

Sweden's Riksbank hikes rates by 50bp and signals more is coming

Ahead of a summer of aggressive central bank action elsewhere, Sweden's Riksbank has hiked rates by 50 basis points in a bid to get out in front. Another move of that magnitude in September is highly likely, although there's more of a question mark over what happens thereafter. SEK is set to remain detached from the monetary policy story in the near term



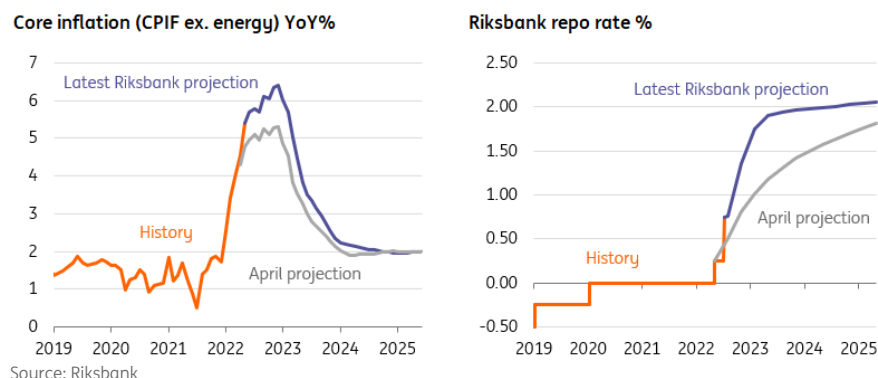
Swedish rates are set to decline further

Sweden's Riksbank has, as widely expected, ramped up its tightening cycle with a 50 basis-point (bp) rate hike, taking the repo rate up to 0.75%. Having said as recently as February that it didn't expect any rate hikes before 2024, the central bank has been forced to mount a hawkish response to the prospect of aggressive tightening from the likes of the Federal Reserve and ECB this summer. The Riksbank only has two meetings left this year after today – half the number scheduled for its US and European counterparts – and therefore Swedish policymakers needed to make this latest decision count.

Officials have also used the new interest rate projection published alongside the announcement to signal a further two 50bp rate hikes at the remaining meetings this year – although importantly these new forecasts suggest that's likely to be essentially it. The Riksbank is balancing a tight jobs market and prospects of faster wage growth on the one hand, against a housing market that is

beginning to show signs of cracks on the other.

The Riksbank's projections: new vs old



Against a backdrop of rising domestically-generated inflation, and with the Swedish krona (SEK) around 4% weaker on a trade-weighted basis so far this year, we expect the Riksbank to stick to its hawkish rate path in September. But the November meeting has a bigger question mark surrounding it, given mounting fears of a global recession (or at least a slowdown) and the prospect of other influential central banks pausing their tightening cycles towards the end of the year.

SEK: Unchanged outlook

EUR/SEK traded lower only briefly after the rate announcement today and is now back around the 10.70 gravity line. This price action is both an indication that markets were largely pricing in such a hawkish scenario and a testament to how investors continue to see the risk sentiment and eurozone growth channel as significantly more important than rate differentials for Nordic currencies. Today's reaction by SEK is quite similar to NOK's reaction to last week's [surprise 50bp hike by Norges Bank](#).

We reiterate our view that the near-term outlook for SEK remains largely detached from monetary policy dynamics, while risk sentiment instability, as well as EU-specific economic woes, continue to warrant caution when it comes to high-beta currencies such as SEK and NOK. However, the widening Riksbank-ECB policy differential argues for a much weaker EUR/SEK as soon as the risk sentiment stabilises. That may happen towards the end of this year, and we continue to target a return to 10.10-10.30 in the fourth quarter of this year.

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