

Riksbank Review: July 2020

Minutes: 830BST Friday 10 July

MNI View: QE Now

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The repo rate was kept on hold as expected with the repo rate path at zero until the end of the forecast horizon. Verbal guidance included that rates can be cut too - also as expected. No analysts see a cut to the repo rate in their base case.

The surprise was that QE was extended by SEK200bln - that's the top of the range of expectations and most hadn't expected an announcement until September. Purchases will continue until June 2021 (rather than the end of this year). Corporate bonds being included from September in the Riksbank's purchases was something that had been considered a possibility but also wasn't expected this month either (although we note only SEK10bln of the purchases will be of corporates).

The Riksbank has also cut rates on its programme of lending to banks (its version of the Term Funding Scheme). And it has extended the term of loans from a maximum of two years to a maximum of four years.

So overall this is pretty much as dovish as the Riksbank could have been expected to be today. And given how much the Riksbank has delivered, there are no real expectations of any further changes to policy for the foreseeable future.

mni Central Bank Watch - Riksbank

MNI Riksbank Data Watch List						2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Inflation		Current	3m ago	3m Chg	6m ago	6m Chg				
CPI	% y/y	0.0	1.0	↓	1.80	↓				-2.34
CPIF	% y/y	0.0	1.0	↓	1.70	↓				-1.16
CPIF Excl Energy	% y/y	1.2	1.6	↓	1.8	↓				-1.14
PPI	% y/y	-3.8	-1.2	↓	1.2	↓				-1.26
Economic Activity		Current	3m ago	3m Chg	6m ago	6m Chg				
Swedbank Manuf PMI	Index	47.3	43.0	↑	47.9	↓				-0.57
Private Sector Production	% y/y	-9.0	2.1	↓	0.60	↓				-2.26
Economic Tendency Survey	Index	75.2	92.6	↓	93.90	↓				-0.61
Swedbank Service PMI	Index	40.9	56.1	↓	48.30	↓				-1.20
Monetary Analysis		Current	3m ago	3m Chg	6m ago	6m Chg				
M3 Money Supply	% y/y	14.89	7.21	↑	8.74	↑				2.54
Lending to HH	% y/y	5.10	5.17	↓	4.99	↑				-0.09
Lending to Non-Fin Corp	% y/y	5.63	3.85	↑	4.40	↑				1.18
Avg. new HH loan rate	%	1.55	1.56	↓	1.48	↑				0.74
Consumer / Labour Market		Current	3m ago	3m Chg	6m ago	6m Chg				
Retail Sales YoY	% y/y	2.40	4.30	↓	1.60	↑				0.27
Consumer Confidence	Index	84.0	89.2	↓	94.8	↓				-0.47
Unemployment Rate	%	9.0	8.2	↑	6.80	↑				1.52
Household Consumption	% y/y	-10.0	0.9	↓	2.20	↓				-2.04
Markets		Current	3m ago	3m Chg	6m ago	6m Chg				
Equity Market (OMXS30)	Index	1675	1482	↑	1772	↓				0.55
Sweden 10-Y Govt Bond	%	0.01	-0.13	↑	0.16	↓				0.29
SEK Yield Curve (2s-10s)	bps	32.3	14.8	↑	46.5	↓				0.43
SEK KIX TWI	Index	118.11	124.85	↓	120.50	↓				-1.48

Analysts' Key Comments (A-Z)

Barclays

- Barclays notes that “the year-end buying spree looks like a preemptive move, backed by the bank’s determination to stimulate, even dipping its toes deeper into relatively opaque markets.”
- However, it notes that there will be a limits to the SEK sell-off due to the “limited additional purchases in SGBs by the Riksbank, and the relatively large market size of municipalities, Kommuninvest and mortgage bonds”
- Barclays continues “to believe the bank will be reluctant to revert to negative rates, view QE as the new normal/main monetary policy tool amid low interest rates, and point to fiscal policy for major stimulus given ample fiscal space.”

Danske

- Danske view the expansion to QE as “a pretty significant signal, which was not expected at this stage.”

Goldman Sachs

- Goldman Sachs expects “the Riksbank to remain on hold for the foreseeable future, but will be looking to the Minutes of the monetary policy meeting published next week Friday (10 July) for any signs of disagreement on a repo rate cut among the members of the Executive Board”

HSBC

- HSBC state that the “measures announced show that the Riksbank is committed to supporting the economy as much as possible on the path to recovery from the COVID-19 crisis.”
- HSBC say that the 2021 recovery “is likely to be muted...but given the amount of stimulus already provided by the Riksbank, there may not be much more to come in terms of further asset purchases and easing of liquidity conditions.”
- HSBC note that the Riksbank has avoided cutting back into negative territory and “no reason for that to change”

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- “While the timing is a little unexpected, the fact that the Riksbank has expanded QE is perhaps not that surprising - and mirrors the recent decisions at the European Central Bank”
- “While policymakers have said that the repo rate could be taken back into negative territory, we're still not convinced this will happen... we suspect [cheaper lending conditions for banks] may remain the preferred way of lowering rates for the time being.

JP Morgan

- “We continue to see a low probability of a return to negative rates, and expect the policy rate to be left at 0% for the foreseeable future”
- “Despite the upward revision to the GDP forecasts the Riksbank language continues to be very cautious as uncertainty regarding future economic developments remain higher than normal.”
- JP Morgan thinks that the Riksbank “is done for now, and expect no more policy action this year.”
- JP Morgan says that “risks are skewed towards more QE next year, especially if the ECB extend its purchasing programme beyond mid-2021.”

Nordea:

- “The message from the Riksbank is a bit mixed but on the dovish side”
- “It was somewhat softer than expected as some policy rates were lowered. On the other hand, a cut of the repo rate is increasingly unlikely.”
- Note that the cut to some of the Riksbank’s rates “could feed through to markets rates, and may pull down STIBOR and mortgage rates somewhat.”
- “The bank is perhaps a bit more optimistic than expected on the economy... but the forecasts are reasonable, we think.”
- Nordea maintains its view that rates will be on hold over the next year and that “The main tool for the Riksbank is its balance sheet.”

SEB

- SEB had expected the QE programme to be expanded this month but note that “on the margin the decision was slightly more dovish than market expectation as most analysts expected the QE program to be on hold for now, although an extension of the program at a later point in time was widely expected.”
- “The utilisation of the loan facilities has been extremely low and we do not expect the lower rate to change this”
- SEB “continue to expect the repo rate to remain on hold at zero for the foreseeable future... there is nothing in the report suggesting that the probability for a rate hike has increased.”

TD Securities

- TD Securities note that the Riksbank “seems to be leaning more toward the ECB, ensuring ample stimulus for the next year, rather than the more hawkish Norges Bank.”

MNI Policy

MNI REVIEW: Riksbank Ups QE; Projects Repo Rate Flat To 2023

By David Robinson

Published July 1, 2020

- QE Envelope Increased To SEK 500 bn From SEK 300bn
- Collective Forecast Shows Repo Rate Stuck At Zero

The Riksbank raised its ceiling for asset purchases to SEK500 billion from SEK300 billion and cut rates on bank loans but did not return to setting a negative interest rate, leaving the Repo Rate unchanged at 0%.

The collective rate projection showed it the rate staying at zero until the end of the forecast period in Q3 2023.

The central bank had plenty of room before hitting the original SEK300 billion asset purchase ceiling, having only bought SEK130 billion so far, but raising it now makes clear that it is in for a prolonged spell of quantitative easing.

Asset purchases would be made up until June 30 2021, with the SEK500 billion total to be maintained at that level by topping up maturing assets, Wednesday's statement said.

The Riksbank, which started the corona pandemic as the biggest holder of Swedish government debt, has been carrying out QE purchases across a wide range of other assets and said it would add corporate bonds to the eligible list.

Purchases of government bonds, covered bonds and municipal bonds would total SEK 100 billion in Q4, the Riksbank said, and will offer weekly purchases of commercial paper up to SEK 32 billion. It said full details on the types of bonds it would buy would be unveiled later.

CHEAPER CORPORATE LOANS

The bank also announced a cut to the interest rate charged on corporate loans of up to SEK 500 billion that it has made available via banks and other monetary policy counterparties.

If lending banks meet the Riksbank's lending goals the rate on the loans will be cut from the current 0.2% to 0.1% and the maturity on the loans has been extended to up to four years.

OUTLOOK

The Riksbank's forecasts showed that it expected the Covid-19 shock to result largely in disinflationary pressure, with the target CPIF measure inflation shown falling from 1.7% in 2019 to 0.4% in 2020 before rising to 1.4% in 2021 and staying at 1.4% in 2022, all below the 2.0% target.

GDP was forecast to fall 4.8% in 2020 before partially recovering in 2021, rising by 3.5%, and then increasing by 4.1% in 2022.

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