

# Fast Comment Sweden

## New electricity shock? Riksbank to keep close eye on underlying inflation; October CPI preview

- Expect inflation rising to 9.9 percent, on the back of underlying pressure
- Electricity prices could surprise again - not enough to track the spot prices
- Inflation above Riksbank forecast, adding to our expectation for a 75 bp policy rate rise

### Expect inflation rising to 9.9 percent, on the back of underlying pressure

**We expect the October CPI report (due Tuesday) to show headline CPIF inflation climbing yet again, from 9.7 to 9.9 percent, y-o-y.** This follows from the pickup in CPIF excluding energy (CPIFXE) we forecast, from 7.4 to 7.6 percent, and a only small decrease in energy prices relative to one observed last October. Uncertainty in the consumer electricity price forecast is unusually large however, which implies that CPIF could spring another substantial surprise, just like in September. As for the overall, traditional CPI we have penciled in a surge from 10.8 to 11.4 percent due to mortgage costs now rising at a very fast clip. [As mentioned last month](#), this high October CPI print is important in commercial real estate contract indexing, see full analysis in our real estate report out tomorrow, Wednesday.

Zooming in on CPIFXE, due to the heightened uncertainty in CPIF (and hence CPI), **we conclude that inflation is likely to surpass the Riksbank's forecast again, in this last print ahead of the November monetary policy decision (see graph below).**

### Electricity prices could surprise again - not enough to track the spot prices

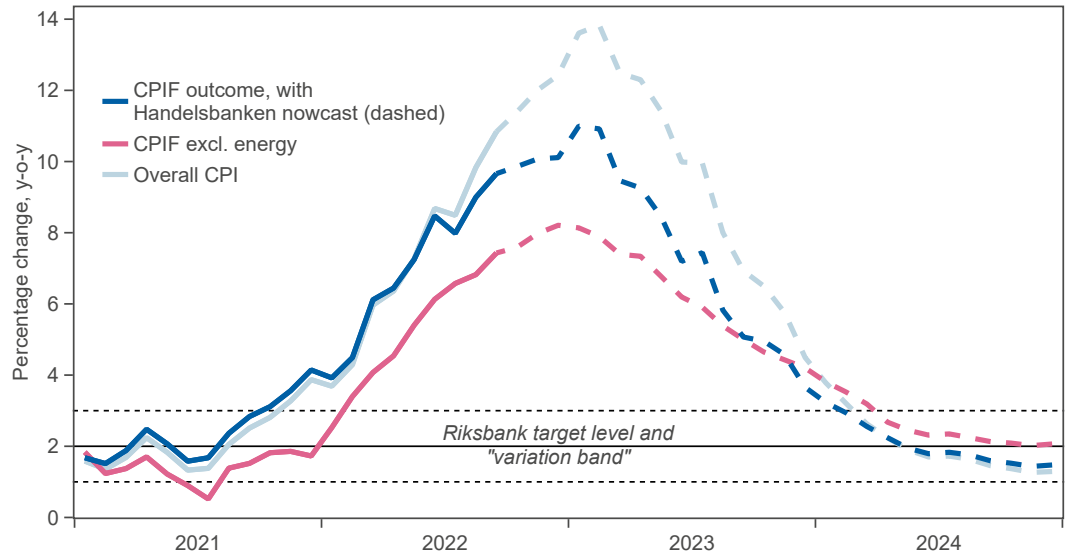
**Electricity prices are puzzling at present, and uncertainty remains.** Judging by spot prices at the Nordpool exchange, consumer electricity prices should have been roughly unchanged in September. Instead the CPI report printed a rise of about 9 percent, and August also showed a discrepancy to the upside. In the current difficult energy market, some producer costs have risen sharply (e.g. related to responsibilities to balance the power system), and it appears these costs have been passed on to consumers. Particularly fixed contract prices have sky-rocketed, and even if many suppliers have lately stopped offering fixed electricity price contracts, these still weigh equally much in the CPI, which holds item weights constant during the calendar year. Svenska Kraftnät have applied for emergency measures to ease the cost burden - if approved, that could lower prices ahead. **For now, we have assumed that the consumer price does not drift further away from spot and futures price fundamentals.** Factoring in also that some operators have raised the grid fees, we have penciled in a 10 percent fall in October electricity prices. That is almost countered by a near 14 percent rise in fuel prices, and hence energy prices in total is expected to be quite neutral to October CPIF inflation.

**Next to electricity prices, the important take away is that underlying inflation is still not peaking**, despite some indicators like freight and commodity prices [cooling since before the summer](#). As evident in below chart pack on leading indicators and key drivers, there is still ways to go and further upside risks cannot be ruled out. However, even if our forecast models once again revised up the very near term outlook, the latest data batch made them slightly revise down the latter part of our forecast horizon. A sign of what lies ahead? Stay tuned, and meanwhile do not miss [our most recent overall inflation analysis](#).

### Inflation above Riksbank forecast; expect a 75 bp policy rate rise to follow

Our expectation that the Riksbank will once again need to revise up its inflation forecast, at least in terms of CPIFXE, contributed to last week's change in our Riksbank policy rate forecast. We see the Riksbank depart from its forward guidance of a 50 bp rate rise, and instead deliver a 75 bp raise at the November meeting. Please see full analysis in [the latest issue of Swedish Rate Wrap](#).

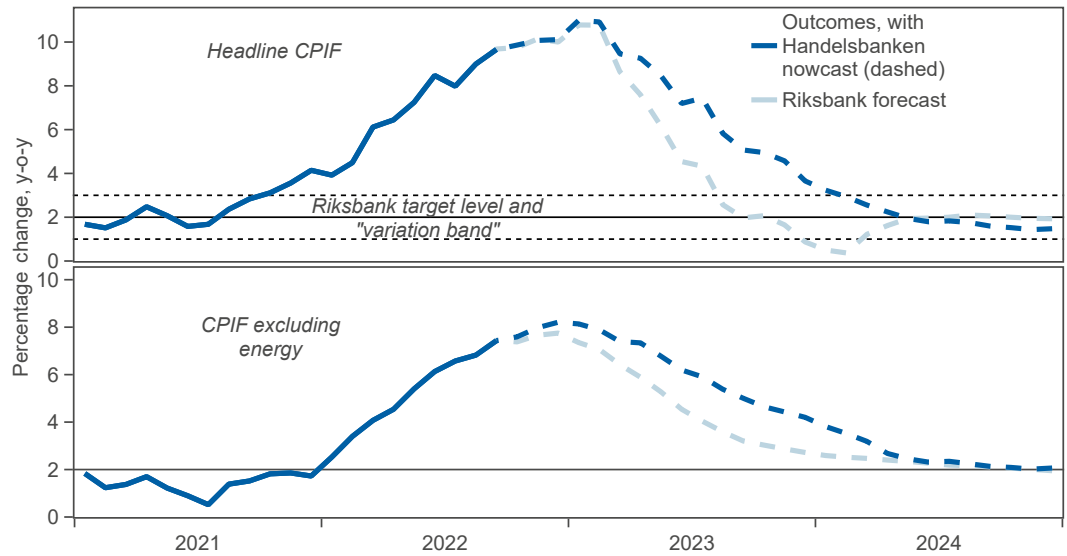
### Handelsbanken inflation forecasts



Peak inflation still some ways off...

Sources: Macrobond, Statistics Sweden and Handelsbanken

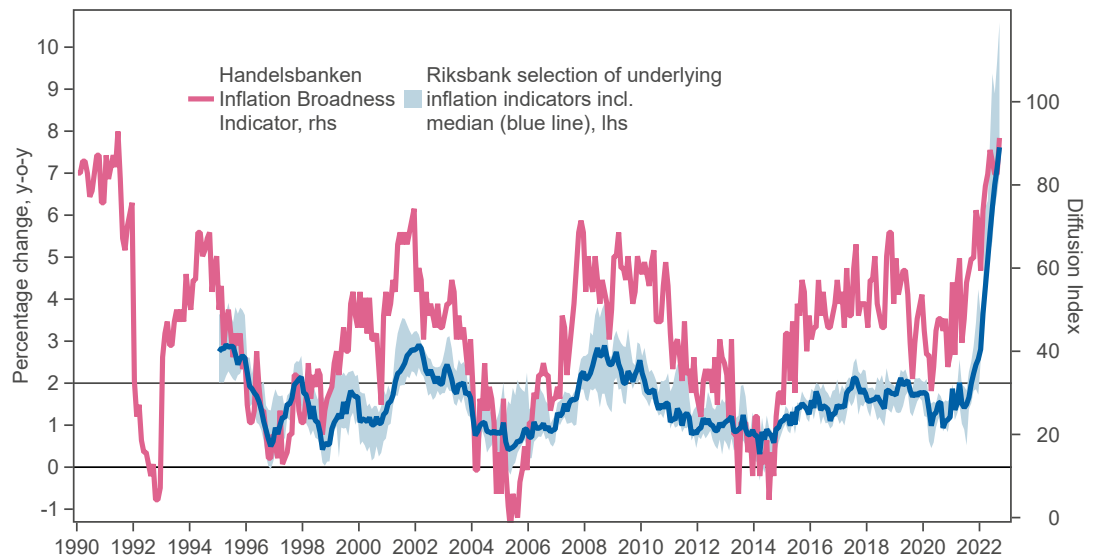
### Riksbank vs. Handelsbanken



...and compared to the Riksbank, we forecast less disinflation in 2023...

Sources: Sources: Macrobond, Statistics Sweden, Riksbank and Handelsbanken

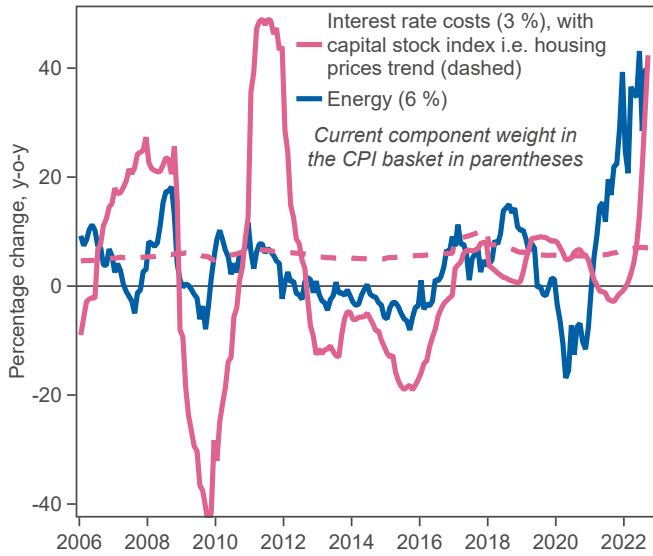
### Underlying inflation indicators



...partly explained by the stubbornly strong signals about underlying inflation

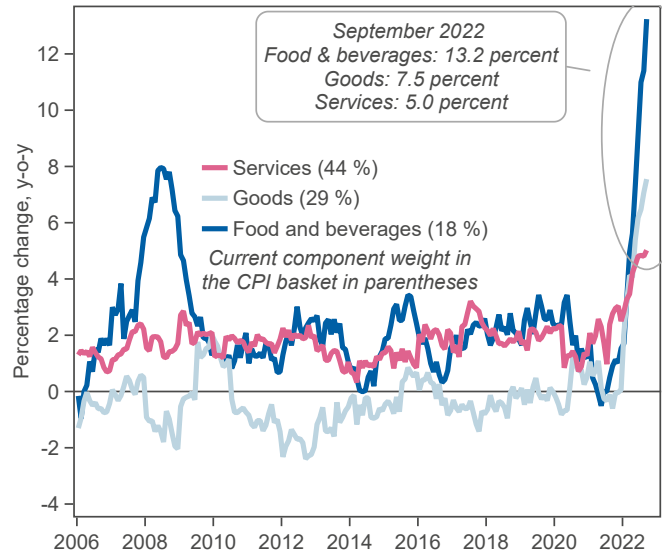
Sources: Sources: Macrobond, Statistics Sweden, Riksbank and Handelsbanken

### Energy prices soaring, and now mortgage costs hit CPI



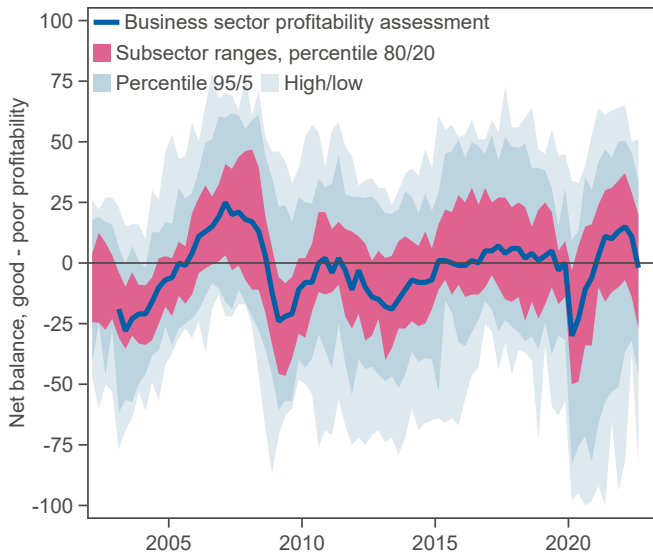
Sources: Statistics Sweden and Handelsbanken

### Other main aggregates also rise fast



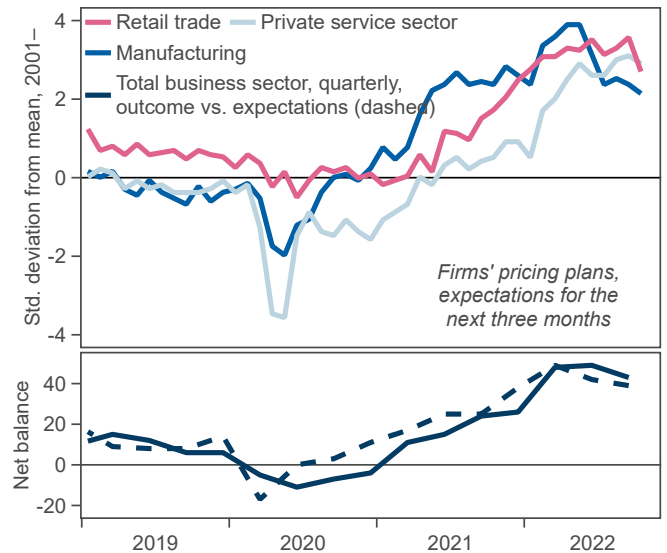
Sources: Statistics Sweden and Handelsbanken

### Profitability normalising, or pricing power plummeting?



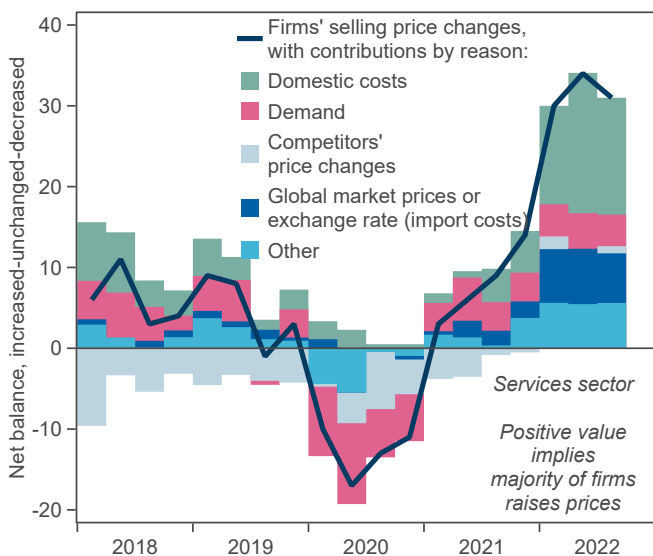
Sources: Macrobond, NIER and Handelsbanken

### Pricing plans soaring, and firms succeed with rises so far



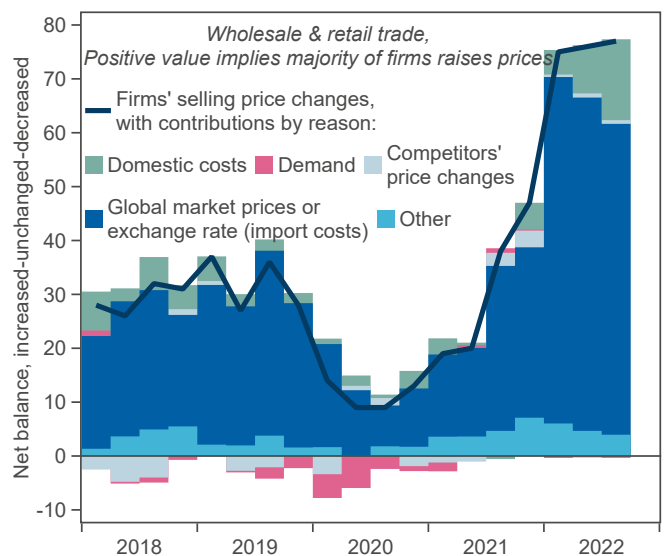
Sources: Macrobond, NIER and Handelsbanken

### Wide set of reasons behind firms' selling price changes



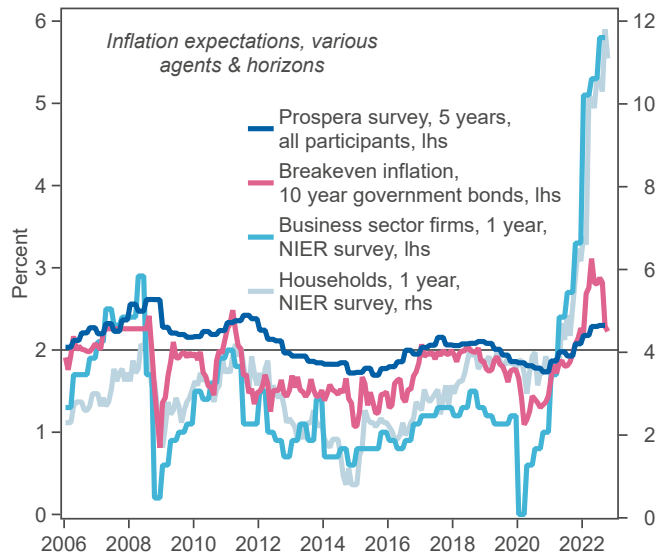
Sources: Macrobond, NIER and Handelsbanken

### Even in retail, domestic costs have impact now



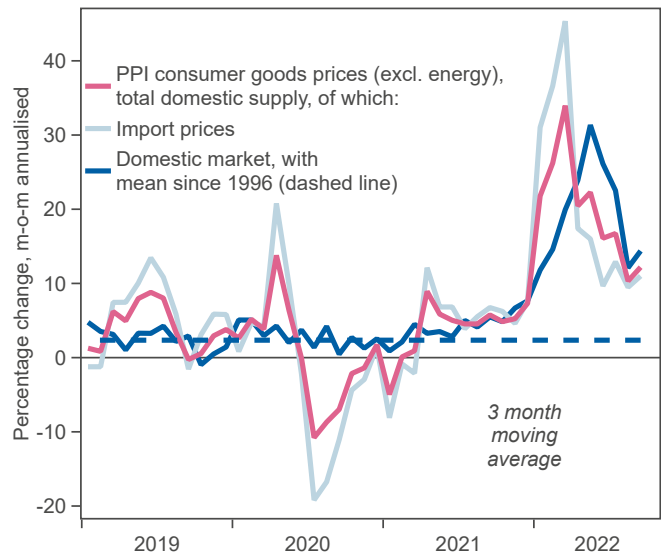
Sources: Macrobond, NIER and Handelsbanken

### Firms' inflation expectations up; spiral risk not dismissed



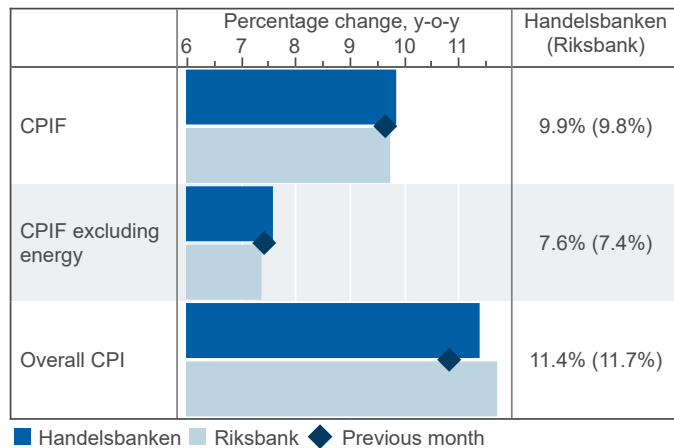
Sources: Macrobond, NIER, Bloomberg, Kantar Prospera and Handelsbanken

### Momentum in producer prices still elevated

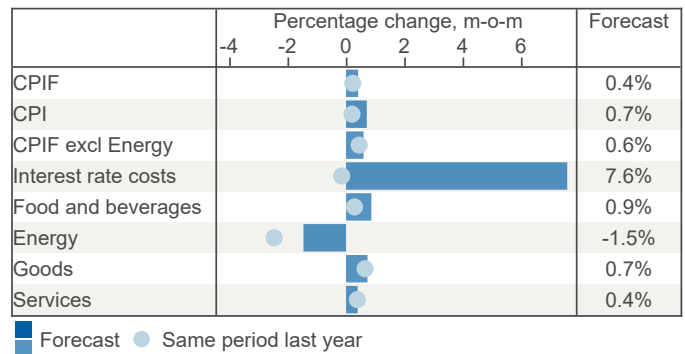


Sources: Macrobond, Statistics Sweden and Handelsbanken

### October CPI report estimates: Key indicators



### October CPI report estimates: Aggregate components



Johan Löf

### Disclosures

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports.

All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information and does not represent that such information is true, accurate or complete. Accordingly, to the extent permitted by law, neither SHB, nor any of its directors, officers or employees, nor any other person, accept any liability whatsoever for any loss, however it arises, from any use of such research reports or its contents or otherwise arising in connection therewith. In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages. The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any

such restrictions.

Please be advised that you should read our complete research disclaimer at the Handelsbanken Capital Markets website:

<https://www.researchonline.se/desc/disclaimers>