

The Riksbank has no reason to act

We expect the policy rate to be unchanged at 0.00% at the upcoming monetary policy meeting. We expect the Riksbank to await further information on how its December rate hike has affected the economy before making substantial changes to the rate forecast. This means we expect it to continue to signal that the policy rate will stay at zero for the next two years.

Our expectations. We assess the data since the monetary policy meeting in December to be a mixture of positives and negatives. However, there have been no drastic developments that would make the Riksbank change its rate path at this meeting. Rather, we expect the Riksbank to remain on the same path and await further information before making an assessment of how the December rate hike has affected the economy.

January was a mixed month. CPIF did not increase but did not take a turn for the worse, and stayed at 1.7%. Key indicators for domestic demand, like consumer confidence and retail sales, were on the disappointing side. However, real household consumption for December continued on a strong upward trend, making the overall picture for domestic demand less clear. According to the Riksbank's monetary policy report in December, "a precondition for the forecast to be accurate is that confidence among households recovers and does not continue to fall." So far, a conclusion cannot be reached as to whether domestic demand is improving. Also on the positive side was the rising manufacturing confidence and falling unemployment rate. Furthermore, the SEK has not strengthened as projected, but was on a weak trend in the second half of December and throughout January.

Current monetary policy. At the previous policy meeting in December, the Riksbank raised the key policy rate to 0.00%, as expected. The forecast for the policy rate was to keep it at 0.00% for at least two years, with a hawkish bias towards the end. The verbal communication stated, "In the longer term, it is reasonable to expect the repo rate to be higher than zero per cent. But lower rates and uncertainty about economic and inflation development abroad and in Sweden make it difficult to say at present when it will be appropriate to raise the rate next time."

Minutes from the December meeting. All except two members of the executive board were in favour of the rate hike in December. Per Jansson commented that, while he supported the macro forecast, he was not in favour of a rate hike at the present meeting. He would prefer a rate hike somewhat later in the forecast horizon when inflation forecast risks had been resolved and the negative trend had turned for certain. In December, his view was that inflation, and inflation expectations, was declining. In addition, he was concerned about conducting stricter monetary policy when the Fed and the ECB were being expansionary, causing the SEK to appreciate further. Anna Breman was the second member not in favour of the rate hike. She also did not agree on the rate path. In her view, the Riksbank should wait until economic activity had stabilised further and pointed to factors indicating that the Swedish economy was still in a downturn. Furthermore, she argued that structural changes like demographics, digitalisation and climate change were factors changing the conditions for monetary policy, making it difficult to assess and conduct well-balanced monetary policy.

News since the December meeting

Inflation in line with projection. Inflation (annual growth in CPIF) was 1.7% in December, in accordance with the central bank's expectation. Inflation excluding energy prices was also 1.7% in December, 0.1%-point above the Riksbank's forecast for 2019 of 1.6%.

SEK strengthened towards the end of December and has since weakened. The KIX is now roughly 122.5, which is weaker than the Riksbank's projection of 120.9. However, FX-markets have been volatile lately so the Riksbank will be likely to assess the current development to be close to expectation.

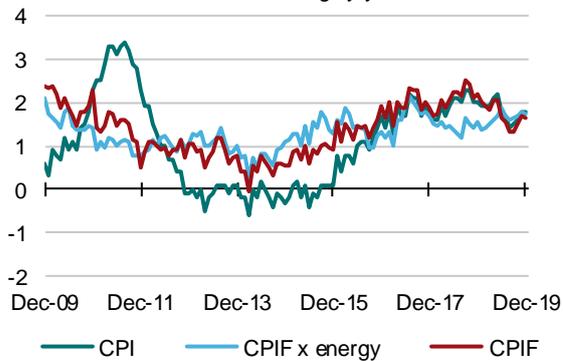
Unemployment rate was lower than expected. Seasonally adjusted unemployment fell in December, to 6.6%, lower than the Bloomberg consensus of 7.0% and the Riksbank's projected 6.9%.

Manufacturing PMI rose in January. Manufacturing PMI rose to 51.5 against the Bloomberg consensus expectation of 47.6.

Economic tendency: Consumer confidence down, manufacturing up in January. Although not expansive, the Sweden Economic Tendency indicator came up from 93.3 to 97.1 in January. Manufacturing showed significant signs of improvement, going from 94.5 to 101.8, however, consumer confidence was down from 94.1 to 92.6.

Sweden: Consumer prices

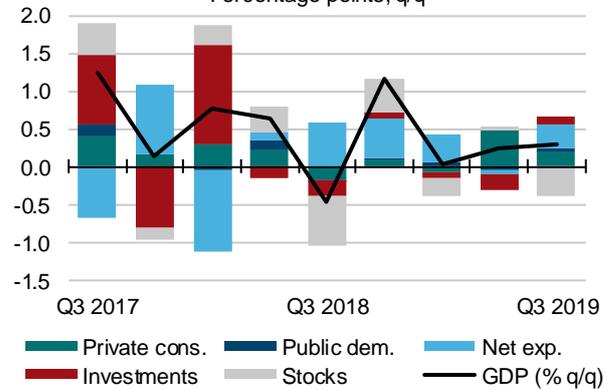
Per cent change y/y



Source: Thomson Datastream/DNB Markets

Sweden: GDP contribution

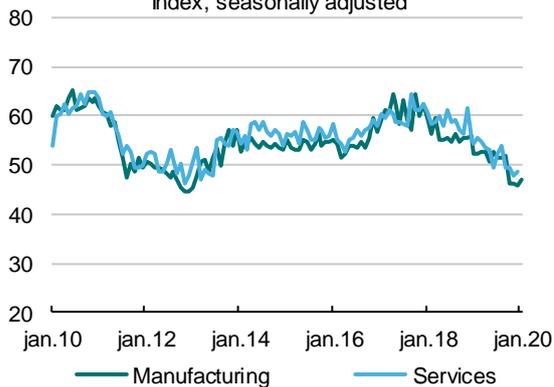
Percentage points, q/q



Source: Thomson Datastream/DNB Markets

Sweden: PMI

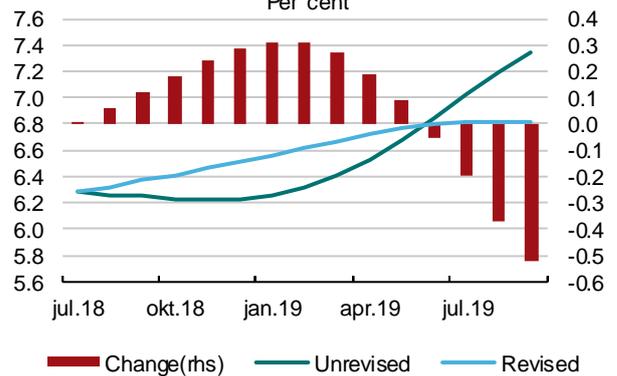
Index, seasonally adjusted



Source: Thomson Datastream/DNB Markets

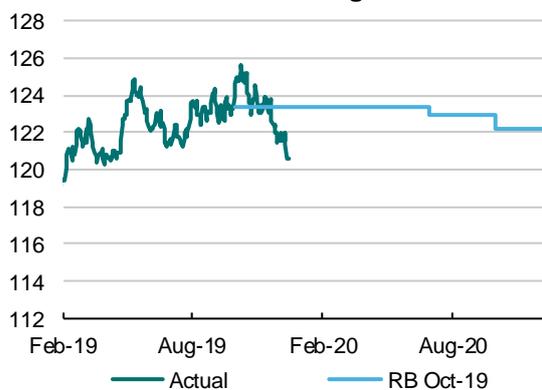
Sweden: Unemployment

Per cent



Source: Statistics Sweden/DNB Markets

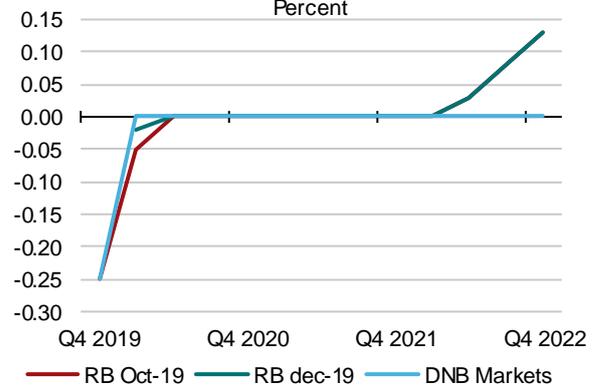
Sweden: Trade-weighted SEK



Source: Thomson Datastream/Riksbanken/DNB Markets

Sweden: Repo-rate path

Percent



Source: Riksbanken/Thomson Datastream/DNB Markets



Preview Riksbanken 12 February

10.02.2020

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