

Sweden

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We have long argued for declining growth and the prospects of decreasing inflation and the Riksbank now opens up for rate cuts in 2009. We expect that it will appear in early 2009 but forecast concurrent ECB rate cuts and a return of risk appetite which will contribute to a minor SEK strengthening in the coming 12 months.

Prospects of rate cuts in 2009

□ Sweden's economic growth is slowing down and the most recent Q2-08 figures indicate modest growth of 0.7% (YoY). Looking ahead there is little to suggest that the Swedish growth engine will start again in the quarters ahead. Retail sales as well as business and consumer confidence indicators have been falling over the past many months and are now at levels which point to very weak economic growth in the coming quarters.

Economic slowdown...

□ Coupled with the most recent sharp price decreases in oil and commodities weak economic growth hold out prospects of falling inflation in the coming quarters. So far the Riksbank has been highly focussed on the rise in inflation which is currently at 4.3%. However at the most recent interest rate meeting we noted increased dovish rhetoric; consequently the interest rate path, GDP growth and inflation forecasts were downgraded. So despite the 25bp rate hike to 4.75% the tone was softer than at the year's previous meetings.

...and declining inflation ahead

□ The Riksbank's most recent interest rate path suggests rate cuts from 2H-09. However we forecast that it will deploy its interest rate weapon already in early 2009 and lower the rate by a total of 75bp in 2009. However Europe is also facing rate cuts totalling 50bp. The small yield spread narrowing indicates a SEK weakening. Nonetheless we believe that it will be more than offset by a return of risk appetite which has been poor over the past 12 months following the credit crisis and continued weak global economic growth prospects. A normal risk appetite will contribute to strengthening the exchange rates of small countries and therefore we expect overall that SEK will appreciate slightly and trade at 935 against EUR in 12 months.

Rate cut in early 2009...

...but risk appetite return

Economic indicator forecast (YoY) prepared on 9 September 2008

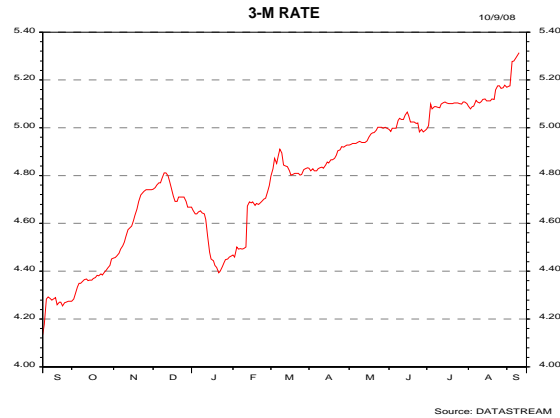
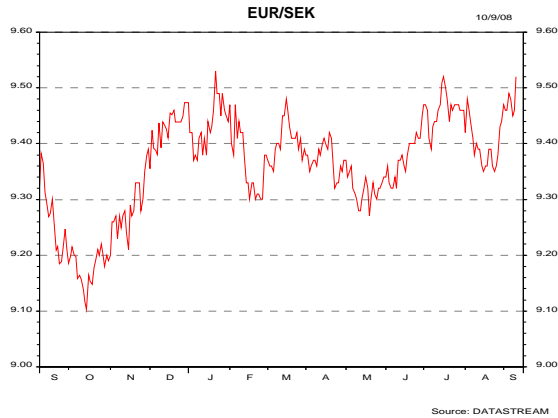
	2007	2008f		2009f		Most recent
		Sydbank	Riksbank	Sydbank	Riksbank	
GDP	2.6%	1.2%	1.4%	0.9%	0.8%	0.7% (Q2)
Inflation	2.2%	3.8%	3.9%	2.5%	3.2%	4.3% (Aug)

Currency and interest rate outlook prepared on 9 September 2008

Time horizon	Currency outlook EUR/SEK	Forward rate	Interest rate outlook Key rate	Market outlook
Spot	951 (79.8)	-	4.75% (4.25%)	-
3-m	940 (79.3)	953	4.75% (4.25%)	4.75%
6-m	935 (79.3)	953	4.50% (4.00%)	4.50%
12-m	935 (79.3)	953	4.00% (4.00%)	4.25%

Figures in parenthesis represent the estimates of the most recent edition of Currency Outlook.

Currency and interest rate developments



Selected economic indicators

