

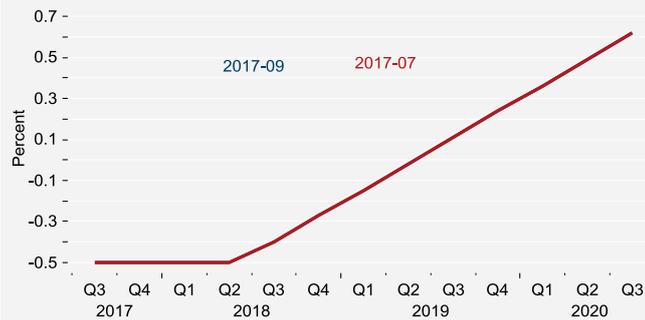
Comment on Riksbank

Policy intact

- The Riksbank has announced an unchanged policy stance and the repo rate path is the same as in July, with the first hike (some 10bp) indicated in Q3 18. Asset purchases continue according to plan.
- On inflation, the Riksbank says that recent outcomes have been higher than expected but underlines that this is due primarily to higher services prices (airfares), which should be temporary. However, strong growth and stimulatory monetary policy should help to hold inflation close to the target. The Riksbank revised up its inflation forecast up somewhat over the forecast horizon. Note the message here is that the inflation forecast suggesting inflation close to target is *conditioned* partially by a sustained strong monetary stimulus as expressed in the repo rate forecast.
- The Riksbank repeated that as inflation has been undershooting for such a long period, inflation being above target temporarily does not justify tighter policy near term.
- On growth (the GDP forecast has been revised up), the Riksbank stresses that recent high GDP figures have been driven mainly by strong productivity, which dampens cost pressure. In addition, nominal wage growth is moderate and the Swedish krona has appreciated faster than expected. It repeated that Riksbank policy cannot deviate too much from that of other central banks.
- So, the bottom line is that, despite higher inflation, the Riksbank holds its policy stance intact. This illustrates that it is in a way asymmetric in the sense that it is prepared to tolerate inflation above target for a while without responding. It is still restricted by other central banks' (read ECB) ultra-light policy and it stresses that the inflation forecast (CPIF close to 2%) is conditioned partially by continued stimulatory policy.
- The Riksbank announced that from now CPIF will be the formal target variable and it reintroduced a +/-1 percentage point variation band. Neither has any implication for actual policy making.
- In terms of the market, this is not a big deal. EURSEK corrected higher (3-4 figures), which was exactly what we were looking for. We continue to see EURSEK moving only slowly lower; thus, the correction would offer more attractive levels to go short. The Riksbank lowered the KIX path but maintained the end point more or less intact. As an effect, the Riksbank now expects a looser SEK appreciation than in July: 1.3% until the end of 2018 versus 2.6% in July. Short rates are down slightly. We see no reason to alter any of our fixed income trading ideas on the back of today's Riksbank announcement.

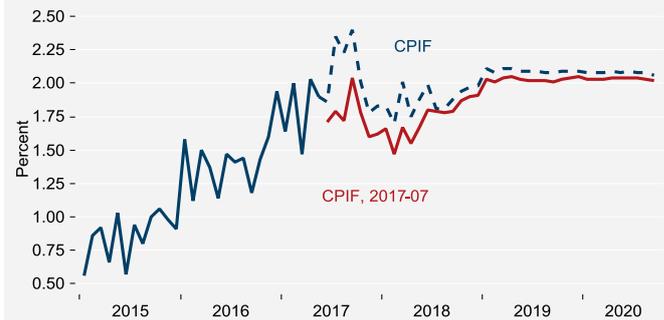
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Chart 1. September repo path = July path



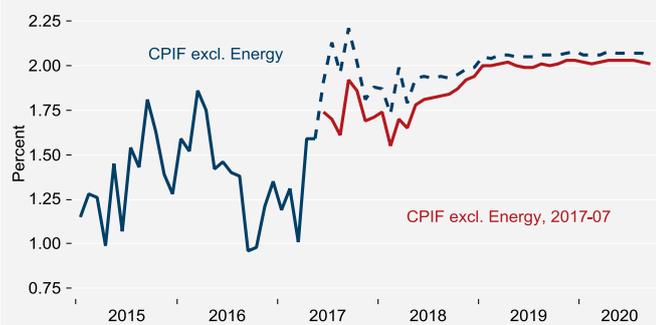
Source: Riksbank data, Danske Bank

Chart 2. CPIF close to 2% conditioned partially by light policy



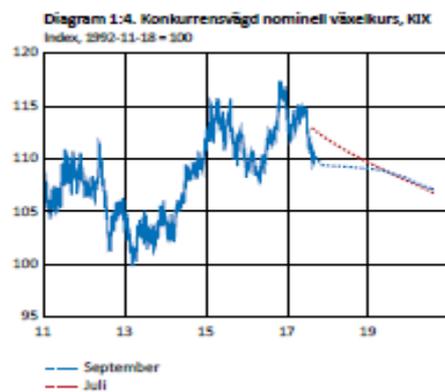
Source: Riksbank data, Danske Bank

Chart 3. Same thing with CPIF excluding energy



Source: Riksbank, Danske Bank

SEK seen stronger short term but end point intact



Source: Riksbank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Michael Boström, Chief Analyst.

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Expected updates

None.

Date of first publication

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