in mid-2019), the Riksbank is likely to delay its first hike into early 2019 or, perhaps, start with a 10bps hike in late 2018.

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The other key forecasts in the Riksbank's report remained largely unchanged, with near-term inflation slightly higher due to currency and oil prices and slightly lower towards the end of the forecast. The GDP path was very slightly revised (lower in 2019 but higher in 2020).

More importantly, the forecast for the KIX currency index continues to indicate a gradual appreciation, and the statement maintains the warning that it is "important that the krona does not appreciate too quickly." This suggests the fundamental concern around inflation weakness due to currency strength is unchanged by the recent depreciation of the KIX.

### **SEK: The Riksbank won't drive krona sharply higher**

The very careful and SEK dependent future policy normalisation supports our view that SEK gains next year should be only limited and not necessary driven by a sharp change in the Riksbank policy stance - and today's price action provides a case in point. We look for a one-off adjustment in EUR/SEK lower in early 2018 (due to the mix of factors such as a normalisation of the front-end rates and the current oversold SEK levels) but a range bound EUR/SEK after that - for the rest of 2018 (around EUR/SEK 9.50-9.60).

This is also due in part to our bullish EUR/USD view which will contribute to KIX strength, thus decreasing the need for a materially lower EUR/SEK.

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