Trade Idea – Foreign Exchange

Further challenges ahead for Norway
18th March 2016

NOK climbs in face of interest rate cut

- The Norwegian Krone (NOK) appreciated in the face of a broadly anticipated 25bp interest rate cut by the Norges Bank yesterday, as crude prices resumed their ascent beyond $40/bbl*. The NOK is heavily correlated to the price of crude oil as its economy is underpinned by a large petroleum industry based on the Norwegian continental shelf. The currency has followed oil prices lower and weakened by 32%* on a trade weighted basis over the past three years (see Figure 1). While the latest rebound in oil prices and strong inflation numbers have allowed the NOK to bounce back from multi year lows, we anticipate that the second round effects of falling oil prices, through reduced oil investment and slowing wage growth, and an accommodative central bank will see the NOK reverse this trend in the coming month, particularly against the US Dollar.

Figure 1

Petroleum exports plunge

Krone tracks oil's descent

Economic impetus is weak

- In its Q1 ’16 monetary policy report, the Norges Bank painted a relatively bleak picture of the Norwegian economy. Growth numbers for 2016 and 2017 were cut by 0.3% and 0.1% respectively and unemployment was predicted to climb further from its current level (already at a 10 year high). The driver behind these austere forecasts is the continued decline of the oil sector. Investment in the petroleum sector fell by 15% in 2015 and is predicted to fall a further 12% in 2016 (should oil prices follow the path implied by the futures curve, Source: Norges Monetary Policy Q1 report, pg. 20) as oil corporations continue to have their margins squeezed. Unemployment in oil producing regions is on the rise and this is set to dampen wage growth in the year to come, keeping headline inflation anchored around the 3% level. This grim outlook, while uncertain, does highlight that risks to the Norwegian economy are currently skewed to the downside, which should cap any further gains in NOK.

Monetary policy to remain accommodative

- While the Norges Bank is currently a way off from implementing negative interest rates, like its Swedish and Danish neighbours, it did lower the predicted future path of the key policy rate by 0.2% by the end of this year. This would imply that a further rate cut is yet to come in 2016. However, the Norges Bank did appear cautious with regards to the potential for

*All figures quoted are sourced from Bloomberg unless stated otherwise.

For qualified and professional investors only, not for public dissemination – Past performance does not guarantee future results.
further rate cuts beyond this level as interest rates approach a “lower bound” and the potential for “macroeconomic imbalances” arise. Despite this, we believe that monetary policy looks set to remain accommodative for the foreseeable future as Norway continues to navigate its way through an uncertain economic landscape, which we think should help the NOK resume its decline against its major currency counterparts in weeks to come.

Investors wishing to express the investment views outlined above may consider using the following ETF Securities ETPs:

**Currency ETPs**

- **EUR Base**
  - ETFS Long NOK Short EUR (EUNO)
  - ETFS Short NOK Long EUR (NOEU)

- **GBP Base**
  - ETFS Long NOK Short GBP (GBNO)
  - ETFS Short NOK Long GBP (NOGB)

- **USD Base**
  - ETFS Long NOK Short USD (LNOK)
  - ETFS Short NOK Long USD (SNOK)

**3X**

- **Currency Baskets**
  - ETFS Bullish USD vs Commodity Currency Basket Securities (SCOM)
  - ETFS Bearish USD vs Commodity Currency Basket Securities (LCOM)

The complete ETF Securities product list can be found [here](#).
Important Information

This communication has been provided by ETF Securities (UK) Limited ("ETF Securities") which is authorised and regulated by the United Kingdom Financial Conduct Authority (the "FCA"). The products discussed in this document are issued by ETF Securities Foreign Exchange Limited ("FXL"). FXL is regulated by the Jersey Financial Services Commission.

This communication is only targeted at professional investors. In Switzerland, this communication is only targeted at Regulated Qualified Investors.

The information contained in this communication is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities. This communication should not be used as the basis for any investment decision. Historical performance is not an indication of future performance and any investments may go down in value.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

This communication may contain independent market commentary prepared by ETF Securities UK based on publicly available information. Although ETF Securities UK endeavours to ensure the accuracy of the content in this communication, ETF Securities UK does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this communication make no warranties or representation of any kind relating to such data. Where ETF Securities UK has expressed its own opinions related to product or market activity, these views may change. Neither ETF Securities UK, nor any affiliate, nor any of their respective, officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

ETF Securities UK is required by the FCA to clarify that it is not acting for you in any way in relation to the investment or investment activity to which this communication relates. In particular, ETF Securities UK will not provide any investment services to you and or advise you on the merits of, or make any recommendation to you in relation to, the terms of any transaction. No representative of ETF Securities UK is authorised to behave in any way which would lead you to believe otherwise. ETF Securities UK is not, therefore, responsible for providing you with the protections afforded to its clients and you should seek your own independent legal, investment and tax or other advice as you see fit.

Short and/or leveraged exchange-traded products are only intended for investors who understand the risks involved in investing in a product with short and/or leveraged exposure and who intend to invest on a short term basis. Potential losses from short and leveraged exchange-traded products may be magnified in comparison to products that provide an unleveraged exposure. Please refer to the section entitled “Risk Factors” in the relevant prospectus for further details of these and other risks.

Securities issued by FXL are direct, limited recourse obligations of FXL alone and are not obligations of or guaranteed by any of Morgan Stanley & Co International plc, Morgan Stanley & Co. Incorporated, any of their affiliates or anyone else or any of their affiliates. Each of Morgan Stanley & Co International plc and Morgan Stanley & Co. Incorporated disclaims all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might have in respect of this document or its contents otherwise arising in connection herewith.

The Morgan Stanley Indices are the exclusive property of Morgan Stanley & Co. Incorporated ("Morgan Stanley"). Morgan Stanley and the Morgan Stanley index names are service mark(s) of Morgan Stanley or its affiliates and have been licensed for use for certain purposes by ETF Securities Limited in respect of the securities issued by FXL. The securities issued by FXL are not sponsored, endorsed, or promoted by Morgan Stanley, and Morgan Stanley bears no liability with respect to any such financial securities. The prospectus of FXL contains a more detailed description of the limited relationship Morgan Stanley has with FXL and any related financial securities. No purchaser, seller or holder of securities issued by FXL, or any other person or entity, should use or refer to any Morgan Stanley trade name, trademark or service mark to sponsor, endorse, market or promote this product without first contacting Morgan Stanley to determine whether Morgan Stanley’s permission is required. Under no circumstances may any person or entity claim any affiliation with Morgan Stanley without the prior written permission of Morgan Stanley. 451

For qualified and professional investors only, not for public dissemination – Past performance does not guarantee future results.