

## Sweden's Riksbank upgrades growth assessment but signals ongoing caution

The latest Riksbank announcement signals that rates are going nowhere fast - and importantly that means a return to negative rates looks unlikely. The fact that the central bank is no longer a dovish outlier in the G10 space suggests the krona could continue to outperform high beta peers in periods of market stress



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### Swedish interest rates going nowhere fast

On the face of it, there's not much to get excited about in the latest Riksbank summary. Despite some better consumer spending data, which has driven the central bank to revise up its expectations for 2020 GDP (to -3.6% from -4.5% in July), the myriad of uncertainty facing the global economy this winter means that policymakers have unsurprisingly kept their interest rate projection flat over coming years.

And while the situation in the jobs market has now stabilised (new redundancy notices have fallen back to normal levels after a spike in the spring), the subdued outlook for wages has contributed to a marginal reduction in the Riksbank's CPIF forecasts for the next couple of years.

Still, what all of this does at least signal is that further easing, at least in the form of a return to negative interest rates, is unlikely. We also know that, despite the gradual appreciation in SEK over recent months, policymakers are much more relaxed about the currency than they were in times gone by.

All in all, rates are unlikely to move in either direction for quite some time.

## SEK impact: Riksbank neither a help nor a hindrance for the currency

The SEK reaction to the Riksbank meeting has been muted, given the upward revision to the 2020/21 GDP outlook was not matched by even a modest upward revision to the interest rate forecast (which remained flat at 0% over the entire forecast horizon). That differs from the stance taken by Norges Bank, which has pencilled a modest amount of tightening into their profile in future years.

While Sweden is a small open economy levered to global growth - which is currently an undesirable attribute given the downside risk from rising Covid-19 cases - and the central bank has not signalled it will tighten policy any time soon, SEK is still set to outperform Norway's krone in the current risk-challenging environment given its lower beta to risk (NOK currently exerts the highest beta to risk in the G10 FX space).

Sweden's central bank is no longer a dovish outlier in the G10 FX space as nominal and real rates no longer stand out as particularly negative in relative terms vs its peers, and it is not actively leaning against currency strength, which suggests that the outlook for SEK is not negative and the currency will likely continue to outperform its high beta G10 peers in times of stress.

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