

FX commentary

# Riksbank U-turn completed

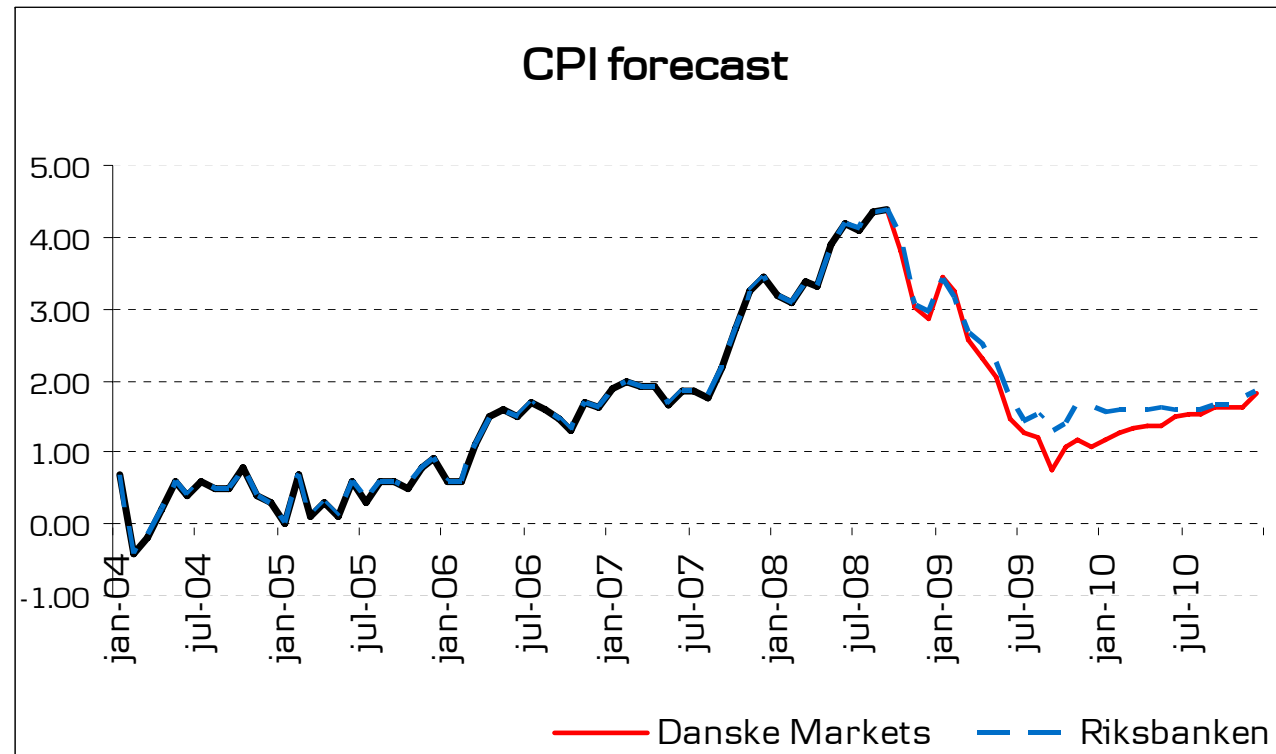
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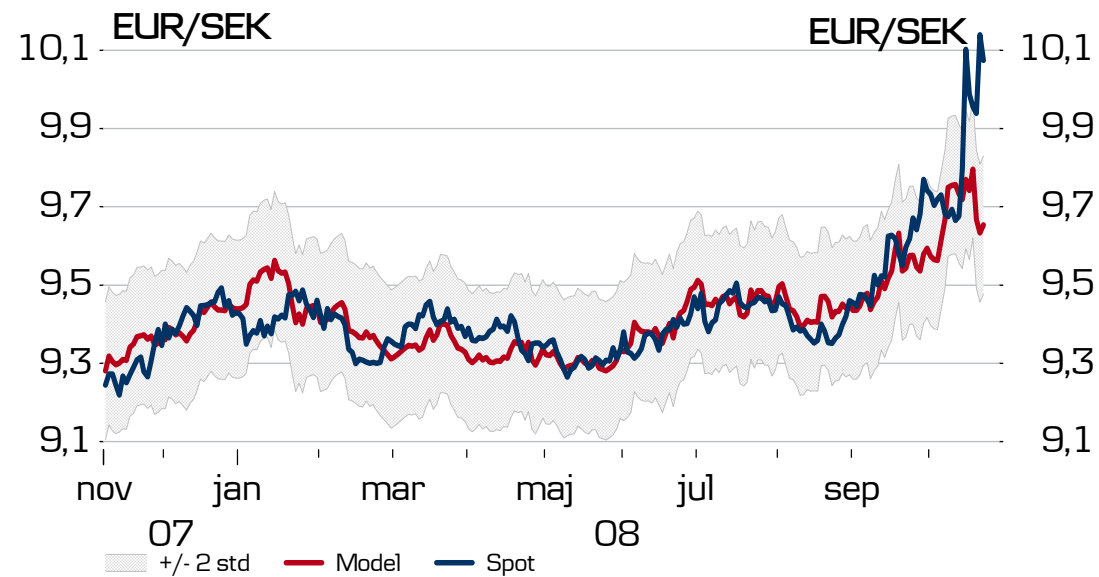
# A step in the right direction

- The Riksbank (RB) cuts 50bp and indicates a further 50bp within the coming six months. We had expected 25bp but welcome warmly the bold decision to go for 50. In our view this is not panic but rather a prestige-less shift in assessment of the economy resulting in a more **frontloaded monetary policy** forecast.
- The **U-turn completed**. After hiking 3 Sep the RB has now cut 100bp 1 ½ month later. The **risk that RB will be left (un)safely behind the curve has diminished**.
- Credibility: An **unpredictable RB** where the public has difficulties understanding its thinking, and thus policy actions, **has added a risk premium on the SEK**. RB is now taking a **step in the right direction** which is good for confidence and could reduce the risk premium.
- Initial reaction was knee jerk; lower yields on relative basis and weaker SEK. Over time though we think that it is a better medicine for the SEK with a proactive and credible policy than it being stubbornly tight.
- The **economic outlook has deteriorated sharply** recently. We forecast **zero GDP growth 2009** and a **substantial rise in unemployment**. The RB is close to zero for GDP but still too optimistic on unemployment (6.9% 2009 vs DB 7.8% on avg). **RB revises its inflation forecast** sharply lower and now is very **close to our** until mid 2009, H2 our forecast is lower.
- Hence, we stick to the view that the RB cuts the repo rate to **3.25% by Q2** which is line with their own forecast. Thereafter we see an additional 50bp in H2 taking the repo rate down to 2.75%. **Market pricing indicates 2.75% by mid 2009**. This is too aggressive relative to our forecast .
- **A recession-like economy is likely to weigh further on the SEK**. That said, EUR/SEK at current levels above 10.00 are not justified by fundamentals but reflect heightened risk aversion, rebalancing needs, NOK contagion (?) and poor liquidity - **S/T fair value ca 9.70**. **Near term more of forced SEK selling could arise** though as global stock markets still head lower.

# RB inflation forecast now close to Danske



# S/T model indicates SEK is oversold



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