PREVIEW: Riksbank Policy Announcement due Thursday, 29th June 2023

- **Expected to hike by 25bp to 3.75%, a stepdown from the pace of tightening in April, but in-fitting with guidance and market pricing.**
- **Further tightening is justified, and 50bp perhaps merited due to hot CPIF-XE and ongoing SEK depreciation; though dovish dissent in April means this could be a challenge.**
- **As a form of compromise or complementary measure an increase in the pace of bond divestments may arise from the current SEK 3.5bln/month.**

Overview: Expected to hike by 25bp to 3.75%, with SEB judging risks around the decision as being broadly neutral given market pricing is essentially entirely for a 25bp move. However, 50bp cannot be dismissed given ongoing SEK depreciation and the hot May CPIF. Thereafter, these factors mean the Policy Path will likely see an upgrade to imply some further tightening by end-2023, though a typical 25bp increment may not be fully priced in to provide optionality, in-fitting with the approach of previous gatherings. Nevertheless, Nordea now expects the Riksbank to raise rates to a 4% peak vs 3.75% previously. Rates aside, bond divestments could be used as another tightening tool and perhaps a compromise for 25bp rather than another 50bp hike. On this, SEB expects the current SEK 3.5bln/month pace to increase to SEK 6-7bln/month; while it is unclear how the summer sale pause will be addressed, though divestments of some form are likely.

Previous Meeting: In April, the Riksbank hiked by 50bp to 3.50%, as expected in what was ultimately a dovish-hike. The meeting was subject to dissent from Bremen and Floden advocating a 25bp hike given anchored CPI expectations, moderate wage increases and the downbeat demand situation. Dissent aside, the Riksbank once again expressed a desire for the SEK to be stronger. Guidance at the time indicated a final 25bp hike in either June or September and the 2026-Q2 update priced a cut compared to consensus beforehand for unchanged rates at that point. In the minutes, Breman made the point that expanding QT could be a potential policy option, though Governor Thedeen caveated that further sales have a high bar.

SEK/CPI: In May, the Riksbank's preferred measure of inflation slowed from the prior YY level, but printed above both market and the Bank's own forecast; as such, a 25bp hike and guidance towards further tightening should be expected. Specifically, CPIF-XE printed at 8.2% vs. Exp. 7.80% (Prev. 8.40%) YY. Encouragingly, food and energy prices continued to ease in the month. However, Statistics Sweden (SCB) highlights that prices "increased for a broad set of goods and services, for instance hotel and restaurant visits, recreational services, and clothing.". Worryingly, particularly as markets expect further Riksbank tightening, CPI inflation was spurred by elevated interest expenses for owner-occupied and tenant apartments alongside rented and co-operative housing. At the last gathering, the Riksbank once again expressed a desire for SEK appreciation. Since then, we have seen officials including Governor Thedeen state that the currency is going in the wrong direction. Meanwhile, Breman said if the SEK continues to weaken and counters attempts to control inflation then this would have policy implications, reiterating the guidance from April for a 25bp hike in either June or September – reminder, Breman was a dovish dissenter. Following the April decision, the SEK experienced a week or so of relatively marked appreciation. However, since then the SEK has been depreciating almost continually with EUR/SEK at 11.76+ vs the 11.3951 closing level after the April decision.

Bond Sales: Hot CPI and SEK weakness needs to be balanced against April's dissent against 50bp, as such tightening action via the balance sheet may be utilised as a compromise. Within the minutes and commentary more generally members have not expressed much opposition to upping the pace of bond sales as a tightening tool, with the largest hurdle emanating from Governor Thedeen who said there is a high bar to further sales. Currently, bonds are sold at a clip of SEK 3.5bln/month, though this operation is currently scheduled to pause for the summer period. Given the above, SEB expects this pace to increase to circa. SEK 6-7bln/month and an announcement made that there will be sales of some magnitude during the summer period.

Domestic Performance: The domestic economy has come under pressure amidst the Riksbank's ongoing tightening. Though, Governor Thedeen said that rate hikes have not had the adverse impact he expected and specifically one explanation for why household consumption remains above forecast is a belief that rates will decrease rapidly in the near term. These sentiments were echoed by Jansson who said the economy's overall strength has been surprising. May's data saw another, albeit shallower, drop in House Prices, while as alluded to above Household Consumption remained solid, but has been subject to mixed revisions. However, the month's Manufacturing PMI fell markedly from the prior level and further into contractionary territory at 40.6. Finally, the latest Financial Stability Report highlighted "several vulnerabilities that are now posing challenges" within the domestic sector and added that "This is particularly true of the highly indebted property companies, and the banks' large exposures to the sector.". Overall, economic developments are probably more aligned with a 25bp hike as markets are pricing and the Riksbank previously guided, rather than a continuation of the 50bp moves that was subject to dissent with downbeat demand cited as a factor in April.