Our view on the Swedish krona after a stellar month

The Swedish krona's rally since the start of February has dwarfed that of other G10 currencies. The drivers have been European stock outperformance, Ukraine-Russia peace deal optimism, soft US data, and an improved Swedish outlook. Our analysis suggests most short-term positives are in SEK's price, and we forecast EUR/SEK above 11.00 for most of 2025

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The Swedish krona has appreciated over 5% against the dollar and around 3.5% against the euro since the end of January, outshining any other developed market currency. It is now the second-best performing currency in the G10 year-to-date after the yen. This follows a prolonged period of stubborn rangebound trading for EUR/SEK, which had traded very close to the 11.50 mark for the whole of December and January.

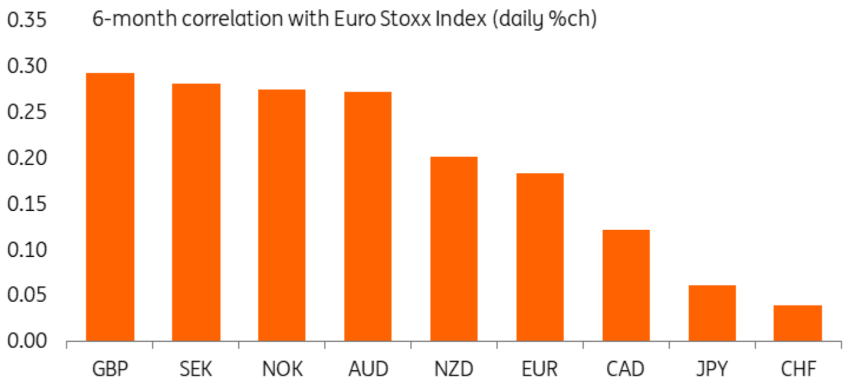
At the time of writing, EUR/SEK is trading at 11.10 after an intraday low of 11.01 yesterday, and we are understandably being asked by clients whether there are the conditions for a break below the key 11.00 mark. To answer this, we must analyse the three drivers of SEK's outperformance: upbeat European sentiment, softer US data, and the improved Swedish economic outlook.

Our conclusion at this point is that we can see short-term explorations below 11.00, but we expect EUR/SEK to trade back up to a 11.00-11.40 range in the central quarters of 2025 as markets seem to be already pricing most of the positives into SEK.

First driver: Upbeat European sentiment

The krona is reaping most of the benefit from the market's positive sentiment on European risk assets. The Euro Stoxx index has outperformed the S&P500 by around 12% since the start of the year, and recently seemed to benefit from hopes of a Ukraine-Russia peace deal alongside joint-EU defence spending plans. The krona has a natural high-beta to European sentiment, and a stronger correlation with European equities than the euro.

SEK benefits from European stock rallies more than the euro



Source: ING, Refinitiv

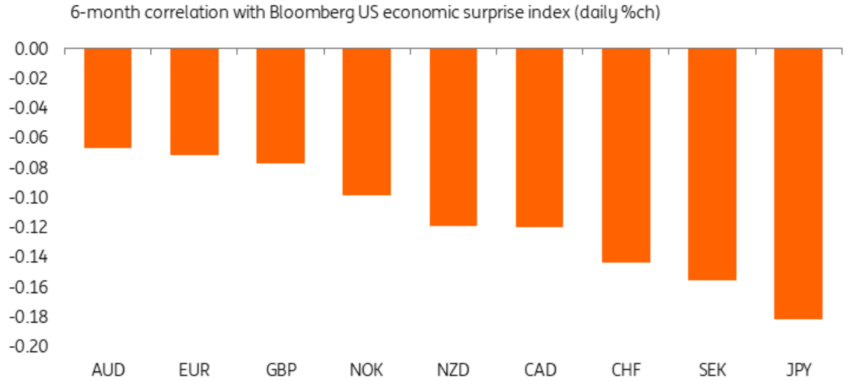
We suspect European sentiment is close to its peak. Our economics team is not hopeful that defence spending will materially revive stagnant eurozone growth, and we expect to see a negative impact from US tariffs on the EU from April (or even earlier). Incidentally, markets are close to fully pricing in a Russia-Ukraine peace deal, but the US's more confrontational stance against its allies means there are risks of a suboptimal deal for the EU and Ukraine that could lead to some geopolitical risk being priced back in along the way.

Second driver: Softer US data

The US macro story has deteriorated in the past few weeks, and that has supported the krona, which has a negative correlation with US economic surprise indicators and short-term US yields. Markets have increased dovish bets on the Federal Reserve, now pricing in 75bp of cuts by year-end.

The dollar's underperformance despite US tariffs on Mexico, Canada and China is a symptom of how the softening US consumer story is being taken very seriously by the FX market. In other words, markets seem to be doubting that Trump can keep his protectionist stance in place for very long given the deteriorating domestic picture.

SEK rises when US data disappoints



Source: ING, Macrobond

Admittedly, the latest data increases the dovish risks to our call for two Fed cuts by year-end but the Fed has also shown concern about the inflationary impact of Trump's policies. While tariffs can further weigh on consumers, they also carry significant inflationary risks. We would need to see not only further deterioration in US indicators beyond what is already priced in, but also limited inflationary concerns to justify much more upside for SEK coming from US macro.

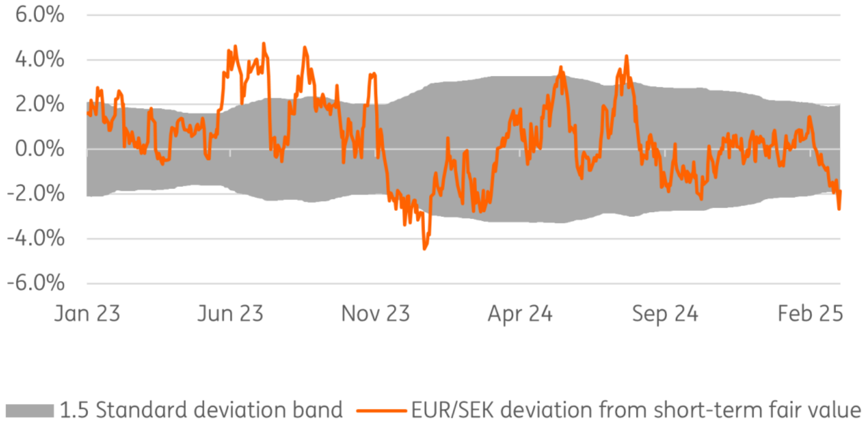
Third driver: Sweden's economic rebound

Sweden's improved economic outlook is not something that is being traded as actively as the other two drivers at the moment, but is in our view contributing to downside pressure on EUR/SEK. The Riksbank has cut rates 175bp from the 4% peak, providing much needed support to highly rate sensitive households. Economic indicators have improved, retail sales have recovered markedly, the housing market has rebounded, and the jobs market appears healthy despite a possibly spurious (supply-led) increase in the jobless rate in January.

Consequently, the Riksbank has signalled it is comfortable with the current rate of interest rates. We still think that one last 25bp cut is likely in order to give extra help to the economy once US tariffs hit, but markets are already pricing in 18bp.

We still think the Swedish economy will outperform the eurozone, and that could prevent a significant appreciation in EUR/SEK. In the medium term, it should actually favour a gradual depreciation in the pair towards its longer-term fair value, which sits around 10% below current levels, according to our calculations. That said, we cannot ignore the shorter-term risks to SEK highlighted above, and the growth differential may prove insufficient to take EUR/SEK much lower this year.

EUR/SEK is undervalued in the short-term



Source: ING

Our EUR/SEK call: Explorations below 11.0 possible, but may not last

As we write this note, EUR/SEK is currently trading on the strong side on the back of a European stock selloff. Still, the chances of a break below 11.0 should not be played down. There are two events on Thursday 6 March that could add pressure to the pair. The European Central Bank meeting, which may see President Christine Lagarde reiterate a dovish stance while delivering a widely expected 25bp cut, and Swedish inflation data, which is expected to point to a rebound in CPIF to 2.7%. We must also account for the slew of US data including Friday's payrolls; any more downside surprises are likely to favour the SEK more than the euro.

That said, the technical picture is starting to look stretched for EUR/SEK. According to our short-term fair value model, the pair is approximately 2% undervalued at 11.10, which is below the 1.5 standard deviation lower bound. While a dovish repricing in the EUR curve or hawkish repricing in the SEK curve would bring down the fair value for the pair, another 1%+ drop in EUR/SEK would almost surely keep it very cheap.

Our forecast for the end of 1Q, 2Q and 3Q is above 11.0 on the back of the SEK risks described above and stretched short-term undervaluation. The case for a move below 11.0 and towards 10.50 from 4Q25 until the end of 2026 is stronger now and would be justified by medium-term overvaluation. But we have learned that the market environment can now shift very rapidly, and we'll need to reassess our view as the entirety of President Trump's policies come into effect.

ING's updated EUR/SEK forecasts

End of period forecast

	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
EUR/SEK	11.10	11.20	11.20	11.00	10.90	10.80	10.70	10.60

Source: ING

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