Fast Comment Global

Policy rate hikes have only just begun, yield rises have further to run

- Markets have scaled back policy rate expectations, but we lift our central bank forecasts
- After this summer's drop in bond yields, the upward trend resumes
- Dollar to strengthen further on new spell of risk aversion

Policy rate hikes have only just begun, yield rises have further to run

Over the summer, bond yields have declined on the whole. These developments go hand in hand with market pricing on future central bank policy rates for many advanced economies falling on the back of disinflationary factors, most prominently rising risk of severe economic downturns and falling commodity prices. But while market participants have scaled back their policy rate expectations, we lift our central bank forecasts at least for the front end. Overall, inflation continues to surprise on the upside and the central bank signals determination in fighting back. Mostly, however, market pricing remains higher than our central bank forecast, with the US being one notable exception, as markets now price policy rate cuts in H1 2023.

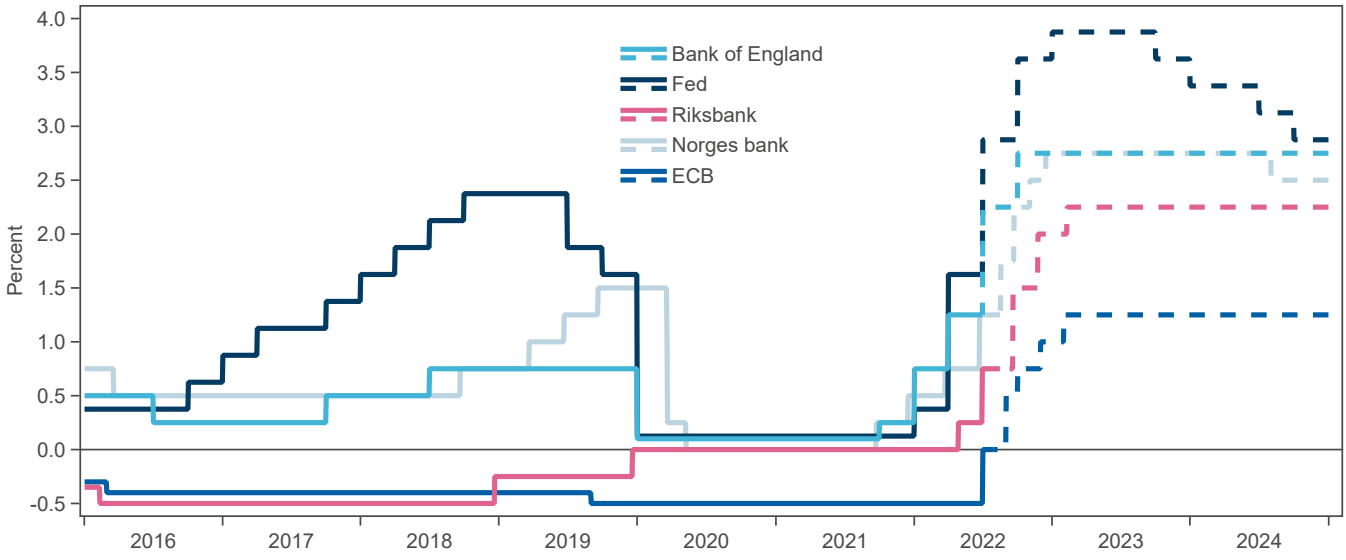
As policy rate rises are delivered this autumn and winter, we forecast bond yields will resume upward trends. We judge that this interest rate rise, in combination with the hawkish surprise markets face in terms of US policy rate developments, will drive some renewed risk aversion in financial markets. All told, this is expected to favour the dollar, and we forecast the EURUSD to fall below parity this autumn.

Want to know more?

Find all the new financial forecasts on our website, where you can also read our May Global Macro Forecast report "Walking the economic tightrope", as well as our June update of central bank and financial forecasts. The next full forecast report will be published on September 21.

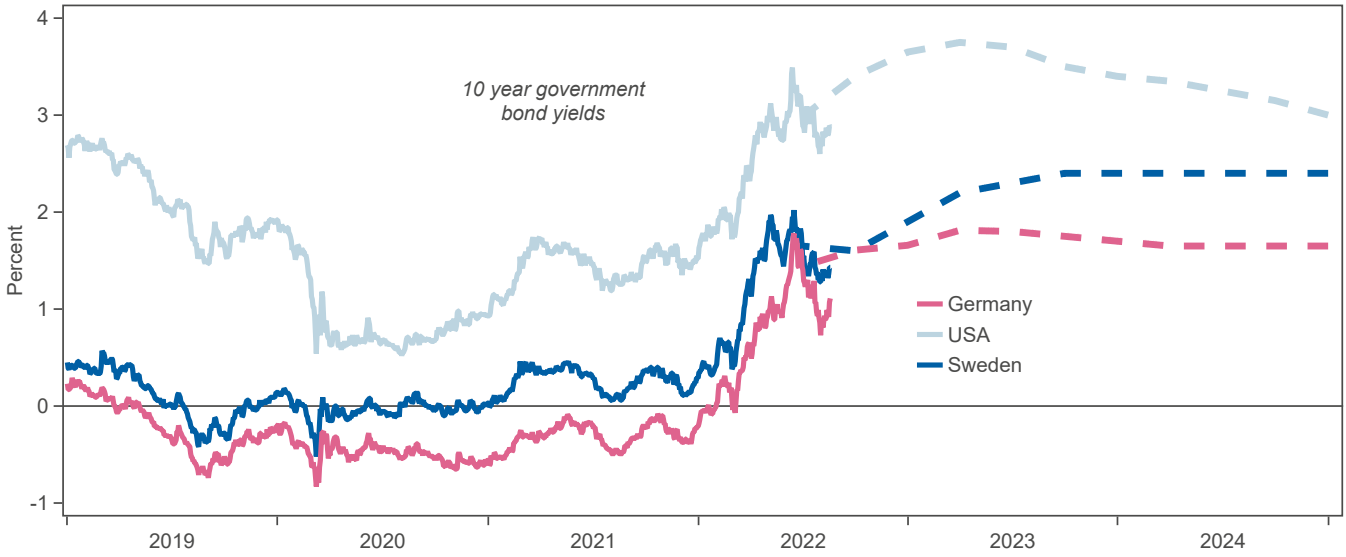
Today, separate comments on Norges Bank and the Bank of England will be published. Keep an eye out here, In the meantime, please see last week's Riksbank comment: Inflation leaving Riksbank behind – now a 75 bp rate hike awaits.

Policy rate forecasts revised up, or more front loaded



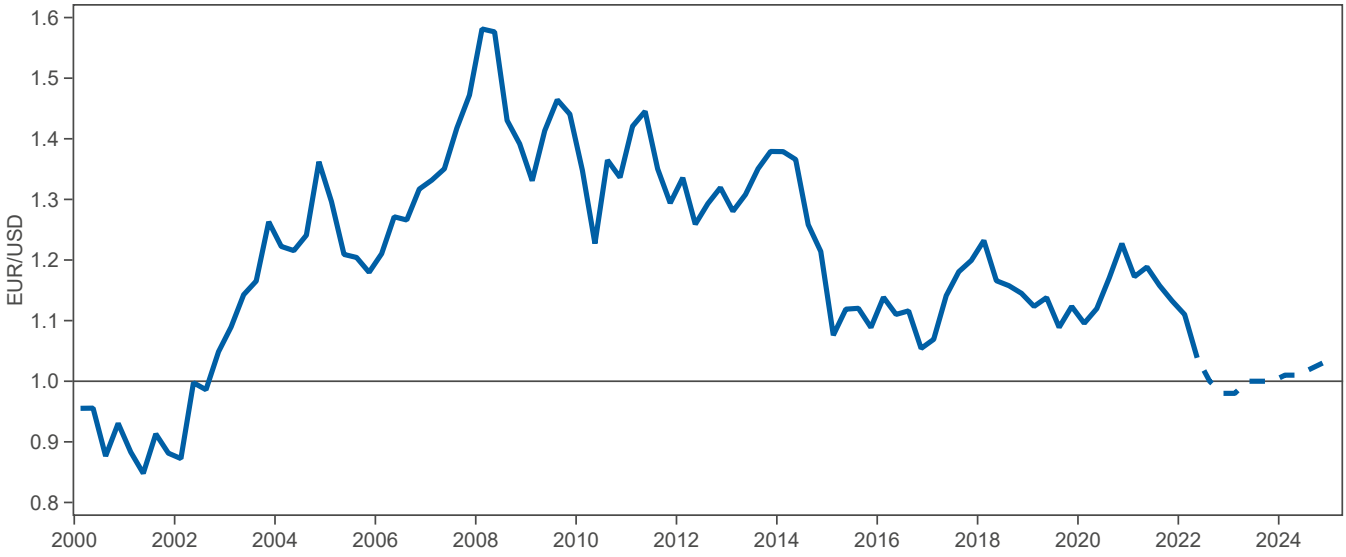
Sources: Macrobond and Handelsbanken

Long bond yields forecast to resume rise, albeit peaking at lower levels



Sources: Macrobond and Handelsbanken

Dollar strength expected, with the EURUSD falling below parity



Sources: Macrobond and Handelsbanken

Johan Löf

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