PREVIEW: Riksbank Policy Announcement due Thursday 10th February 2022 at 08:30GMT/03:30EST

- Repo Rate to be maintained at 0.00%, focus on QE/Repo Path given the inflationary environment.
- Some members in the November Minutes expressed the view that a further taper may be appropriate in 2022, though the Riksbank may wait for the ECB to move first.
- Repo path's 2024 hike could be brought forward; however, the Bank has taken the view that inflation is transitory in nature.

Overview: The Repo Rate is expected to be maintained at 0.00%. Focus will be on the purchase programme, as the November Minutes highlighted a consideration that a further taper may be appropriate in 2022; albeit, given desks are looking for a March ECB announcement in this vein, it may be prudent for the Riksbank to await such an update. Elsewhere, the repo path's indication for a 2024 hike could be brought forward as means of acknowledging the global rate environment and inflationary pressures. However, the Riksbank has taken the view that recent price pressures are transitory and as such is not in any hurry to tighten/change monetary policy - it remains to be seen if recent developments are sufficient to move the Bank from this stance.

Previous Meeting/Minutes: November's gathering was in-line with expectations, Repo Rate held at 0.00% featuring an addition to the repo path that it will likely be raised in the latter part of 2024, though this was not unsurprising. The Board decided to purchase bonds worth SEK 37bln during Q1-2022, forecasting that asset holdings will remain approximately unchanged in 2022 and then decrease gradually.

The accompanying minutes highlighted that some members expressed different nuances regarding asset holdings, considering that it might become appropriate for a further tapering in 2022. On the repo-path/inflation, members, broadly speaking, took the view that inflation is of a transitory nature and that they should not be in a hurry to tighten/change monetary policy.

Potential Policy Steps: Potential policy steps can be split into two areas of interest; firstly, and consistent with the likely hierarchy, the purchase programme. In November, the Riksbank announced that SEK 37bln of bonds will be purchased in Q1-2022, just over half of the figure that was outlined in July 2021 for the Q4-2021 period. The smaller purchase figure is in-line with their stated intention to undertake reinvestments at a magnitude sufficient to keep the volume of holdings roughly unchanged for the year. Given that the November minutes highlighted a discussion around tapering further in 2022, it is likely safe to assume this would be the Riksbank's first step in any normalisation process – a sequencing order the ECB intends to adhere to. Given increasing price pressures both from a global and domestic perspective, albeit with valid 'transitory' caveats applicable to the domestic situation at this stage (see Data section below), some desks highlight the potential for a reduction in QE purchases to be announced at this meeting; SEB's survey ascribes a 24% chance to such an announcement. However, it is worth caveating that desks/sources have suggested a March announcement from the ECB about ending APP as an option, therefore, it would not be surprising to see the Riksbank wait until the ECB revises its programme before altering their own QE remit – the next Riksbank meeting is scheduled for April 27th.

Secondly, the Repo Rate and its path. Currently, the repo path implies an unchanged Repo Rate until 2023 after which it is seen lifting to 0.10% in 2024 and then 0.20% during Q4-2024. Given the ordering of action outlined above and existing guidance the Repo Rate is expected to be left unchanged in February; though, for what it is worth, SEB's survey has 5% of respondents looking for a hike. Instead, the Riksbank may elect to bring its tightening guidance into Q1/H1-2024, or perhaps even late-2023; as a means of acknowledging the global rate environment. However, the Riksbank may well elect to leave the repo path largely unchanged in the scenario that they still judge the current inflationary environment to be a transitory one and/or rate setters reiterate a preference to allowing a higher price environment for a period of time.

Data: As with other economies, inflation is the in-focus measure given the current environment. December's headline CPIF YY print lifted to 4.1% (exp. 4.0%, prev. 3.6%), substantially above the Riksbank's own 2.9% expectation. The Core measure which excludes Energy eased as expected to 1.7% YY (prev. 1.9%), a rate that also matched the Riksbank's forecast. Such a finding adds credence to the Riksbank's existing view that price pressures are of a transitory nature. However, with the bulk of the headline increase due to electricity prices which saw the "…highest monthly change in the 21st century" notes SEB, the data vendor, it is likely only a matter of time before we begin to see this pass-through into other areas of the economy and perhaps challenge the transitory view. However, as the Riksbank has made clear that inflation should be allowed to exceed the target for some time before it requires a rate hike, such data would need to remain elevated and be judged as persistent to alter the near-term outlook. For reference, CPIF for January is due on February 18th. December's unemployment rate saw a modest reduction though the overall level of employment did dip alongside this while Q4 GDP beat expectations and more recent survey data in the form of January PMIs showed modest increases.