PREVIEW: Riksbank Policy Announcement due Wednesday, 26th April 2023 at 08:30BST

- Expected to hike by 50bp to 3.50%, given stubbornly elevated inflation, the relative resilience of the domestic economy and unwinding of "desirable" SEK appreciation.
- However, the economy's sensitivity to rate increases and the recent easing in headline inflation are among factors which merit a discussion around and/or vote(s) for 25bp.
- Guidance for June is expected to show some degree of further tightening to a 3.75% peak, with rates thereafter likely on-hold for the entire horizon.
- Rates aside, the SEK has unwound much of its February meeting induced appreciation and thus the Board /Thedeen will place emphasis on a stronger SEK.

Overview: The Riksbank is expected to hike by 50bp to 3.50%, with 12/14 respondents to the latest Reuters survey forecasting such an outcome. Another rate increase would be justified by the stubbornly elevated inflation situation, relative resilience of the domestic economy and the unwinding of “desirable” SEK appreciation since the February gathering. On the flip side, while just two respondents look for a 25bp increment such an outcome cannot be entirely discounted given Sweden’s sensitivity to rate hikes and the marked easing in inflation, albeit still at a high level, seen in March. April’s tightening magnitude aside, guidance for the June meeting will be closely scrutinised and is expected to show some degree of further tightening to a likely 3.75% peak, and with rates thereafter likely to be shown as on-hold for the entire horizon. Meanwhile, the SEK has unwound much of its February Riksbank induced appreciation and thus the Board/Thedeen will likely reiterate and perhaps ramp-up the language around a stronger SEK being desirable. Finally, no new developments are expected on asset holdings.

Previous Meeting: In February, the Riksbank increased its policy rate by 50bp to 3.00% as expected, and guided towards the repo probably rising further during the spring period, with the new peak seen at 3.33% by 2024 (prev. 2.84%); specifically, Governor Thedeen said April would see either a 25bp or 50bp hike. Rates aside, the Board decided to reduce asset holdings at a faster price from April. Policy adjustments which were justified by the assessment that inflation was “far too high and has continued to rise”. Notably, the statement added commentary around the Swedish Krone that a “stronger SEK would be desirable”. Overall, the decision sparked a hawkish reaction via the 50bp hike, guidance for further tightening, SEK language and the observation that the Policy Rate Path does not imply any reductions.

50bp: 96% of respondents to SEB’s Fixed Income survey expect the Riksbank to deliver a 50bp hike. A move that would echo the February announcement and be justified by CPIF-XE remaining above target and stubbornly elevated in tandem with the domestic economy, by some measures, faring relatively well. Most recently, the Finance Ministry’s forecasts for 2023 were subject to a downgrade for GDP and Unemployment vs the December view; however, the softer forecasts are still an incremental improvement over the Riksbank’s February forecasts. In terms of hard data, March’s Unemployment rate, Services PMI and New Orders all improved from their prior levels. Data aside, in February the Riksbank placed emphasis on the SEK, language which resulted in a marked, but ultimately short-lived appreciation of the SEK. As it stands, EUR/SEK is back towards pre-February announcement levels of 11.30+, unwelcome price action in the fight against inflation and thus another factor in favour of the larger hike increment.

25bp: While just 4% of SEB’s respondents expect the smaller magnitude and Dagens Indsutri’s shadow-board settled on a 25bp hike as being appropriate, such a move cannot be ruled out given March’s inflation was cooler than expected for the core figure and accompanied by a marked easing in the headline rate to 8.3% from 9.4% YY. Additionally, the domestic economy remains under pressure and highly sensitive to further rate increases, with over 60% of household domestic mortgages having an expiry of less than 12-months, according to ING. Elsewhere, Sweden's domestic Trade and Enterprise unions have called for rates to be left unchanged, citing the recent prudent wage agreement and non-expansionary government budget. SEB writes the wage deal is regarded as a “positive surprise suggesting modest wage increases until Q1 2025”. Overall, the above domestic factors not to mention the recent global banking crisis serve as justification for at least a discussion around and possibly even vote(s) for the smaller magnitude. Note, as in the 50bp section, the Riksbank will want to keep emphasis on the FX space and will likely include language around SEK appreciation being desirable; and this may be more pronounced under the 25bp scenario given the SEK will likely see a dovish reaction.

June’s Guidance: Assuming a 50bp hike is confirmed, the Riksbank will likely point towards further tightening in the summer period with the rate path expected to imply a peak of 3.75%, i.e. a final 25bp hike in June. Alternatively, in the less likely scenario that a 25bp hike is delivered, the path may not entirely price in another hike at the June meeting with the statement/Thedeen's language even more pertinent.

Finally, participants will be attentive to how the trade-off between bringing inflation under control and factors such as domestic rate sensitivity and wage agreements are, if at all, evidenced in the accompanying forecasts. Currently, the policy path does not imply any rate reductions. For reference, the March NIER forecasts look for the Riksbank to announce a series of rate cuts from the beginning of 2024 from the expected 3.75% peak to an end-2024 rate of 1.75%. Ultimately, the Riksbank will perhaps err on the side of caution and keep the policy rate unchanged for the duration of the forecast horizon (Q2-2025) at its new peak, given any forecast for a cut could undermine the drive for a stronger SEK and cooler inflation.