All Signal, No Noise

MARKET ANALYSIS

Riksbank Review: November 2022

Contents

Statement/ Monetary Policy Report release link

75bp as expected

25 November, Tim Davis

The Riksbank raised rates by 75bp as expected by MNI, all of the analyst previews we read and as expected by 83% of investors in the SEB investor survey.

The market reaction saw SEK move a little higher as the statement said that "the forecast shows that the policy rate will probably be raised further at the beginning of next year and then be just below 3 per cent." Most analysts had expected the path to be moved up around 25bp from the previous peak of 2.52%. However, the numerical forecasts did indeed show a peak of 2.84% (32bp higher than previously, so only marginally more than analysts had expected and much less than market pricing).

Based on our calculations, the forecasts impact around a 75% probability of a 25bp hike in February with around a 25% probability of a 50bp hike. There is then around a 10% probability of a further 25bp hike in April, before rates remain on hold until the end of the forecast period. This is in contrast to the slow decline of 17bp off the peak seen in the previous set of forecasts (which saw the end-point forecast at 2.35%, almost 50bp than the 2.84% end-point). The initial rally in SEK was revesed as it was clear that the forecasts weren't as hawkish as had first been expected from the statement text.

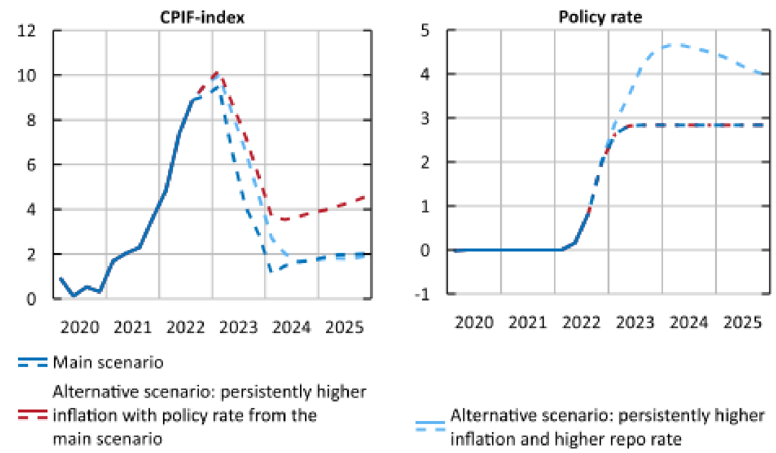
The Riksbank also produced an alternative rate path based on persistently higher inflation (see the chart from the MPR below). In this scenario rates rise above 4.5%. We note that there is no scenario of lower inflation.

Of the analyst reviews that we have read, half look for a 25bp hike in February while the other half expect a 50bp hike. There is a lot of uncertainty. We will have Governor Thedéen replacing Ingves and also a new Deputy Governor (Bunge). In addition we will have had two ECB meetings (15 December and 2 February) and two inflation prints (14 December and 13 January). These will be the key data points to determine the size of the next hike.

There was no discussion of selling any of the QE assets – a passive winddown (as expected) was laid out.

Figure 43. Alternative scenario with persistently higher inflation

Annual percentage change



Sources: Statistics Sweden and the Riksbank

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Sell Side Reviews (A-Z)

Barclays

- “Expect a 50bp hike in Feb 23, which concludes the hiking cycle at 3%.”
- “The bank delivered on market pricing at the front-end, but disappointed again on the terminal rate.”
- “The bank’s macro forecast shows a more stagflationary domestic economy in 2023.”

Danske

- “The new path indicates approximately 30bp in February, which is sufficiently in line with our expectations of 25bp, but also giving the option to ‘go bigger’ should it be warranted.”
- “The revised rate path is still somewhat shy of market expectations, and hence somewhat dovish.”

DNB

- “The rate path suggests that we should expect another 25bp in February and there is a probability for 25bp in April as well.”
- “The statement and rate path suggests that the Riksbank is determined to stop inflation from spiralling by frontloading rate hikes and sending strong signals to keep inflation expectations anchored.”

Goldman Sachs

- “We continue to expect a 50bp hike at the February meeting, followed by a 25bp hike in 2023. This raises our terminal rate estimate to 3.25%, above our estimate of the neutral rate in Sweden of 2%.”
- “We see upside risks to this call: faster wage growth or a continued rise in inflation expectations could push the Riksbank to hike more aggressively, possibly by another 75bp hike, given the Executive Board's concern about inflation expectations.”
- See the “decision as hawkish, noting the Riksbank's revealed preference for frontloading hikes.

Handelsbanken

- “The overall tone is hawkish and in the event of further upside inflation surprises, the scenario analysis forebodes a forceful additional policy tightening compared to the base-line forecast. Adding to the hawkish impression of this scenario publication is the fact that a lower-than-expected inflation scenario is hardly mentioned.”

JP Morgan

- “We still see a 50bps rate hike in February and a terminal rate of 3%.”
- “According to our calculations, a 25bp rate hike is included in February, but the door is kept open for a larger move. Another 25bp hike in April has a ~40% probability.”
- “The rate path was raised and now shows a terminal rate of 2.84%, 0.07%pt above our expectations.”

Nordea

- “We expect the Riksbank to hike rates by 25bp to 2.75% in February but stay on hold during the remainder of 2023… we expect the Riksbank to cut rates in H1 2024 to 2.00%.”
- The “message from the Riksbank was somewhat more hawkish than we had expected. The board was unanimous in its decision to hike by 75bp, while we had expected to see two dovish dissenters. Moreover, the rate path was somewhat higher than we had expected. Thus, the bank will do what it takes to bring down inflation, even if it will lead to a marked downturn in the economy.”

SEB

- **"**We forecast that the Riksbank will deliver a final rate hike to 2.75% in February and thereafter stay on hold until the second half of 2024."
- "The rate path was slightly more dovish than our forecast, predicting that the rate forecast would be 3% at the end of 2023."
- "Despite the slightly dovish message today, we think that upside risks dominate."

Swedbank

- "We still think that the Riksbank will hike by another 50 bp also in February. We see that inflation will continue to rise in the months leading up to the Riksbank's February decision, and with other central banks raising rates, the Riksbank will deem it necessary to go with another large rate hike in February."

MNI Policy: 75bps Hike As Rate Peak Nears

By David Robinson, 24 November

Sweden's Riksbank delivered a widely-expected 75-basis-point hike on Thursday, lifting the policy rate to 2.5% after its November meeting but signalling that it was nearing the peak in this tightening cycle.

The Monetary Policy Report's projection showed the policy rate hitting a peak of 2.84% by the third quarter of next year, with the board stating that the next hike was likely to come early next year, suggesting an increase of at least 25bps at the February meeting. At that point there would only be 25bps more to come.

The Riksbank, which raised rates by 100bps in September, has front-loaded tightening to push back against inflation expectations as core price increases outpaced previous projections.

"The risk that the current high inflation will become entrenched is still substantial, and it is very important that monetary policy acts to ensure inflation falls back and stabilises around the target of 2% within a reasonable time," the board stated.

RECESSION

The MPR indicated that on the central bank's anticipated rate path inflation would fall below the 2% target in two years' time. The target CPIF measure was projected to ease from 7.6% this calendar year to 5.7% next, a revision up from the previous forecast of 5.1%, and then down to 1.5% in 2024, slightly lower than 1.6% seen last time.

The economy was shown contracting in 2023, with output declining by 1.0% before rising by 1.0% in 2024. Unemployment was shown rising to 7.9% next year and to 8.3% in 2024, just 0.1 point higher than previously forecast.

ASSET PURCHASES TO CEASE

The Riksbank also restated its approach to unwinding quantitative easing, with its purchases of relatively short-dated debt instruments leading to fairly rapid balance sheet shrinkage.

Securities acquired for monetary policy reasons totaled SEK860 billion by mid-November with the Riksbank stating that purchases will end at the end of 2022 and then debt will be allowed to mature without replacement. It projected that holdings would decline by almost SEK490 billion, more than halving total stock, by the end of 2025. A big chunk of these maturities, some SEK 290 billion, are in covered bonds, which have shorter maturities than government bonds.