



Theme #6: SEK to score with thaw

- The krona is not the main culprit of a lukewarm Swedish recovery. Rather the latter reflects a broader trend of DMs losing market share to EMs.
- But global recovery still positive for the high beta Swedish economy and SEK. Moreover, global growth is equity supportive which is bullish SEK.

Swedish growth numbers have disappointed repeatedly over the past 6-9 months, causing market participants to scale down their expectations for growth and policy normalization. This has in turn resulted in a gradual weakening of the SEK from around 8.40 vs. the EUR back in March/April last year to current levels around 8.90. Disappointing growth numbers are a reflection of subdued industrial activity, which in a small open economy like Sweden has also been weighing on consumer sentiment, job growth and domestic activity.

However, blaming the disappointing industrial activity on a strong krona is difficult when the currency is undervalued on all metrics (PPP, BEER, FEER), and the SEK REER not historically strong. Instead, the country breakdown of imports in Germany and Norway, Sweden's key export markets, shows developed markets continuing to lose market share to developing countries, suggesting the latter can now compete in major Swedish export areas like "machinery & transport equipment" where they previously have been small players. This is backed up when looking at hard data, with rising German imports mainly benefitting Central and Eastern Europe. The CE-4 market share of total German imports post-crisis has risen by 50% to around 12% of total. Meanwhile Norwegian imports are showing a similar but broader trend towards developing countries (including Asia) and away from the rest of the Nordics, Eurozone, US and UK. This of course very much goes against the popular view that DM imports might be decoupling from EM exports.

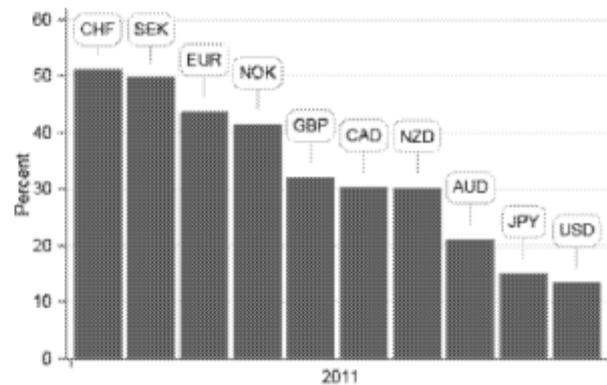
Nonetheless, whilst losing market share means an ongoing global recovery will be less of a driver of Swedish GDP growth, it will still be growth supportive, and given the degree of openness in the Swedish economy, more so than in most of the rest of G10. This is SEK positive, partly because it will mean market participants will have to re-assess the policy outlook, but more because it should translate into similar growth in corporate revenues. With Swedish stock valuations only in line with the longer-term average, this should also translate into higher equity prices. Global growth and higher equity prices are typically associated with a stronger SEK, and are factors more important than [an orderly] turnaround in the interest rate cycle in the US. Target a gradual move to 8.55 in EUR/SEK, with a stop @ 9.15. In options a3m EUR/SEK 8.65 put costs an indicative 52bp, and can be largely financed by selling a 3m EUR/SEK call with a strike around the more than 2y highs @ 9.15.

Figure 1: Albeit with a lag, the Swedish PMI is likely to follow USD and DEM PMIs higher



Source: Deutsche Bank, Bloomberg Finance LP

Figure 2: Exports of Goods & Services, Percent of GDP



Source: Deutsche Bank, Bloomberg Finance LP

Figure 3: SEK trade-weighted (TCW) & the US ISM



Source: Deutsche Bank, Bloomberg Finance LP