

Sweden: Krona at multi-year low and decline isn't over yet

[SEK continues swimming naked](#). Despite reaching a new multi-year low vs the EUR, we look for further SEK weakness (to EUR/SEK 11.00) as both domestic and external factors weigh on the currency



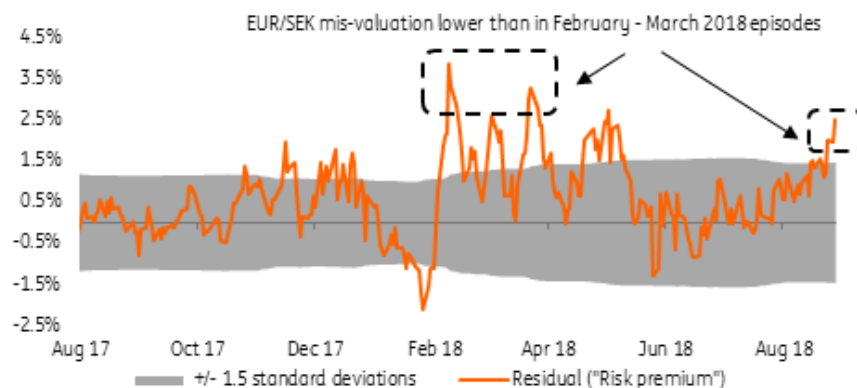
A new multi-year low

EUR/SEK broke above the May high of 10.6960 reaching the highest level since 2009. This is in line with our bearish SEK view and our non-consensus target of EUR/SEK 11.00 by the year-end.

Read [Swedish Krona: Swimming naked?](#)

SEK risk premium still below February / March 2018 levels

% residual (a gauge for risk premium) between EUR/SEK fair value and spot.



Source: ING

Domestic and external factors are still SEK negative

As per [Swedish elections: Muddy waters](#), we see the Swedish krona very vulnerable in the current environment as both domestic and external factors point to more SEK weakness. On the domestic side, the upcoming elections on 9 September should keep SEK risk premium in place (and even lead to further widening as the SEK discount vs EUR remains lower compared to the episodes earlier in the year – as shown in Figure 1).

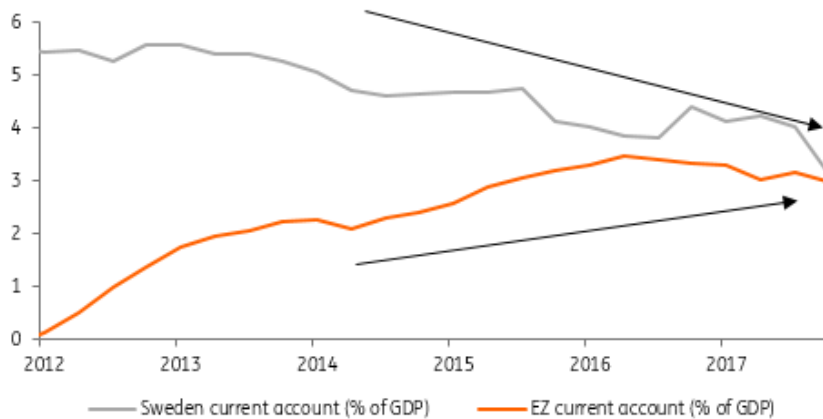
In addition:

- the dovish Riksbank (we don't expect the central bank to provide help to the battered SEK on the 6th September meeting – if anything we see a risk of a modestly dovish language),
- slowing economy (as per today's very weak July retail sales),
- deteriorating Swedish current account vs EZ (Fig 2), and
- cheap funding costs

should all keep SEK under pressure for the remainder of the year.

On the external side, the spectre of trade wars is a clear negative for SEK as Sweden is a small open economy, thus vulnerable to concerns about the direction of the global trade.

Swedish current account advantage deteriorating

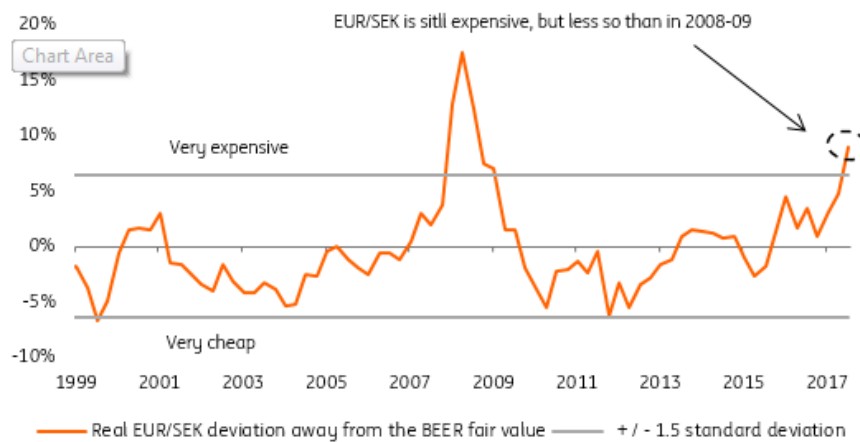


Source: ING, Macrobond

SEK to continue underperforming NOK

In the relative value space, we continue to favour long NOK/SEK positions as (a) elections will weigh on SEK and (b) the Norges Bank rate hike in September will support NOK. NOK/SEK to break above the 1.10 level rather soon.

SEK is cheap but lacks a catalyst for a reversal



Source: ING

SEK is cheap but no catalyst for a reversal

While we recognise the SEK medium term undervaluation vs EUR (13% based on our BEER valuation framework - as per Fig 3) - at this point there is a little catalyst for this mis-valuation to be corrected.

As is the case for sterling or the Turkish lira - two prime examples of undervalued currencies both in the G10 and EM FX space, where the sharp mis-valuation is unlikely to correct in the absence of a profound catalyst.

