

Riksbank preview

Wednesday, November 17, 2021

The repo rate path will indicate a rate hike in Q4 2024

We expect the repo rate and the QE programme to be unchanged in the Monetary policy report (MPR) presented on 25 November. We see a high probability that the board will include a 20bps higher repo rate in the rate path in Q4 2024. Economic indicators have been largely in line with the Riksbank's forecasts from September but rising international prices, most notably on energy, are expected to make the Riksbank raise the 2022 inflation forecast. Most interesting will be how the Riksbank's will re-invest maturing bonds in 2022. We predict the Riksbank will continue to buy government bonds at the same pace as in 2021, while purchases of municipality bonds and even more so covered bonds will be reduced.

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Fixed Income

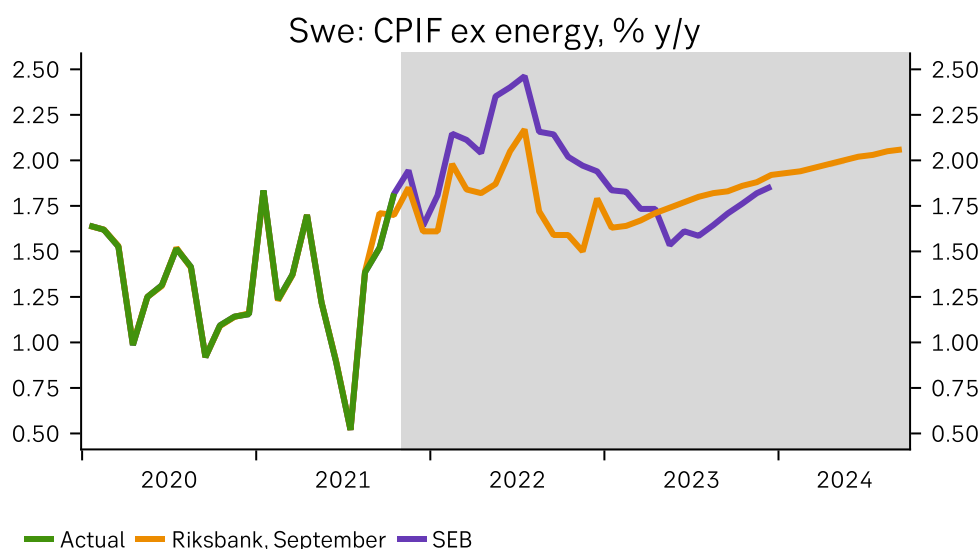
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Rate path to signal rate hike in Q4 2024

We predict that the Riksbank will keep the policy rate on hold and repeat that the QE purchases in 2022 will be largely in line with maturing bonds. Economic indicators have been largely in line with the Riksbank's estimates and the forecasts for GDP and the labour market are likely to be largely unchanged compared to the September MPR. Inflation has also been largely in line with the Riksbank's forecast but we think that more signals of rising international prices and shortages will make the Riksbank revise the 2022 forecast higher. A higher electricity price will also add upward pressure next year. Despite rising more and staying above the target for longer, we predict that the board will continue to see the upturn in inflation as temporary and predict that the inflation rate will decline below the target in 2023 before rising above again at the end of the forecast horizon. Our main scenario, which we assign 70% probability is that the board will indicate 20bps chance for a rate hike in Q4 2024. As usual we have also constructed two risk scenarios.

CPI ex energy in line with Riksbank's forecast, but more temporary upward pressure in 2022.



Scenarios for the repo rate (all scenarios assume the repo rate is unchanged at 0% in November)

Main scenario (probability 70%): The repo rate path signals a 20bps probability for a rate hike in Q4 2024 (the forecast in the September MPR ended in Q3 2024).

Risk scenario 1 (probability 20%): The repo rate path indicates unchanged repo rate until the end of Q4 2024.

Risk scenario 2 (probability 10%): The repo rate path indicates a first rate hike in the end of 2023 and a second hike in the second half of 2024.

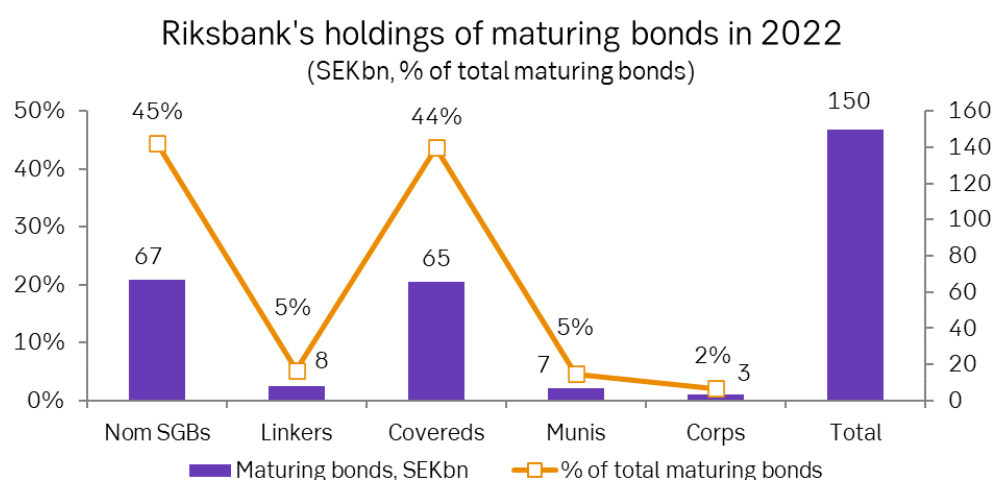
We believe the Riksbank in the press release will repeat that more policy expansion, including possibly a rate cut, is possible if the confidence in the inflation target is threatened, but also that early policy tightening is possible if inflation were to risk overshooting the target significantly and persistently.

QE according to plan in 2022, but which bonds will the Riksbank purchase?

The probability is high that the board will repeat that bond purchases in 2022 will be largely in line with redemptions indicating SEK 37bn per quarter. Currently the Riksbank is indicating that the purchases will be evenly distributed over the year, but the Riksbank may want to buy less bond during the summer which means that the purchases announced for Q1 could be slightly above SEK 37bn. We think that the Riksbank will announce purchases only for Q1, which is in line with the last year's communication. This will give the Riksbank a certain degree of flexibility, although the shares for purchases in different assets was largely stable in 2021.

The composition of the purchases is more interesting than the distribution between quarters and here uncertainty is considerable. More than half the redemptions are government bonds (SEK 67bn government bonds + 8bn linkers) and we think the Riksbank will want to re-invest as much as possible in government bonds. However, limited supply and signs of deteriorating market liquidity means that the Riksbank will probably have to re-invest parts of the maturing government bonds in covered and municipality bonds. Still, the Riksbank has downplayed the QE programmes role for dysfunctional markets and we predict the Riksbank will continue to purchase government bonds at approximately the same pace as in 2021. Furthermore, we predict that the purchases of municipality bonds will be larger than redemptions, but that the pace will slow slightly compared to Q4 last year. Corporate bond purchases will continue to keep the SEK 10bn portfolio largely unchanged while remaining purchases will be in covered bonds. This means that purchases of covered bonds will be only slightly higher than redemptions in 2022, assuming the same composition of purchases later in 2022. For more graphs on the QE programme, please see our QE tracker [here](#).

Riksbank's holdings of maturing bonds in 2022

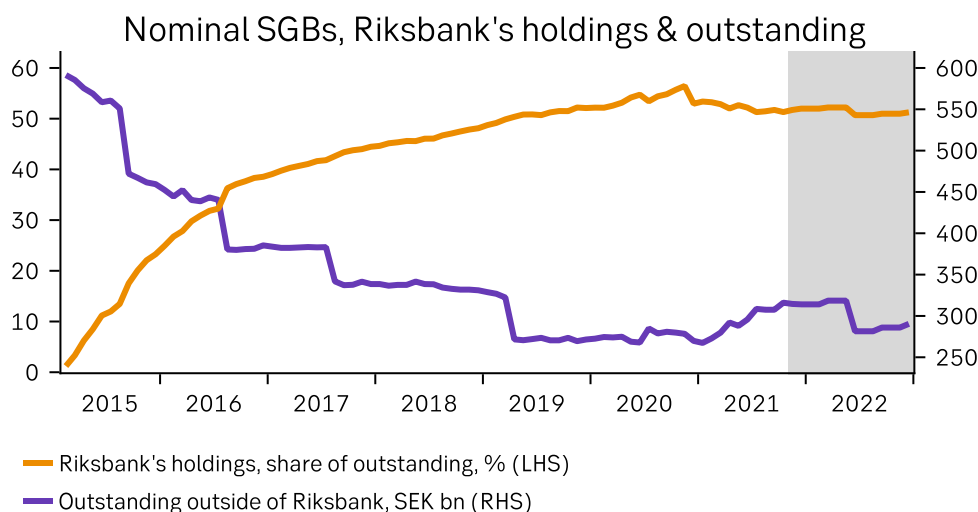


Source: Bloomberg, the Riksbank, SEB

Expected QE purchases in Q1-2022

| | Q1-22, SEB exp. | | Q4-21, actual | |
|---------------------------|-----------------|-------|---------------|-------|
| | SEKbn | Share | SEKbn | Share |
| SGBs incl linkers | 12 | 32% | 10 | 15% |
| Covered bonds | 16 | 43% | 45 | 66% |
| Municipality bonds | 8 | 22% | 12 | 18% |
| Corporate bonds | 1 | 3% | 1 | 1% |
| Total | 37 | 100% | 68 | 100% |

Riksbank's holding of nominal SGBs and outstanding bonds outside the Riksbank



Source: The NDO, Macrobond, SEB

Macro: Growth and labour market as expected but higher inflation in 2022

Economic developments since the September MPR have been largely as expected. The GDP level in Q3 was almost exactly in line with the Riksbank's estimate, although there are some changes to the quarterly pattern. Production problems are a near term downside risk, but strong sentiment indicators imply that growth and the labour market forecasts will be largely unchanged. In September, both CPIF and CPIF ex energy were 0.2pp lower than the Riksbank's projections, but prices recovered in October and both measures were 0.1pp above. The revisions to the inflation outlook are uncertain but global prices, not the least on energy, have continued to increase markedly over the last 2-3 months and CPI inflation has increased markedly in many countries. We think that the Riksbank will revise the 2022 forecasts for both CPIF and CPIF ex energy upwards by 0.3-0.4pp. Underlying domestic price pressures and subdued wages suggest that the Riksbank will forecast inflation to return to the September trajectories in the beginning of 2023. Thereafter forecasts are likely to show inflation gradually rising above the target in 2024.

Small steps toward policy tightening further ahead

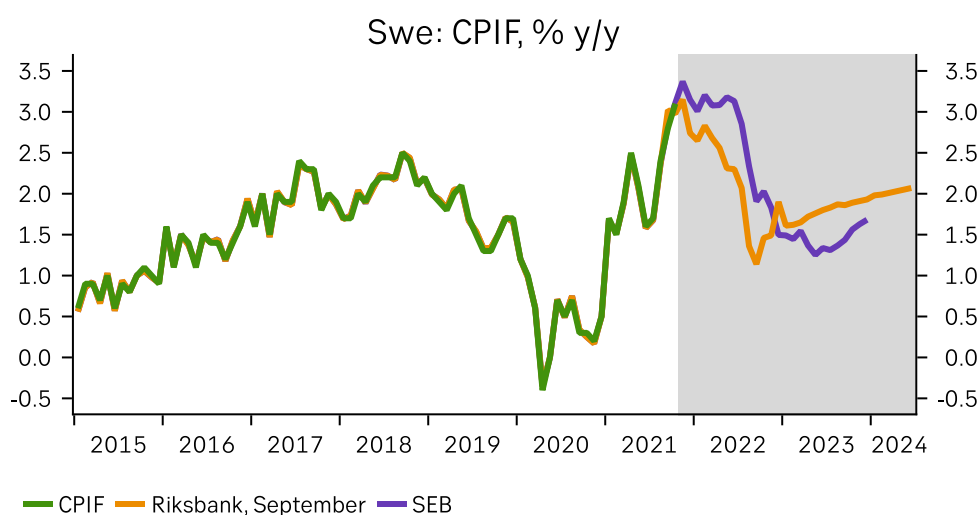
Adding a rate hike to the repo rate path is a small step towards tighter monetary policy and we predict the board to continue to tighten the monetary policy stance going forward. If inflation surprises on the upside the Riksbank could move the first rate hike closer in time and more hikes could be added. Furthermore, we predict that the Riksbank in the second half of next year will start to re-invest less than maturing bonds and let the balance sheet decrease slightly. This is unlikely to be communicated before the April or even July meeting next year and is contingent on that the recovery continues according to current forecasts and inflation does not surprise to much on the downside. In our quarterly forecast report *Nordic Outlook* presented on 16 November we revised our forecast for a first rate hike and now expect the Riksbank to hike the rate at the end of 2023. Still, reducing the balance sheet is in our view the most likely first measure if policy needs to become tighter and we do not expect the Riksbank to signal earlier rate hikes anytime soon.

Expected Riksbank forecast on 25 November

| | Riksbank in No SEB f/c | Riksbank in Jul. | SEB forecast |
|----------------------|---------------------------|---------------------|--------------|
| CPIF 21 | 2.3 | 2.3 | 2.0 |
| CPIF 22 | 2.5 | 2.1 | 1.5 |
| CPIF 23 | 1.8 | 1.8 | 1.5 |
| CPIF excl. energy 21 | 1.4 | 1.4 | 1.3 |
| CPIF excl. energy 22 | 2.1 | 1.8 | 1.5 |
| CPIF excl. energy 23 | 1.8 | 1.8 | 1.6 |
| Wages 21 | 2.9 | 2.8 | 2.9 |
| Wages 22 | 2.7 | 2.7 | 2.6 |
| Wages 23 | 3.0 | 2.8 | 3.2 |
| GDP 21 | 4.6 | 4.7 | 4.6 |
| GDP 22 | 3.6 | 3.6 | 3.6 |
| Unemployment 22* | 7.7 | 7.6 | 7.7 |
| Unemployment 23* | 7.2 | 7.2 | 7.3 |
| KIX index 21 | 114.0 | 114.5 | --- |
| KIX index 22 | 113.6 | 113.8 | --- |
| Wld. GDP 21 | 5.9 | 6.2 | 5.9 |
| Wld. GDP 22 | 4.4 | 4.6 | 4.4 |

* Because of revisions to the labour force survey from January 2021 not being included in the Riksbank's calculation, comparing labour market forecasts is difficult. Most indicators suggest that the labour market is in line with the Riksbank's assumed in September.

Source: The Riksbank, SEB

Riksbank likely to raise its inflation forecast since September

Source: Central Bank of Sweden (Riksbanken), Statistics Sweden (SCB), Macrobond, SEB

Higher rate path to have limited market impact

The market has since long speculated in earlier rate hikes from the Riksbank and the pricing indicates a first rate hike already in the second half of 2022 and more than three rate hikes by Q3-2024. This is clearly above the Riksbank's forecast of an unchanged repo rate throughout the forecast horizon. Hence, a signal of around 20bps higher repo rate by the end of 2024 should have limited impact on rates. If our dovish scenario was to materialize with an unchanged rate until the end of 2024 market reactions will be stronger. A possibly more important signal could be how tolerant the board plans to be for inflation overshooting the target. The more the Riksbank raises the inflation forecast without signalling a rate hike before 2024, the more markets should lower near term rate expectations.









First hike priced by H2-2022 and more than three hikes priced by Q3-2024

| Effective date | Market pricing | | Riksbank Sep 2021 | | SEB forecast | | Market vs. | |
|----------------|----------------|------|-------------------|-----|--------------|-----|------------|-----|
| | Repo | chg | Repo | chg | Repo | chg | RB | SEB |
| 2021-09-22 | 0.00 | 0 | 0.00 | 0 | 0.00 | 0 | 0 | 0 |
| 2021-12-01 | 0.00 | 0.0 | 0.00 | 0 | 0.00 | 0 | 0 | 0 |
| 2022-02-16 | 0.00 | 0.0 | 0.00 | 0 | 0.00 | 0 | 0 | 0 |
| 2022-05-04 | 0.03 | 3.0 | 0.00 | 0 | 0.00 | 0 | 3 | 3 |
| 2022-07-06 | 0.10 | 7.0 | 0.00 | 0 | 0.00 | 0 | 10 | 10 |
| 2022-09-21 | 0.18 | 8.0 | 0.00 | 0 | 0.00 | 0 | 18 | 18 |
| 2022-12-07 | 0.30 | 12.0 | 0.00 | 0 | 0.00 | 0 | 30 | 30 |
| 2023-02-15 | 0.39 | 9.0 | 0.00 | 0 | 0.00 | 0 | 39 | 39 |
| 2023-05-03 | 0.45 | 6.0 | 0.00 | 0 | 0.00 | 0 | 45 | 45 |
| 2023-07-05 | 0.51 | 6.0 | 0.00 | 0 | 0.00 | 0 | 51 | 51 |
| 2023-09-20 | 0.57 | 6.0 | 0.00 | 0 | 0.00 | 0 | 57 | 57 |
| 2023-11-29 | 0.63 | 6.0 | 0.00 | 0 | 0.25 | 25 | 63 | 38 |
| 2024-02-14 | 0.68 | 5.0 | 0.00 | 0 | | | 68 | 68 |
| 2024-05-01 | 0.73 | 5.0 | 0.00 | 0 | | | 73 | |
| 2024-07-10 | 0.78 | 5.0 | 0.00 | 0 | | | 78 | |
| 2024-09-18 | 0.83 | 5.0 | 0.00 | 0 | | | 83 | |
| 2024-12-04 | | | 0.00 | 0 | | | | |
| 2024-05-08 | | | 0.00 | 0 | | | | |

Note: Effective dates until end-2022 - thereafter SEB assumption.

Source: Bloomberg, the Riksbank, SEB

Inflation and growth in line with forecasts, some question marks for global growth

- **Inflation:** CPIF and CPIF ex energy 0.1pp above Riksbank's estimate in October after being 0.2pp lower in September. 
- **Inflation expectations:** Prospera inflation money market expectations have continued to edge higher, now close to 2%. BEI:s have reversed initial upturn, largely unchanged 
- **Labour market:** Employment indicators have improved, and registered unemployment has declined. Revised LFS survey means large uncertainty about the labour market trends. 
- **GDP and growth indicators:** GDP level in Q3 close to the Riksbank's forecast. Sentiment indicators slightly lower from high levels. 
- **House prices and credit growth:** Home prices have slowed but are still rising. 
- **Global growth:** Large spread between different regions but on average slightly weaker than expected. 
- **Global monetary policy:** Fed has started tapering, many central banks are hiking or planning to hike in the near future. 
- **SEK:** The SEK KIX initially strengthened slightly but is now close to the levels in September. 

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