

Excalibur's Pohjanen eyes Riksbank tightening by year-end

Stockholm (HedgeNordic) – Thomas Pohjanen (*pictured*), CEO and Portfolio Manager of Swedish hedge fund Excalibur, expects Sweden's central bank, the Riksbank, to begin raising interest rates already this year. In an interview with Bloomberg, Pohjanen was quoted as saying:

"We're moving into a time when the Riksbank will gradually change its monetary signalling. When it happens, one should buy protection against higher Swedish rates, in particular in the short end."

According to the Bloomberg article, 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.

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, the article states.

Thomas Pohjanen agrees that political risks have been diluted.

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

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 which shows that Swedish inflation came in at 1.9 percent in May, in close proximity to 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.

In a final comment, the Excalibur portfolio manager 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”, Pohjanen concluded.