

## Sweden: Another one bites the political dust

While the krona has edged higher on preliminary results of the Swedish election, we don't expect this to provide much lasting support to the currency



### SEK: Relatively benign election outcome unlikely to provide lasting support

Preliminary results of Sunday's Swedish general election have seen the centre ground lose votes to the populist Sweden Democrats, but not in large enough numbers to trigger a change in government – yet. The ruling centre-left Social Democrats have so far secured one more parliamentary seat (144 versus 143) than the opposition Moderates – and may be given the opportunity to try and form a new government within the next two weeks (note the final vote count won't emerge until Wednesday). Despite edging higher in early trading, this effective dead heat looks unlikely to give much lasting support to the krona. We see SEK weighed down by a dovish Riksbank, slowing activity and Sweden's exposure to global trade wars. EUR/SEK may find support at 10.40 but our year-end target is 11.00.

## **USD: Trade war escalation won't necessarily be US dollar positive; stay short USD/JPY**

The August Chinese trade data showing a record bilateral trade surplus with the US couldn't really have come at a worse time. We heard from President Trump on Friday that the White House is near ready with a package of 25% tariffs on Chinese imports. We still believe a trade war escalation won't be positive for the USD – which has been buoyed by cyclical US economic sentiment and related portfolio inflows. These would go into reverse if the US and China slapped further tariffs on each other – and we prefer to play this via short USD/JPY positions.

## **EUR: Looking for 1.15 to hold unless the ECB comes out uber-dovish this week**

The September ECB meeting (Thursday) will be the highlight of an otherwise politically driven week for the euro. We expect President Mario Draghi to be in taper autopilot mode – with market volatility, Italian fiscal policies and low core inflation doing little to divert the ECB from its current gradual QE taper plans. Bar delivering the first step of the pre-announced reduction of monthly QE purchases from €30 billion to €15 billion – we doubt the ECB's GDP or inflation forecasts will rock the boat. We see EUR/USD holding 1.15 on a potentially amicable US and EU trade meeting today.

## **GBP: Sniffing a bullish opportunity as short Brexit positions begin to unwind**

It's a tale of two political narratives for the pound right now. On one hand, all the noise out of the EU suggests that a Brexit Withdrawal Agreement is within touching distance; indeed 'do the deal' is the latest order that EU leaders are set to mandate their chief Brexit negotiator Michel Barnier with at an unofficial summit in Salzburg later this month (20 September) – which would effectively mean speeding up the process to resolve the Irish border backstop dispute and settle Britain's Article 50 exit from the EU. On the flip side, the UK political backdrop remains shambolic to say the least; parliament remains as divided as they have been since the dawn of Brexit on what the best way to exit the EU should be – which has only fuelled sentiment over a second Brexit referendum (or 'People's Vote') on the final withdrawal deal. Given these muddled political forces, we see GBP's reaction function as such: a concrete solution on the Irish border backstop that works for both the UK and the EU would trigger a positive re-pricing of GBP Brexit risks that would far outweigh any political rumblings in Westminster. Up until then, GBP's gains are set to be capped by a turbulent UK Party Conference Season that is likely to result in greater Brexit posturing as opposed to progress. While we expect the September Bank of England meeting to be a non-event (unchanged statement with limited Brexit references), positive UK data surprises may offer a reason for speculative short GBP investors to bail on their positions this week. July UK GDP today will need to beat the +0.1% MoM consensus for GBP/USD to reclaim 1.30.

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