

Back to 2012?

An instrument that captures the safehaven feature of SEK seen over the last years is volatility skew. Usually the 1M EURSEK risk reversal has been trading slightly below 1% in favour of calls (i.e. when turmoil hits the market, SEK is sold versus the EUR). However, following the EZ debt crisis selloffs July 2012 SEK was to some extent bought vs the EUR during turmoil. Hence the premium for calls in relation to puts fell to close to zero.

In addition, SEK buying during this period was fuelled by Fed’s QE, and when Fed opened up for tapering in June 2013, the risk reversal climbed back up to “normal” levels.

Another way to look at this is that over time the SEK is correlated with risk aversion, and interesting right now is that the risk reversal is half way back to where we traded during the “SEK is a safehaven”-era. Comparing the risk reversal vs. spot, recent move in the krona is indeed justified and there could even be further room to the downside in EURSEK. As highlighted by our FI Strategists (<https://nexus.nordea.com/#/article/2148>), Swedish macro could continue to perform in the near-term, pushing EURSEK down even further.

Skew is once again turning to the downside in EURSEK



Recent spot move indeed justified in risk reversal



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Nils Rosendahl,
Senior Analyst, Global Research
nils.rosendahl@nordea.com

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