PREVIEW: Riksbank Policy Announcement due Thursday, 9th February 2023 at 08:30GMT

- Expected to hike by 50bp to 3.00%, with market pricing implying around an 80% chance of such an outcome.
- A half point move is justified by persistently above forecast headline CPIF; however, a smaller increment cannot be entirely ruled out given domestic economic pressures.
- Further out, respondents expect the Policy Rate Path to imply a final 25bp hike, a view which is in-fitting with market pricing.

OVERVIEW: Expected to hike the Key Policy Rate by 50bp to 3.00%, with almost all of those surveyed by Reuters forecasting such an outcome; though one respondent looks for a 75bp hike and another for 25bp. Market pricing currently ascribes around an 80% chance of a 50bp hike taking place, and 20% for a 25bp hike; all Fixed Income respondents to SEB's survey (conducted between Jan 30th – Feb 2nd) expect a 50bp hike. Note, while unlikely, a 75bp hike is possible as such an increase would allow the Riksbank to maintain the spread against the ECB's Deposit Rate when accounting for the different number of meetings held by the respective Central Banks. Rates aside, the Bank could elect to provide details of how it intends to allow its holdings of securities to decrease in line with maturities, a development which is expected to entail some tightening of monetary policy. Finally, February will be the first gathering for new governor Thedeen and Deputy Bunge.

PREVIOUS MEETING: To recap, the Riksbank hiked by 75bp to 2.50% in November and guided participants towards a further increase at the beginning of 2023 to just below 3.0%; specifically, the repo path peaked at 2.84% which implies a 25bp hike in February and then a small possibility of tightening beyond this. Reminder, the Bank added that from the start of 2023 it will allow its holdings of securities to decrease in line with maturities, which also entails some tightening of monetary policy.

50bp: The main CPIF metric, while affected by electricity prices, was above forecast in November and significantly so in December at 12.3% (Riksbank exp. 9.14%). A measure which will undoubtedly be used as justification by some on the Board for hawkish action, a stance perhaps prefaced by Breman's recent remarks that inflation is far too high and does not appear to have peaked yet. Additionally, while the core (ex-energy) measure was only marginally above target in December and overall is a factor supportive of a 25bp hike (see below) the figure remains above the forecast level.

More broadly, the SEK has been depreciating vs the EUR almost continually for the last few months, with EUR/SEK at a two-year peak of 11.40+ heading into the policy announcement. A trajectory that has perhaps been cemented further by the ECB's 50bp hike and guidance for another move of equal magnitude in March before the situation is re-assessed. As such, policymakers will be reluctant to allow rate differentials to widen further and potentially hinder the SEK and by extension the fight against inflation, particularly as the Riksbank meets just five times a year vs the ECB's eight gatherings. Elsewhere, market pricing and Sweden's main fixed-income players are looking for a 50bp increment and the new Governor and Deputy may be reticent to disappoint/defy expectations on their first outing.

Finally, it is worth highlighting that recent employment metrics have featured a rebound in job vacancies with job openings remaining at elevated levels and therefore we may well see an increase in wage pressures ahead and potential second-round inflation effects.

25bp: While market pricing and the vast majority of desks surveyed look for a larger increment, there are a number of factors which mean a 25bp increase cannot be discounted. Namely, it could be justified by the view that much of the upside in headline inflation is due to volatile electricity prices and the core (ex-energy) measure was only marginally above target in December. As such, the Riksbank could argue that the hot headline prints are not representative of the underlying inflation backdrop, and thus stick with its guidance from November. Additionally, the broader economy continues to drift with PMIs slipping and soft retail sales illustrative of this and confirmed by hard data showing the economy is in a recession.

However, the points outlined in the 50bp section above are very likely to take precedence and as such a 50bp hike is the base case. Though, these considerations may be evident in the updated Policy Rate Path.

May: Reminder, November's Policy Rate Path was lifted following that meeting's 75bp hike to imply a 25bp hike in February to 2.75% at which point the tightening cycle was expected to be paused, with the peak rate at 2.84% and thus implying a small probability of further increases beyond February.

Evidently, if a 50bp hike is delivered then the Policy Rate Path will have to be adjusted to account for this. In addition, the Riksbank is expected to imply around another 25bp of tightening to 3.25% by end-2023 and thereafter very modest easing of circa. 10bp by end-2024, according to SEB's Fixed survey. Currently, market pricing envisages a peak of 3.25% in May/July and just shy of 50bp easing by end-2024. Such an increase would stand in contrast to the ECB's flagged policy intentions and therefore would prevent the spread from being maintained further out, though unless February's decision is a 75bp hike this will technically have already widened. Note, the relatively modest expectation for an additional 25bp would follow numerous consecutive hikes and leave the peak 50bp higher than November's implied level. Overall, rate-setters may be willing to accept such a compromise given the strain that the domestic economy is already clearly experiencing.