

Fast Comment Sweden

The last time; Preview of Riksbank November policy decision

- We forecast a rate rise to 4.25 percent; likely the final hike in the cycle
- Inflation higher than in peer countries, and risks tilted to the upside
- Need to safeguard the stronger-than-expected krona and the easing inflation expectations trend

We forecast a rate rise to 4.25 percent; likely the final hike in the cycle

Since before the Riksbank's June decision, our baseline forecast has been for the the policy rate to reach 4.25 percent, and ahead of the Riksbank's November monetary policy meeting we are sticking to our call (decision to be announced November 23). Our forecast is for this to be the final hike, and now a period of unchanged policy rate is expected to follow. We expect the Riksbank to communicate merely a slight hiking bias, similar to other central banks' forward guidance — and this will also show up in the shape of a policy rate forecast tilted a few basis points above the 4.25 percent level. We do not expect any changes to the on-going reduction of the Riksbank's asset holdings (QT), specifically its sales of government bonds.

Looking further ahead, we forecast that cautious cuts will be initiated from September 2024, to take the policy stance gradually from restrictive towards neutral (around 2—2.5% in a few years' time). Market pricing is for the cuts to come earlier, while the Riksbank has not been signaling changes until 2025, and we do not expect this timing to change much in the forward guidance next week.

Inflation too high; Riksbank needs strong krona & easing inflation expectations

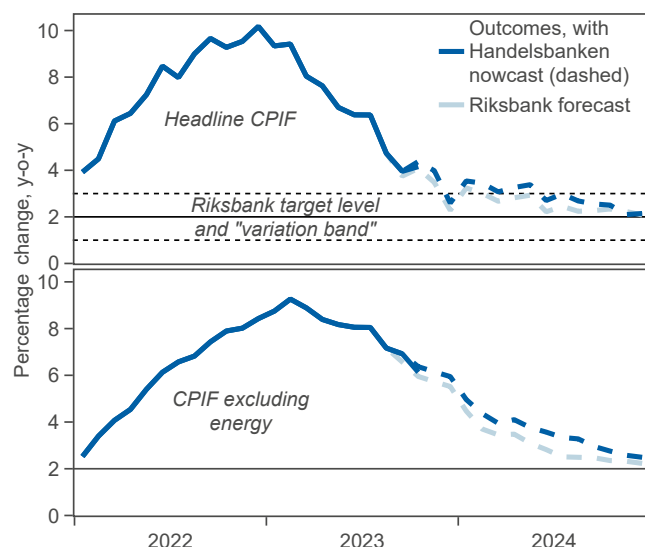
Inflation is somewhat higher than anticipated by the Riksbank and leading indicators like companies' pricing plans signal that pricing power remains and that above-normal inflation is to be expected at least in the near term. One could contest that, on the other hand, the krona is standing at a stronger level than Governor Erik Thedéen and colleagues had anticipated, which should limit the need for upward revision to the Riksbank's inflation forecast. However, the krona is volatile, so the Riksbank cannot trust the strength to remain, especially if it would leave the policy rate unchanged now. And the krona strength is badly needed, as inflation is not only too high, but also higher than levels seen in peer countries.

Inflation expectations are easing and long-run measures appear anchored close to 2%. The bad news is that despite so much past policy tightening, inflation expectations are still not for inflation to be close to 2% by the end of 2024. On top of that, the Riksbank-commissioned Prospera survey keeps signalling that upside risks dominate.

All told, we expect the Riksbank to conclude that one, likely final, rate hike is needed.

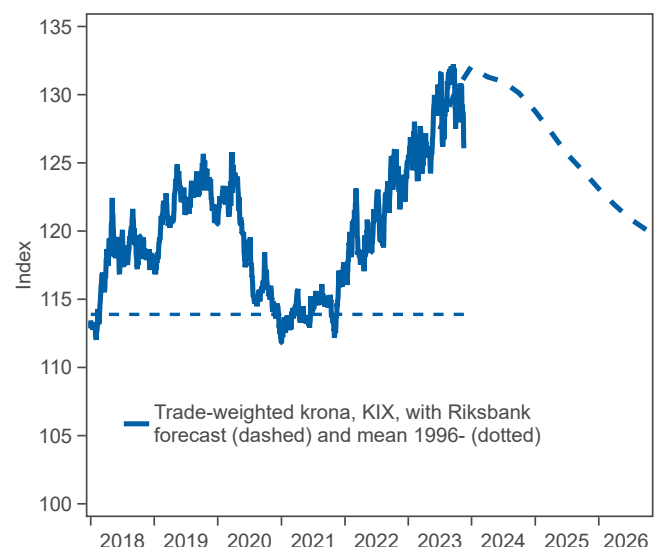
Please use the full PDF version to access the key inflation and monetary policy research links appendix.

October inflation above Riksbank's forecast



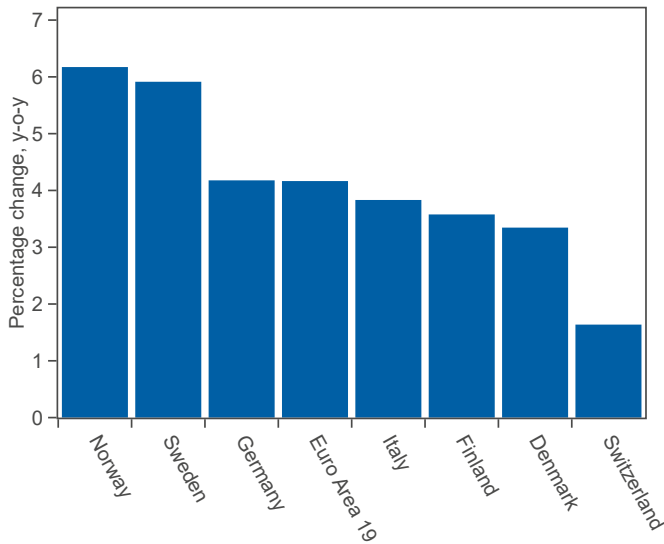
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

SEK stronger than Riksbank has anticipated



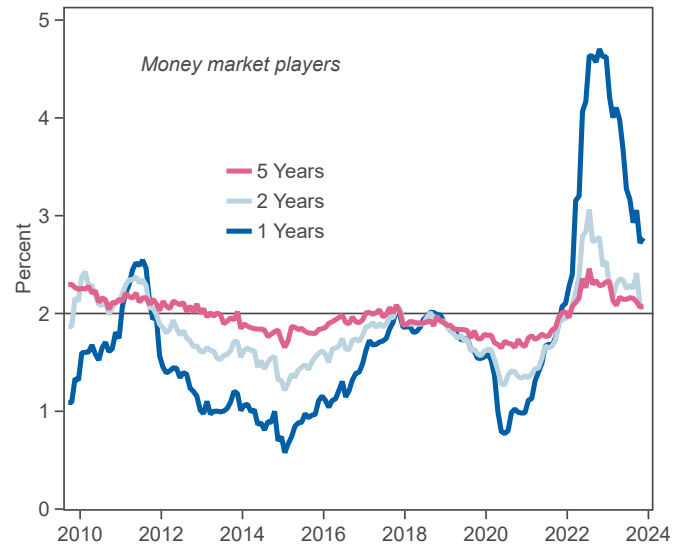
Sources: Macrobond, Riksbank, Statistics Sweden and Handelsbanken

Core HICP inflation relatively high in Sweden



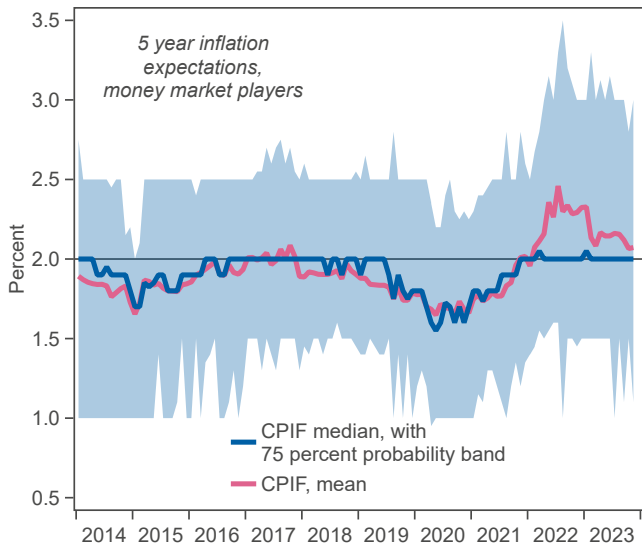
Sources: Macrobond, Eurostat and Handelsbanken

Inflation expectations easing, but 2% still distant



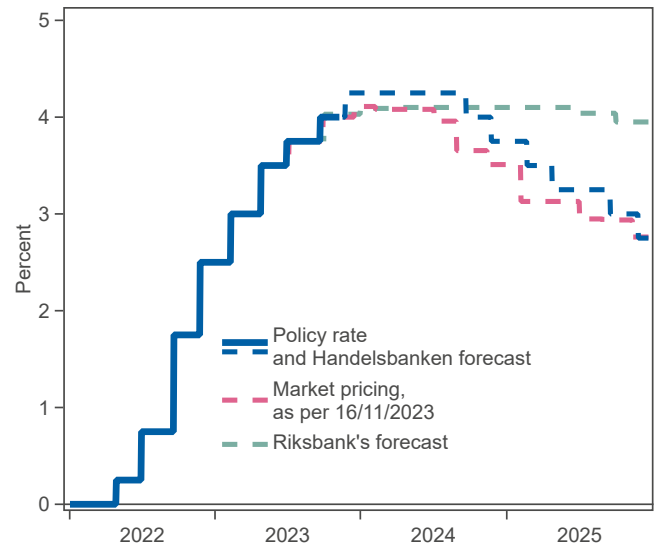
Sources: Macrobond, Kantar Prospera and Handelsbanken

Upside risks to inflation dominate



Sources: Macrobond, Kantar Prospera and Handelsbanken

Market is pricing roughly 50% chance of hike



Sources: Bloomberg, Riksbank and Handelsbanken

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Appendix: Handelsbanken research on inflation and monetary policy

The most recent flagship reports and key regular comments

- Global Macro Forecast report; --- ([Swedish](#) / [English with international focus](#))
- "Too high, but with a silver lining"; --- [October CPI report](#)
- "The Riksbank hikes to 4.00 percent, but slightly dovish rate path"; --- [Riksbank September monetary policy decision](#)
- "Inflation outcome to cement November hike"; --- Swedish Rate Wrap, Nov 10, 2023 ([English](#) / [Swedish](#))

Key in-depth analyses

- Inflation**
- "Brave new nominal world"; --- September 2023 ([Swedish, p. 20-23 here](#) / [English, p. 9-12 here](#))
- "The green transition will be inflationary"; --- January 2023 ([p. 13-14 here](#))
- "What stops a new high-inflation regime"; --- September 2022 ([p. 15-17 here](#))

Monetary policy and interest rates

"Fed models support the case that the "bond vigilantes" are back";

--- [Macro Comment](#), Oct 6, 2023

"A currency hedged FX reserve is no FX reserve";

--- FX Pilot, Oct 5, 2023 ([English](#) / [Swedish](#))

"Neutral interest rates on the rise again";

--- January 2023 ([p. 7 here](#))

"Time to pay the piper - The Riksbank's QE programme largesse is not a free government lunch";

--- [Macro Comment](#) predicting that the Riksbank would need a much bigger recapitalisation from the treasury than it initially signalled, Oct 26, 2022

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