PREVIEW: Riksbank Policy Announcement due Thursday, 21st September 2023

- Expected to hike by 25bp to 4.00%, in-fitting with June's guidance for one more 2023 hike.
- A September move is merited by SEK softness and the absolute value of CPIF vs target.
- Thereafter, guidance for another hike in November and/or a balance sheet reduction may well occur given SEK pressure
- Policy announcement due at 08:30BST, Governor Thedeen speaks from 10:00BST onwards.

Overview: Expected to hike by 25bp to 4.00% according to all but one of the 22 respondents surveyed by Reuters, and in-fitting with the guidance from June's gathering for at least one more 2023 hike. A move in September is merited by the ongoing SEK depreciation and the observation that while inflation pressures continue to ease, the absolute figure remains well above target. Thereafter, the June rate path ascribed around a 20% chance of tightening beyond 4.00%, a path that is likely to be adjusted higher and perhaps point to a hike occurring at November's meeting, given the soft SEK. In addition, any further insight on the timing of a first cut will be closely sought. As it stands, the repo path implies rates will be held at the 4.05% peak until at least Q2-2025. Rates aside, the beginning of September saw the June balance sheet adjustment come into effect, whereby sales were increased to SEK 5bln/month (prev. 3.5bln). Given this tweak has only just occurred, it may be premature for the Riksbank to announce a further alteration with desks generally looking to November for any tweak, though September cannot be ruled out.

Previous Meeting: On June 29th, the Riksbank hiked by 25bp, as expected, and taking the Policy Rate to 3.75%. Additionally, guidance flagged at least one more 2023 hike while the Rate Path had an implied a 20% probability of further tightening thereafter with a 4.05% Q2-2024 peak penciled in. Timing for a first cut is unclear, but the 4.05% peak is projected to be in place until at least Q2-2025. The hike was justified by ongoing SEK softness and the observation that while inflation is falling, it remains far too high. Rates aside, the pace of government bond sales was increased to SEK 5bln/month (prev. 3.5bln), effective September 2023. The meeting's subsequent minutes were on the hawkish side, featuring lines from Breman and Jansson regarding hikes in September and beyond in addition to potential hawkish revisions to their forecasts thereafter. Interestingly, Governor Thedeen said there is no reason for the Riksbank to react to temporary FX movements.

SEK & CPI: August's inflation data saw a much larger than expected pullback in price pressures, and a slowdown that was driven by a fall in food and electricity prices. Additionally, usual seasonal variations apply with the prices of package holidays also falling. Specifically, electricity was 36.8% lower YY, defying the energy-driven upside seen in the US and EZ recently. Continuing the decline from the circa. 6.7% CPIF YY rate that Sweden was experiencing around the time of the last meeting. However, while the fall is encouraging and inflation expectations are continuing to decline the headline level of 4.7% YY in August remains well above the 2.0% target. Additionally, the SEK has continued to depreciate after a brief rebound in the weeks after June's meeting. As it stands, EUR/SEK is above the 11.75 mark that printed on the morning of June's announcement and remains in close proximity to the record high of 11.9953.

Factors which argue in favour of the Riksbank sticking to its guidance for a 25bp hike. Thereafter, we are attentive to any hawkish-alteration to the policy rate given members frequently expressed concern over the SEK's depreciation and associated inflation implications.

Growth: Headline metrics such as July's GDP have been relatively strong, with a marked upward revision to the prior also filtering through. While the timelier August unemployment data saw a very slight uptick in the rate, which in theory bodes well on the inflation front. However, that period's PMI data was soft with the services figure slipping modestly into contractionary territory, while the manufacturing number slumped further below the 50 mark. Overall, the domestic backdrop is, according to SEB a touch softer than projected by the Riksbank in June; a finding which is supportive of the Bank sticking to its guidance for the meeting, but not for any hawkish additions beyond that.

Balance Sheet: Rates aside, as another potential way to fan some SEK appreciation the Riksbank could elect to increase the pace of government bond sales. However, the Bank may find it more prudent to wait until the November meeting to allow time to assess the June increase, given it only came into effect at the beginning of September.

Fiscal: On Wednesday, 20th September the Swedish Government will present the latest budget at 07:00BST. Thus far, measures amounting to just over Finance Minister Svantesson's earlier pledge of SEK 40bln have been announced and as such Nordea does not expect any additional substantial stimulus. Hence, overall the desk does not expect the budget to have a large impact on either inflation or monetary policy.