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Hedge Fund Excalibur Bets Riksbank Will Tighten by End of Year

- Sweden seen raising rates ahead of ECB as risks recede

- Says Swedish monetary policy has passed its sell-by date

By Love Liman

(Bloomberg) -- Sweden's central bank will likely begin raising interest rates already this year, grabbing a head start on its larger counterpart in Frankfurt in the race to unwind Europe's unprecedented stimulus drive.

That's the view of hedge fund Excalibur Asset Management, which oversees 5 billion kronor (\$571 million) in Stockholm.

"We're moving into a time when the Riksbank will gradually change its monetary signaling," said Thomas Pohjanen, its acting chief executive officer. "When it happens, one should buy protection against higher Swedish rates, in particularly in the short end."

Speculation is mounting that the Swedish central bank will remove its easing bias as soon as next month, with at least two major factors driving that thinking.

The first concerns the action of its peers. The European Central Bank dropped references to lower rates earlier this month, while the Federal Reserve raised its rate target range for the third time in less than a year and also signaled further increases ahead.

Sell-by Date

The second involves global politics. When the Riksbank decided to expand and extend its bond purchase program, back in April, it referred to risks linked to political uncertainty abroad. Since then, anti-globalization forces have been muted in France and the Netherlands, damping fears that the European Union would crumble in the wake of Britain's decision to leave the bloc. Even Donald Trump's impact on the world economy appears to have been limited.

"It's very hard to see those risks" today, Pohjanen said. "The Riksbank's current policy has passed its sell-by date."

Pohjanen expects the world's oldest central bank to move before the ECB and raise rates from their record low of minus 0.50 percent already in the fourth quarter. Its asset purchase program will likely expire by year-end.

"The goal of the asset purchase program is to reduce term premium in the rates market, so it would make no sense to extend the asset program and at the same time increase the price of money by raising rates," he said.

Pohjanen also lists a third reason why the Riksbank should step back from its ultra-easy monetary policy: the discrepancy between the central bank's view of the domestic economy and latest data.



According to a Bloomberg survey, Scandinavia’s largest economy will grow 2.6 percent in 2017, with only New Zealand predicted to grow at a faster rate among its peers. A core measure of Swedish inflation, meanwhile, came in at 1.9 percent in May, within a whisker of the Riksbank’s 2 percent target.

“It’s only if you have the ambition for monetary policy to be precise down to a percentage point that you can say the Riksbank isn’t already meeting its inflation target,” Pohjanen said.

Krona Fears

Besides, the risks posed on financial stability by a protracted period of ultra loose money -- Swedish household debt is already one of the highest in the world -- shouldn’t be discounted.

The acting CEO also debunked the argument that the Riksbank may be unwilling to unwind what he called "possibly the most stimulative monetary policy in the world" for fear that a strengthening krona might jeopardize its inflation target.

“The exchange rate is important for a small, open economy,” he said. “But I think they are overestimating the risk for krona appreciation in the current situation when other major central banks are beginning to reduce their stimulus. If you await the ECB you risk overheating the Swedish economy completely, with the risk of creating asset bubbles.”

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