

## FX Daily: Tech troubles for SEK

SEK's higher sensitivity to US tech stock swings has made it a major underperformer at the start of this year, and a stabilisation in US equities looks necessary for EUR/SEK to return to its December range. The USD is benefitting from Fed tightening prospects and safe-haven demand, which is instead generating divergence among high-beta G10 currencies.



A weak krona remains a concern as the Riksbank prepares to cut rates

### ➔ USD: A positive risk-off/Fed tightening mix for the dollar

An upbeat session for global risk sentiment yesterday was more than offset by a late drop in US equities, led by another grim day for tech stocks. Defensive trades dominated, with the yen and the dollar strengthening, mostly to the detriment of high-beta currencies. Once again, risk-off waves generated some divergence between the antipodeans and the oil currencies (NOK and CAD) in G10, with the latter group at least partly shielded by crude trading within higher ranges again (despite yesterday's correction).

NOK was little touched yesterday by Norges Bank's decision to keep rates on hold: the Bank's pledge to hike again in March and the high probability that 100bp of tightening will be delivered in 2022 are all set to keep driving NOK higher this year, [in our view](#). SEK has been a major

underperformer this week: we discuss this in the section below.

Some stabilisation in US equities may keep the upside capped for the dollar today, although it is clear from this week's action in FX that the market's bullish sentiment on the greenback did not fade with the new year. Our view that the dollar will stay strong into the first phase of the Fed's tightening remains unchanged, and even though the Fed should stay on hold on Wednesday, markets may continue to look at the dollar with favour into next week's meeting. No major data releases to watch today.

## ➔ EUR: Short-lived rebound

Markets received contrasting messages from the ECB yesterday. While the minutes from the December meeting clearly highlighted growing concerns about inflation and a hawkish bloc within the Governing Council that is growing stronger and louder, President Lagarde gave an interview where she argued in favour of a more cautious approach to tightening – especially compared to that of the Fed.

Lagarde is set to speak again today, this time at the virtual edition of the World Economic Forum, and we can reasonably expect more pushback against speculation the ECB will have to start hiking already this year, largely on the back of expectations that inflation will not prove as concerning later in the year as in other developed economies.

EUR/USD was denied a move below 1.1300 overnight and enjoyed a small rebound in the Asian session. Our view is still that more Fed-induced dollar strength should keep some pressure on the pair, and a return to the 1.1200 November lows should be on the cards in the coming weeks.

## ➔ GBP: Only a small correction higher in EUR/GBP

The data flow in the UK earlier this week (good jobs figures and higher inflation) had all but endorsed market speculation that the Bank of England will hike rates at its next meeting on 3 February, a move that is now fully priced into the GBP curve. Given the recent data strength, this morning's quite weak January consumer confidence and December retail sales numbers did not hit the pound particularly hard, with the recovery in EUR/GBP mostly due to the unsupportive global risk sentiment to which the pound is more exposed than the euro.

We think that EUR/GBP has further to drop on the back of policy divergence as we expect the BoE to hike rates again in February, a month where we could well see a break below the 0.8300 level in the pair.

## ⬇️ SEK: The big loser in the US tech slump

The Swedish krona dropped by more than 1% vs USD yesterday as US tech stocks came under fresh pressure. While having a generally high beta to global equity dynamics, SEK has the highest positive sensitivity in G10 to swings in tech stocks, with the underperformance of this segment having been a major factor behind SEK's underperformance at the start of this year.

Incidentally, the Riksbank's very slow transition from its ultra-dovish stance, rising inflation and the exposure to the European slowdown caused by Omicron are set to keep a lid on SEK in the near term.

A significant stabilisation/recovery in US tech stocks will likely be needed to send EUR/SEK back into

its December/early-January 10.20/10.40 range, unless the Riskbank sounds particularly hawkish at the 10 February meeting, which we doubt will be the case.

## Authors

### Francesco Pesole

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

### Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

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