

PREVIEW: Riksbank Policy Announcement on Thursday 19th December 2024

- Expected to cut the policy rate by 25bps to 2.50%, a move which is in-fitting with the forward guidance from November.
- The step down from 50bps to 25bps is justified by the hotter-than-expected CPIF ex-energy outturn in November.
- Forward guidance will likely be a reiteration from Sep/Nov that another rate cut (after December's) is possible in H1-2025.

Overview: Expected to cut the policy rate by 25bps to 2.50%, according to all analysts polled by Reuters. A move which would be in-fitting with the forward guidance from November and mark a step down from the 50bps increment that was enacted at that meeting. Economic developments since November seemingly justify another cut, however the upward-surprise in CPIF ex-energy means that a 50bps move is unlikely (though, markets ascribed around just under a 40% chance to a 50bps move) with 25bps the base case. In terms of forward guidance, given the November Minutes indicating a preference for the policy rate to settle just above 2% by mid-2025 (i.e. 2.25%) another 25bps cut seems likely at some point in H1; in-fitting with verbal guidance that has been in place since September. Following the 08:30GMT policy announcement, the Governor will hold a press conference from 10:00GMT.

Previous Meeting: On November 7th, the Riskbank cut by 50bps as expected to 2.75%. Alongside this, the statement noted that the policy rate could also be cut in December and in H1-2025, forward guidance which was a reiteration of September's communication. The larger magnitude cut was justified by the assessment that more extensive measures were required to support economic activity amid few clear signs of a recovery.

The subsequent minutes indicated that the 50bps move was frontloading and does not necessarily equate to lower terminal rate, with the likes of Thedeen and Breman making clear that a terminal rate of "just above" 2% by mid-2025 (i.e. 2.25%) is reasonable. In terms of getting to that level, Breman remarked that in practice "this implies two further cuts of 0.25 percentage points...".

Economic Developments: Since the November meeting, the most pertinent release has been November's CPIF which came in at 2.4% for the ex-energy Y/Y measure, much hotter than the Riksbank's 2.0% view. Some of this was due to base effects, but nonetheless the latest inflation report was hotter than expected. Elsewhere, the month's PMIs dipped closer to the 50.0 mark while Retail Sales for October were particularly soft. However, November's unemployment rate surprisingly eased from the prior level and Q3 GDP was firmer than the market expected but remains at weak levels. In short, the data shows that the economy is recovering but economic activity remains subdued while inflation surprised to the upside.

December: In totality, the above developments mean that further policy easing is justified, as the economic recovery remains tentative, particularly given headwinds in the EZ and globally on potential tariff risk and/or trade wars stemming from the upcoming US administration. In terms of magnitude, the hotter-than-expected inflation metrics mean that a 25bps move is more likely than a 50bps one. A view shared by market pricing, which ascribes a 60% chance to a 25bps cut while 95% of respondents to SEB's survey expect a 25bps move with the remainder looking for unchanged given the CPIF ex-energy print.