

Riksbank Review: September 2020

QE Split Discussion on Hold until Nov

23 September, Tim Davis

The Riksbank meeting yesterday contained very little in the way of surprises. There were no dissents, the repo rate path was left unchanged, economic growth forecasts were revised higher. Negative rates were again not ruled out. Perhaps the most interesting part of the MPR concerned the currency with the Riksbank seemingly less concerned about its current level noting that risk sentiment had been one of the drivers of its appreciation – something that the Riksbank would have very little control over anyway.

There were no changes to analyst views that we have seen on the back of yesterday's meeting (see summaries of the views overleaf). We now look ahead to the November meeting to see if there is any larger change in tone and in the meantime will monitor Covid-19 cases across both Sweden and the wider European region.

Also on the agenda for November will further discussions over the implementation of its QE programme. Purchases of corporate bonds only began this month so it is far too early to monitor the impact of the programme. However, purchases of non-government securities are continuing to prove controversial in Sweden given the relatively small markets by global standards and some of the decisions over which assets are eligible (due to ratings from multiple agencies etc). At present we see it only as a small risk, but there is a chance that the Riksbank may eventually not complete its corporate bond purchases and buy more government bonds in their place.

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mni Central Bank Watch - Riksbank

MNI Riksbank Data Watch List											
		Current	3m ago	3m Chg	6m ago	6m Chg	2Y History	Hit / Miss	Vs Trend	Surprise Index	Z-Score
Inflation											
CPI	% y/y	0.8	0.0	↑	1.00	↓					-0.88
CPIF	% y/y	0.7	0.0	↑	1.00	↓					0.31
CPIF Excl Energy	% y/y	1.4	1.2	↑	1.6	↓					0.06
PPI	% y/y	-4.9	-3.0	↓	-0.4	↓					-1.17
Economic Activity											
Swedbank Manuf PMI	Index	53.4	40.4	↑	52.9	↑					0.72
Private Sector Production	% y/y	-4.1	-9.4	↑	1.90	↓					-0.07
Economic Tendency Survey	Index	87.0	65.1	↑	99.60	↓					0.29
Swedbank Service PMI	Index	56.6	41.4	↑	56.20	↑					1.01
Monetary Analysis											
M3 Money Supply	% y/y	16.21	14.57	↑	7.42	↑					2.13
Lending to HH	% y/y	5.20	5.29	↓	5.11	↑					0.02
Lending to Non-Fin Corp	% y/y	5.32	5.80	↓	4.61	↑					0.49
Avg. new HH loan rate	%	1.50	1.56	↓	1.53	↓					-1.25
Consumer / Labour Market											
Retail Sales YoY	% y/y	3.89	-2.73	↑	2.92	↑					1.05
Consumer Confidence	Index	84.4	78.0	↑	99.5	↓					-0.19
Unemployment Rate	%	8.8	9.0	↓	8.20	↑					0.42
Household Consumption	% y/y	-3.7	-11.2	↑	0.80	↓					0.02
Markets											
Equity Market (OMXS30)	Index	1790	1630	↑	1669	↑					1.45
Sweden 10-Y Govt Bond	%	0.00	-0.03	↑	-0.27	↑					1.65
SEK Yield Curve (2s-10s)	bps	33.1	25.5	↑	4.9	↑					1.72
SEK KIX TWI	Index	116.23	119.00	↓	122.62	↓					-1.31

Sell Side Reviews (A-Z)

Barclays

- “The Riksbank was cautiously constructive at its September meeting, as we expected”
- “CPIF has been revised down in 2021, which was likely due to a loose labour market and SEK strength. But we think there is unlikely to be more severe downward pressure on inflation.”
- “We continue to expect the Riksbank to hold the repo rate at zero over the next four quarters, with QE being the main policy tool, given plenty of room in the bond market”
- “Negative rates remain a policy option should growth stall or inflation or inflation expectations fail to pick up. But Sweden’s recovery is unlikely to lose momentum for now”

Citi

- “No real fireworks from the Riksbank, as we expected....This nothing we haven't heard already this year.”

Danske

- “This report reinforces the impression that the RB will utilize the vast majority of the SEK 500 Bn QE framework .”
- “As we expected, details for H1 2021 are likely to be spelled out at the November (final) meeting of the year”
- “The Riksbank presents a flat profile for KIX one year out (115), then a very small appreciation after that (113 , or down ca . 2 % , at the end of the forecast horizon) . This is interesting, in our view, since it suggests that the Riksbank no longer consider the krona to be substantially undervalued . This rhymes well with our own fundamental view on the SEK.”
- “Overall revisions of macroeconomic assumptions are rather in line with “consensus” with a less deep decline in GDP this year than previously feared.”
- “the assessment is that the GDP level has not reached back to the trend the RB foresaw pre-crisis even by the end of the forecast period. In other words, according to the Riksbank, Sweden will experience a negative output-gap through most of the forecast period.”
- “We see this “statement” as sort of a window-dressing. Of course the RB doesn’t want to formally rule out a rate cut but the case for such a decision appears to become less and less compelling”
- “Excess liquidity is set to continue to rise as QE continues. In the meantime the RB has capped Riksbank-certificate volumes with the result that banks need to deposit a growing amount of money at the deposit facility at the repo-rate minus ten basis points. We think that this is a reason why the RB is reluctant to cut the repo”

Goldman Sachs

- The “MPR struck a more upbeat tone... The MPR also contains two further scenarios, one in which the upswing is faster than expected, and one second wave scenario, to highlight the uncertainty around the main scenario.”
- “The MPR raises some concerns about the supply side of the economy”
- “Looking ahead we expect the Riksbank to remain on hold and keep their other policy levers unchanged for some time to come. Swedish inflation expectations have fallen somewhat over the past year, and we will continue to monitor these together with the broader economic situation to assess the outlook for further monetary policy support.”

Handelsbanken

- “The Riksbank is evidently very patient about achieving its inflation target; it does not forecast inflation to durably reach the two percent target during its forecast period and is still not changing its policy in a more expansionary direction.”
- “It is likely that the Riksbank will shift its focus ahead from crisis measures to the inflation target. However, we think the shift will probably be more verbal than actual changes in policy.”
- “We expect the current QE plans to remain in place until mid-2021 and the repo rate to remain at zero percent for the foreseeable future.”

ING

- “What all of this does at least signal is that further easing, at least in the form of a return to negative interest rates, is unlikely. We also know that, despite the gradual appreciation in SEK over recent months, policymakers are much more relaxed about the currency than they were in times gone by.”
- “All in all, rates are unlikely to move in either direction for quite some time”

JP Morgan

- “The new GDP forecast is close to our expectations of -3.6%oya this year, and 3.8%oya in 2021.”
- “We expect the Riksbank to continue to purchase assets in accordance with its plan up until June 2021, and to thereafter reinvest maturing bonds. If the economic outlook was to deteriorate, we still think an expansion of the QE programme is more likely than a return to negative rates.”
- “As we have argued before we think that a clear decoupling of long-term inflation expectations from target is something that could trigger a return to NIRP. Despite a fall in short-term inflation expectations during the past year, long-term inflation expectations have held up relatively well, and are not too far from the target.”

Morgan Stanley

- “The environment over the forecast horizon looks to be one of stabilizing growth and weak inflation. We expect Riksbank to act further as inflation expectations weaken, and given diminishing effectiveness of QE as the recovery continues, we still expect a rate cut. We see a risk, however, of later action on that front, relative to our current 1Q21 projection”
- “We continue to expect a cut into negative territory, but only in 2021.”

Nordea

- “A rate cut cannot be ruled out longer out. The bank sees today’s SEK exchange rate close to its long-term level.”
- “The forecasts for the Swedish economy were revised to the better in line with what we had expected. It is a substantial revision of forecasts over recent reports.”
- “The SEK is NOT expected to strengthen. The bank says that the real exchange rate is assessed to be in line with the long-term fundamentals...This is a big change compared to previous reports”
- The “message from the Riksbank was in line with what we had expected. The bank is gradually moving out of the crisis, but is to a large extent still in a crisis mode. Despite the bank’s pessimistic view on resource utilisation and inflationary pressures, the bank is not signalling a rate cut or other further easing measures.”
- “We expect the Riksbank to stay on hold at zero the coming years, while the QE programme may be extended longer out. However, a rate cut cannot be ruled out completely. The triggers would in such case be lower inflation expectations, indicating that the credibility of the 2% target is at stake and a further appreciation of the SEK.”

SEB

- “Aggressively unchanged awaiting signs of recovery”
- “The September report confirms our view that the Riksbank board is in a wait and see mode after introducing a string of support measures between March and July. Our main scenario is that the Riksbank will continue the QE-program according to current plans, but we think that the bar for expanding the program is low if there are any signs that the recovery is derailed. A rate cut does not seem to have come any closer and we predict the repo rate to be unchanged for the foreseeable future.”

SocGen

- “The Riksbank has left rates on hold with as dovish a stance as they can manage from here.”

Swedbank

- “Overall, the message remains cautious despite upward revisions for Q3 GDP this year.”
- “The Riksbank continues to emphasise the economic uncertainty and their readiness to do more if necessary, including lowering the repo rate. We maintain our forecast of an unchanged repo rate at 0% in 2020-22.”

MNI Policy Team Insights

MNI POLICY REVIEW: Riksbank On Hold; Door Ajar To Negative Rates

By David Robinson, 22 September

LONDON (MNI) - The Riksbank left policy on hold at its September meeting, noting an uncertain recovery from the Covid-19 pandemic lay ahead and that the key repo rate was likely to remain at zero throughout its three-year forecast period, although more accommodative policy remains an option if needed, .

Having only moved away from negative rates last December, the Riksbank has opted -- for now, at least -- not to go back into negative territory and has instead sought to reassure markets by conducting both a prolonged SEK 500 billion asset purchase and low cost bank lending programs. The September decision showed it sticking with this approach, although negative rates remain in the policy toolbox.

The Monetary Policy Report projections, published alongside the rate decision, showed the repo rate holding at 0.0% through to the end of the forecast period in Q3 2023, with inflation running below the 2.0% CPIF target throughout. CPIF was forecast to rise from 0.5% this year to 1.2% in 2021 and 1.3% in 2022.

NEGATIVE RATES

Although not opting for negative rates at present, the board made it clear in the text of the MPR that they were not ruling out a return to sub-zero rates if need be.

"The possibility of a repo rate cut cannot be ruled out if it is judged effective, particularly if confidence in the inflation target were under threat," policymakers said.

A number of factors will determine whether to go negative including how the krona exchange rate evolves and how a lower policy rate would impact interest rates in general.

FISCAL LEVERS

The Riksbank put the spotlight back on fiscal policy to do the heavy lifting of supporting demand while it can stabilise financial markets.

"Demand in the economy can be effectively supported with fiscal policy, as public finances in Sweden are strong and interest rates are low. Monetary policy has plenty of scope to manage problems that might arise on the financial markets, such as poorer credit supply or rising risk premiums that push up interest rates met by households and companies," it said.

GDP in the central scenario was shown falling 3.6% in 2020, up from its previous estimate for a 4.5% fall.

While publishing a central scenario, the Riksbank also set out a couple of alternative ones highlighting the uncertainty surrounding the development of the Covid pandemic. In one there was a strong, second Covid wave later this year but this does not result in full national lockdowns, while in the second assumed a more rapid rebound in economic activity than in the central scenario.

One of the most striking things about the alternative scenarios was that there was little difference to growth this year but a vast difference between estimates for 2021.

With the technical assumption that in both case monetary policy would remain the same as in the central scenario, with no tightening or return to negative rates. In the adverse scenario GDP was shown falling 4.9% in 2020 before rising 1.2% in 2021 while in the rosier scenario it falls 3.3% in 2020 before rebounding with a 6.0% rise next year.

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