

# Ambrosia Anticipates Shift in Riksbank Inflation Policy

Stockholm (HedgeNordic) – Ambrosia, the Swedish multi-strategy hedge fund inceptioned in March 2016 with SEK 2.6 billion (\$290 million) in AUM, is anticipating a shift in Riksbank (Swedish Central Bank) policy following a current round of wage talks that could see it abandoning its long-standing focus on inflation. Trade unions and employers in the industrial sector agreed on annual wage increases of 2% over the next three years last month that, however, was below the bank's target of 3.3%.

"Once wage negotiations are over, they will have to make a choice: Should inflation expectations be their sole priority, or should they also consider other aspects of the economy as they did before, such as soaring house prices," Ambrosia manager Torbjorn Olofsson told Bloomberg in an interview.

The Riksbank has "invested so much" in trying to boost inflation expectations in order to lift wages that the outcome of the salary negotiations, which affect some 2 million Swedes, is likely to be a high water mark allowing the Riksbank to readjust its policies back towards other sectors of the economy. The Riksbank has concentrated solely on inflation since 2014, when it abandoned its focus on household debt in order to push rising consumer prices. The bank had previously been hesitant to lower rates because of concerns it could boost housing prices and indebtedness higher. However, the Riksbank has now cut its key rate well below zero and purchased billions of kronor worth of government bonds, missing its 2% inflation target for several years.

While this has contributed to lifting consumer-price increases, both the Riksbank and analysts missed the annual underlying inflation of 1.5% this past March. Consequently, a new realignment of the bank's policies could provoke a move in long real rates, which according to Mr Olofsson, are far below their long-term natural level.

"Our main position is being short on long Swedish real rates as the Riksbank will eventually have to end its quantitative easing program and as the current level of the long real rate is far below most estimates for the natural level," Mr Olofsson said, adding that real key-policy rates stand at roughly -2%, as opposed to most estimates for long-term natural real rates being at +1%.

Mr Olofsson believes, however, that long real rates will rise only gradually towards the natural rate as both the Riksbank and the ECB have risk-reward incentives in slowed-down reactions to rising inflation and overheating economies, causing short rates to lag behind increases in long rates. Ambrosia has made a "small bet," he said, that Swedish short rates will rise in relation to European short rates as the fund believes that "the weighted probability for that scenario is slightly higher than what the market is pricing in."

"We've had high credit growth for such a long time and it can get nasty if there's a correction," Mr Olofsson added. "It would be good if they had a wider approach to monetary policy." Olofsson advocates for the Riksbank to miss its 2% inflation target for a longer period of time to curb credit growth, amid surges in household debt levels and home prices due to record-low mortgages and home shortages.

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