Sweden's underlying inflation rate adds pressure on Riksbank


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Sweden's underlying inflation continued its ascent in January, adding pressure on the country's central bank to raise borrowing costs despite the gloomiest economic outlook of all European Union nations.

A measure of prices that strips out energy costs and the effect of interest-rate changes rose 8.7% from a year ago, which was higher than the 8.2% projected by economists. The data published by the statistics office on Monday suggest a more difficult balancing act for the Riksbank's new governor, Erik Thedeen, as he tries to calm stubbornly high inflation – worsened by a weakening krona – at a time price growth is slowing in the US and the euro area, Bloomberg reported.

Rapidly rising interest rates are already weighing on growth, and forecasts from the European Commission indicate that Sweden could be the only economy in the EU to experience a full-year contraction in 2023.

While the CPIF measure of inflation that the Riksbank targets declined more than estimated to 9.3% in January, it was mainly driven by lower electricity prices. The development resembles that of the euro zone, where headline inflation has eased faster than expected along with energy costs, while gauges that strip out volatile components are still clinging to record highs.

"The January decline in Sweden's headline inflation rate will set the tone for the rest of the year, but the uptick in core inflation adds to the Riksbank's worries. Still, we maintain our call for the central bank to hike rates by 25 basis points when it next meets (in April), but see risks to the upside. Given the January data, core inflation may remain higher for longer than Riksbank currently forecasts."

Economists noted that the January data makes it more likely that the Riksbank will go for a half-percentage-point interest-rate hike when they next meet, in April. Thedeen has said that while the bank could increase borrowing costs by either 25 or 50 basis points then, data published ahead of the next meeting is "more important than ever" for determining its course of action.

"The Riksbank has indicated that they have a low tolerance for overshooting inflation in the near-term," Swedbank AB analysts Knut Hallberg, Carl Nilsson and Glenn Nielsen said. "Between now and the April meeting, two additional CPI prints will be published, and we see it likely that core inflation will remain above the Riksbank's forecast until then."

Swedbank now expects a half-point increase in April, followed by an additional quarter point in June, and said there is a possibility that the Riksbank could call an extra meeting in March, especially if the Swedish krona weakens.

"The Riksbank board will look past the headline CPIF print and focus on the much too high underlying inflation pressure," said Johan Lof, senior economist at Svenska Handelsbanken AB. "In isolation, today's inflation print challenges our view that the April hike will be the final one."

Deutsche Bank's regulators criticize its internal probe

Signage is seen for the EDF energy company on a building near the Hinkley Point C nuclear power station near Cannington in southwest England.
TOBY MELVILLE/REUTERS

Deutsche Bank's top supervisors are critical of how the lender handled an internal investigation into mis-selling of derivatives, raising questions about its findings.

The European Central Bank and German regulator BaFin have told Germany's largest bank that the probe, known as Project Teal, took too long, wasn't broad enough, and was too slow to take remedial action, according to people familiar with the matter who asked not to be identified discussing private information. The regulators could impose sanctions such as a fine or take other enforcement actions at some point as a result, one person said, Bloomberg reported.

Representatives for the ECB, BaFin and Deutsche Bank declined to comment on the news, first reported by the Financial Times.

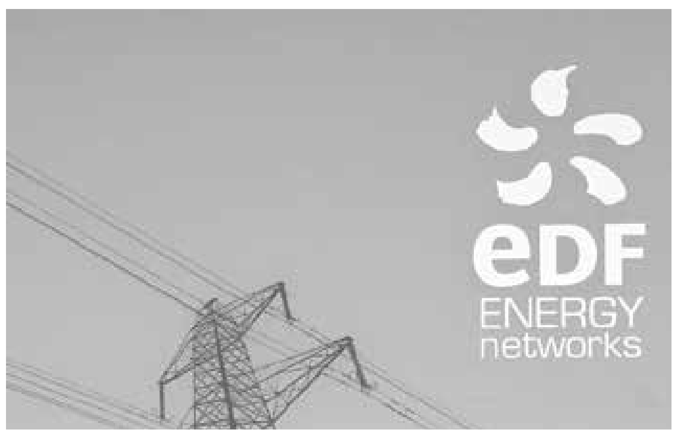
The rebuke is the latest in a long series of complaints that regulators have directed at the lender over a perceived failure to sufficiently improve controls and compliance systems. Chief Executive Officer Christian Sewing has repeatedly pledged to fix the gaps and thrown additional money at the issue, causing him to miss cost targets.

Shares of the lender dropped 1.6% in Frankfurt, paring gains this year to about 10%.

Project Teal had for more than two years examined dozens of cases where some employees sold foreign exchange derivatives to small and medium-sized Spanish companies, even amid concerns the products were too complex for those clients. The probe, which recently concluded, has led to settlements with clients worth tens of millions of euros and resulted in the departure of several employees, Bloomberg previously reported.

Fewer than a dozen Deutsche Bank employees have been sanctioned as a result of Project Teal, which targeted the London desk and some parts of the lender's Spanish operations. The lender also looked at deals and controls beyond the involved London desk. Even though it didn't find evidence that similar misconduct occurred elsewhere, some wider controls and procedures were changed as a result.

Cost of EDF's new UK nuclear project soars to $40b



ALEX KRAUS/BLOOMBERG

EDF's new nuclear plant in southwest England is likely to cost almost 30% more than its last budget estimate as inflation propels the price tag to almost 33b pounds ($40b), EDF documents show.

Britain plans to build new nuclear plants to boost its energy security and help meet a target for net zero emissions by 2050, Reuters reported.

EDF warned in a results presentation on Friday the cost of the Hinkley Point C project, Britain's first new nuclear plant in more than two decades, "could reach 32.7 billion pounds" based on inflation indexes as of June 30, 2022.

Its previously published cost estimate of 25-26b pounds was based on 2015 prices.

EDF is building the plant with China's CGN, which has a 33.5% stake in the project.

Under the companies' agreement, the higher costs mean EDF can ask CGN to put more capital into Hinkley, but EDF said "the probability that CGN will not fund the project after it has reached its committed equity cap is high."

That would mean EDF would have to step in to shoulder the additional costs in place of CGN.

EDF is in the process of being nationalised by the French government, a first step in a plan to reinvest in its nuclear business and get the debt-laden company back on track.

The company last week reported a record net loss of 17.9b euros ($19.1b). French Energy Minister Agnes Pannier-Runacher told RadioFrance on Saturday the government remained fully behind the company, though she did not specifically refer to the UK project.

EDF is still targeting a start date of June 2027 for the first of the two units at the plant, but warned there was a risk of a further 15-month delay to both units if government-imposed lockdowns or the war in Ukraine disrupted supply chains.

The project is already a decade overdue, with EDF initially saying it would be powering British homes in 2017.

NEWS IN BRIEF

OPEC+ decisions not politicised: *Saudi minister*

REUTERS – Decisions by OPEC+ are not politicised and are based on market fundamentals, Saudi Arabian Energy Minister Abdulaziz bin Salman said on Monday, adding that the alliance of oil producers is sufficiently flexible to adjust policy as needed.

He was speaking at a media forum in the capital Riyadh about last October's decision to cut the group's production target by 2 million barrels per day.

Oil prices rise on optimism about China demand

AFP – Oil prices advanced on Monday on optimism that China's economic reopening will stoke demand for energy. Brent crude, the international standard, rose 1% to $83.83 a barrel. West Texas Intermediate, the U.S. benchmark, climbed 1% to $77.10 a barrel.

Ericsson confirms 1,400 Swedish job cuts

REUTERS – Telecoms gear maker Ericsson plans to cut about 1,400 jobs in Sweden as part of a broader plan to reduce costs globally, it said on Monday.

The company had earlier announced plans to cut costs by 9b crowns ($880m) by the end of 2023 as demand slows in some markets, including North America.