

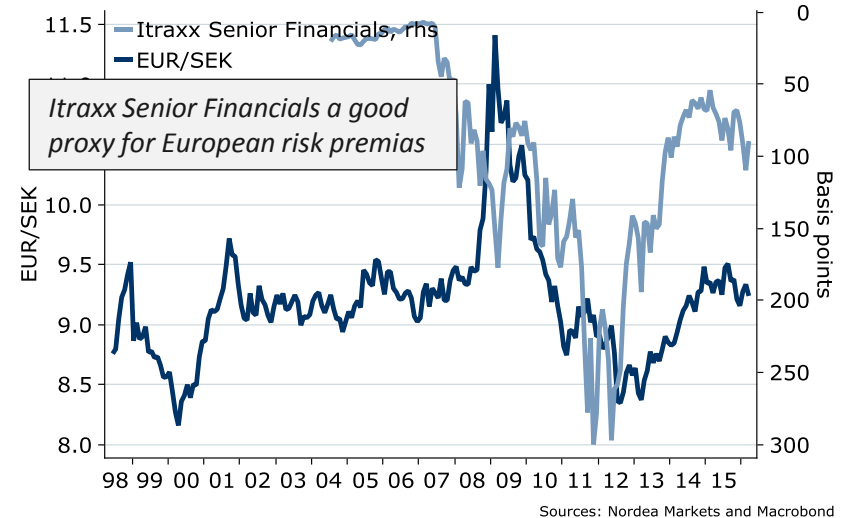
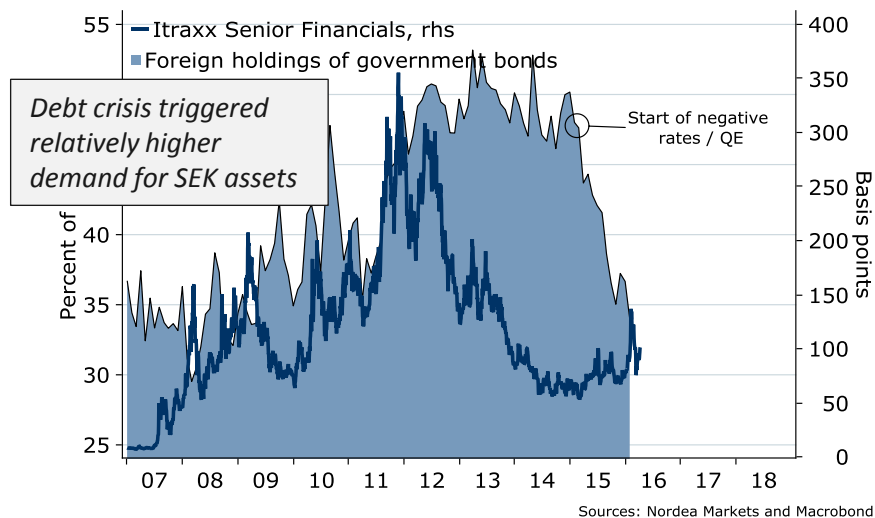
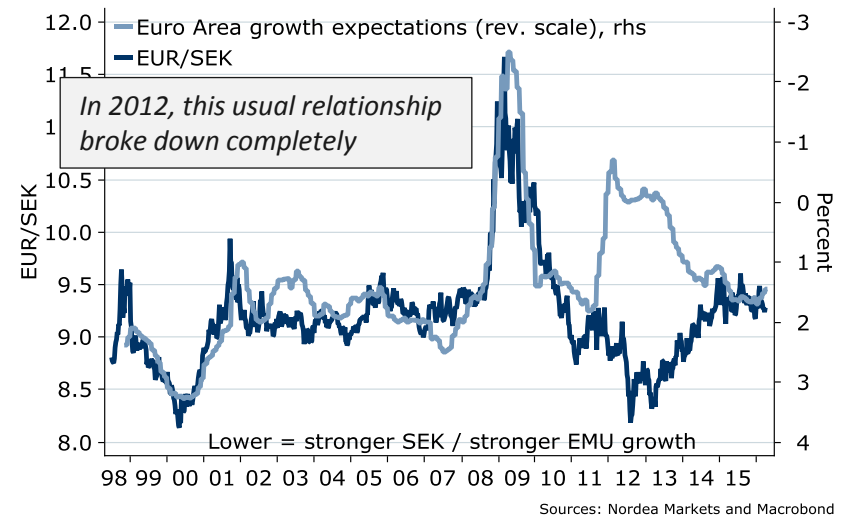
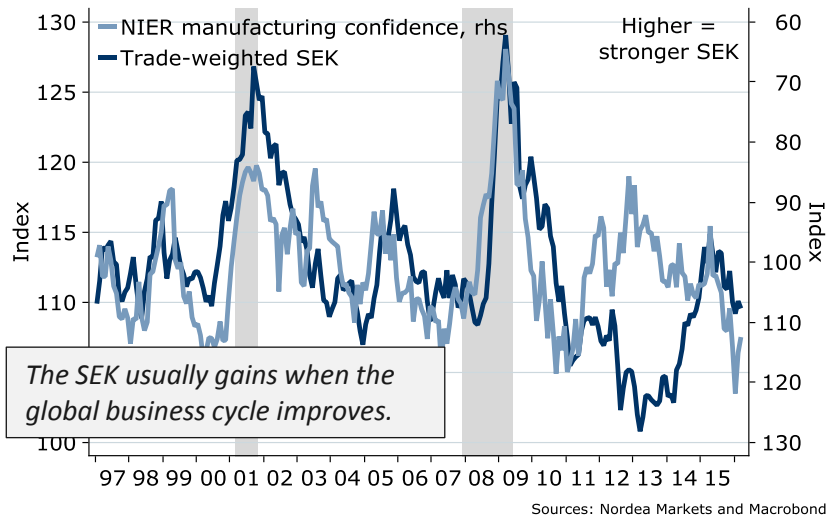


SEK – three reasons why your natural hedge may not protect you

- Rising European risk premiums (Brexit, ...) could push SEK (much) stronger
- BOJ has seemingly lost control of JPY – could the Riksbank lose control of the SEK?
- If central banks return to their old "rules", the SEK could also gain substantially

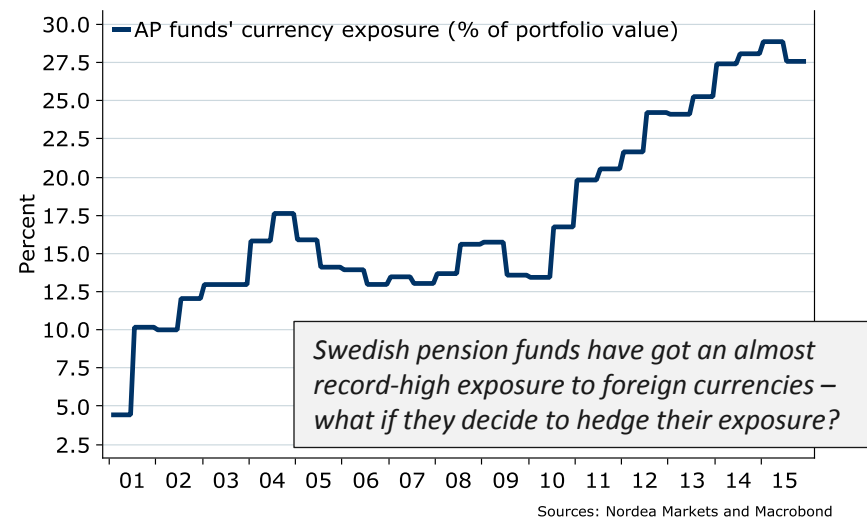
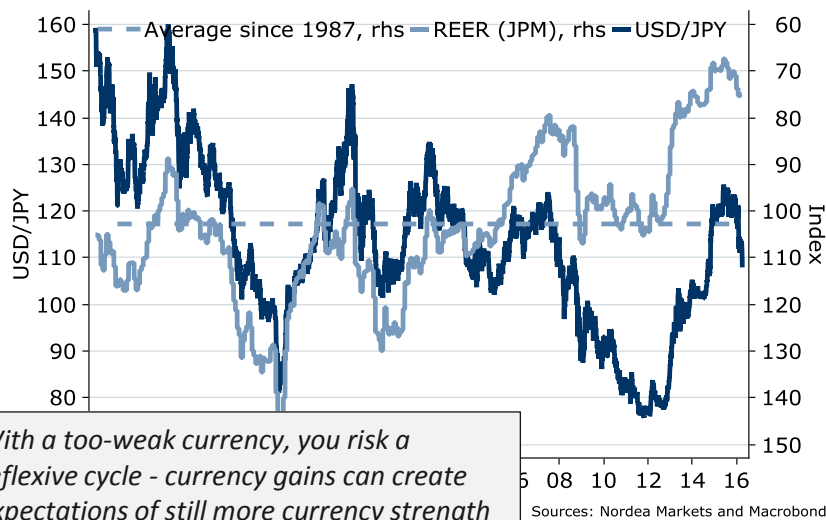
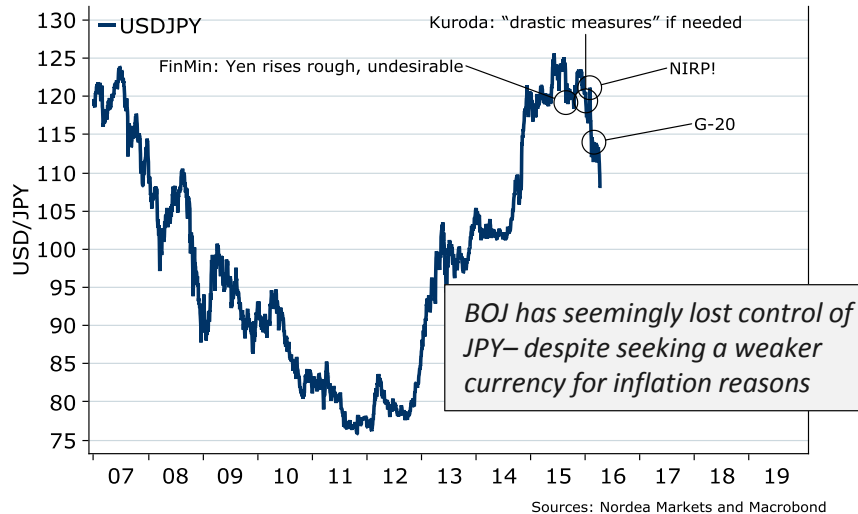
SEK: rising European risk premiums could push SEK (much) stronger

The Swedish krona usually strengthens when the global manufacturing cycle improves, owing to Sweden's historical reliance to the capex cycle, and the related high beta-nature of Swedish stocks. In 2012 this relationship broke down completely owing to an escalating European debt crisis which led to relatively higher demand for SEK assets, pushing the SEK massively stronger – despite deteriorating growth. If European risk premiums were to rise again, as a result of unexpected spill-overs from a Brexit, this could happen again.



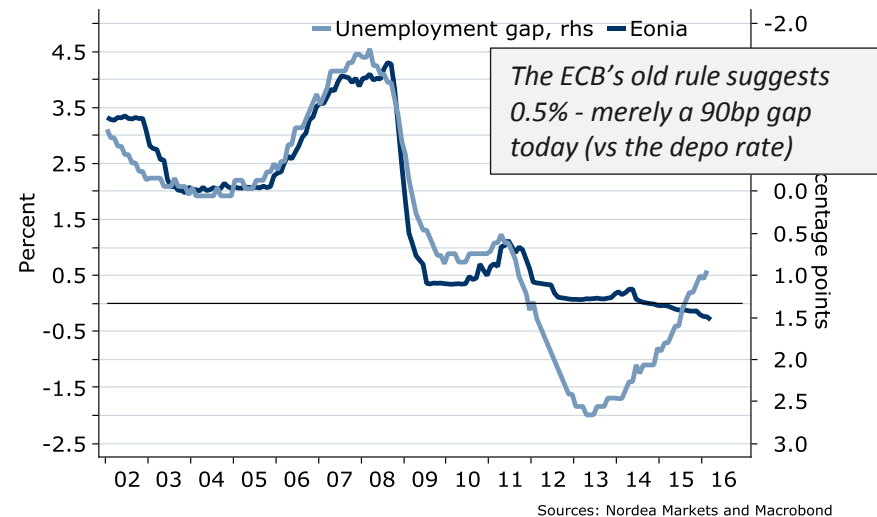
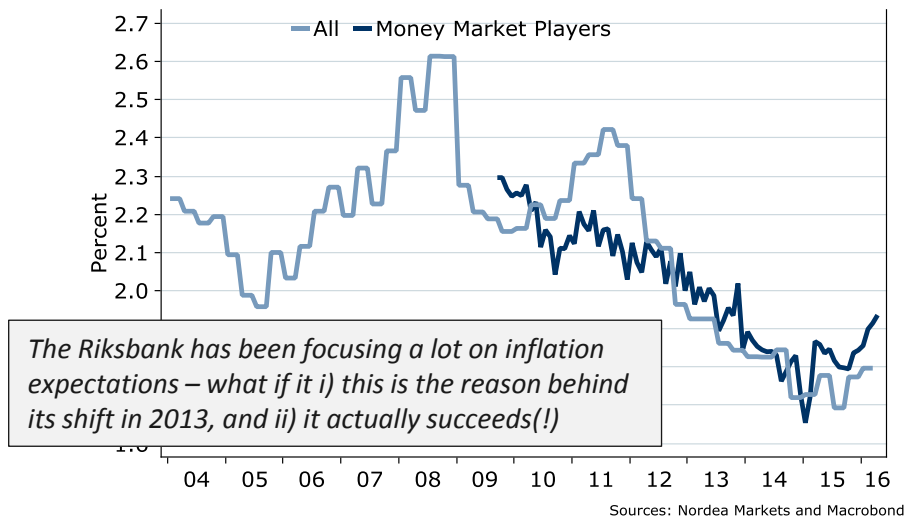
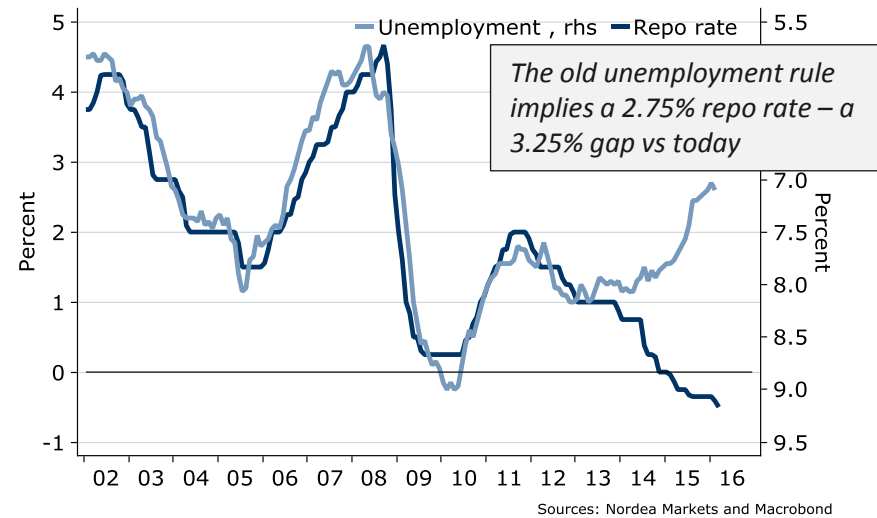
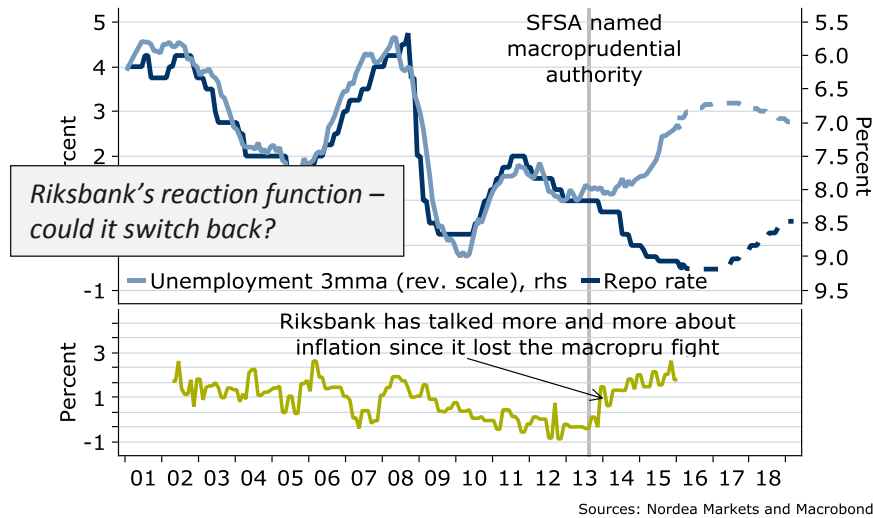
SEK: BOJ has lost control of JPY – could the Riksbank lose control too?

The SEK is 10-20% undervalued due to the Riksbank's policies. However, markets may lose confidence in the Riksbank's powers to hold the SEK back. This is arguably what has happened with the JPY so far this year. If the Riksbank is seen as running out of ammunition for practical or political reasons, then the risks of a reflexive cycle of a stronger SEK is higher than commonly anticipated. A stronger SEK could create expectations of still more gains at least as long as the SEK remains fundamentally weak. If Swedish financial institutions decide to increasingly hedge their foreign FX exposure, this could create substantial pressure on EUR/SEK.



SEK: if central banks return to old "rules", SEK could gain substantially

The Riksbank switched its reaction function to become more dovish by the middle of 2013, in conjunction with the SFSa receiving the macro-prudential mandate – thereby letting the Riksbank to focus more on inflation. The Riksbank's mandate is now under scrutiny, and a new Riksbank law will eventually be put in place. What if this leads to a hawkish change of the Riksbank's reaction function, restoring the old order? If so the Riksbank would become much more hawkish than in the past, potentially leading to (much more) hawkish policies - leading to substantial SEK gains. This also applies even if the ECB returns to its old reaction function.



Thank You!

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