Sweden's Riksbank says it'll move faster as it cuts rates again

High interest rates are taking their toll on Sweden's economy, and with the inflation outlook looking benign, the Riksbank is becoming increasingly confident that rates need to fall more quickly. We have no reason to doubt its signal that rates could fall two or three more times by year-end

Inflation in Sweden is at a more comfortable level and officials are becoming more confident in their future projections

Sweden's Riksbank has cut rates for the second time this year to 3.5%, and more importantly, is signalling that it can move faster than it had previously indicated over the remainder of this year. The central bank is suggesting it could cut by a further two or three times before year-end, which is one more than it had proposed in June, and brings it more in line with current market expectations.

None of this is hugely surprising, but it's still remarkable just how much the central bank's stance has changed over these past few months. Remember that during the rate hike cycle, the Riksbank was resolutely focused on keeping the krona aloft, often to little effect. It made no secret of the fact that it wanted to stay out in front of the European Central Bank when it came to hikes.

But as time has gone on, Sweden's particularly interest-rate-sensitive economy has come under much more visible pressure than elsewhere. The unemployment rate is up by roughly a percentage point and growth is undeniably weak, something the Riksbank notes in its latest post-meeting statement. At the same time, inflation is at a more comfortable level and officials are becoming more confident in their future projections. Next spring's critical wage negotiations look set to generate a fairly benign outcome, for instance.

So while the central bank is still keen to emphasise that the currency is a factor in its deliberations, the threat of further weakness seems to have taken more of a backseat. That's evident in the Riksbank's decision to cut rates ahead of the ECB, and the recent fall in global market rates will have only made it more comfortable with doing so.

The bottom line is there's no reason to doubt the central bank's latest guidance on future rate cuts. We're forecasting a further two rate cuts from here, but certainly wouldn't rule out three depending on economic conditions and future movements in the krona.

Our FX team thinks that a softer US rate environment can carry EUR/SEK down to the 11.30 area over the coming months.

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