Swedish economic performance fails to bolster falling SEK

- Despite witnessing improving inflation and the strongest growth rate in Europe, the Swedish Krona (SEK) has recently succumbed to Brexit induced uncertainty, falling 5.2% against the US Dollar in the past month. The Krona’s fall resulted from the strong economic links that Sweden has with the UK, accounting for 8% of Swedish exports and direct investment equivalent to 7% of Swedish GDP (Source: Riksbank Monetary Policy Report, July 2016). Prior to the UK’s decision to leave the EU, the near term prospects for the Kröna appeared promising (see Krona Strength to Resurface), but the uncertainty associated with outcome has altered the landscape, threatening the strength of international trade and business investment. Monetary authorities in Sweden have exhibited a more dovish tone in light of the Brexit, stating a “high level of preparedness to make monetary policy even more expansionary” should negative developments abroad affect confidence in the inflation target. The Riksbank’s’ policy stance raises the downside risk for SEK. As a result, we believe in coming months the SEK is likely to fall further, particularly against the US dollar where technical indicators have turned increasingly bearish in recent weeks.

Pleased but prepared

- At its latest monetary policy meeting, the Swedish central bank (or Riksbank) cited the success of incumbent monetary measures in buoying growth and nursing inflation towards its target level, but did so cautiously. All members of the Riksbank’s executive board noted that uncertainty over future economic developments (domestically and abroad) had risen sharply after the UK’s EU referendum. Accordingly the bank’s domestic growth forecasts had been revised lower and its anticipated increase to the benchmark repo rate was postponed by three months. It appears likely that monetary policy in Sweden will remain expansionary as the ramifications of the UK’s exit from the EU materialise, which should keep the SEK under pressure for some time.

Figure 1: USD/SEK to push higher

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

- Since April, a number of technical indicators have pointed towards a further rise in the USD/SEK (SEK weakening). The upward trend has been confirmed four times in the past three months with lows moving higher over the period (see Figure 1). Furthermore, at the beginning of this month the pair’s 50 daily moving average (DMA) crossed above its 100 day equivalent, a bullish indicator. Looking forward, if the USD/SEK breaks above the 8.63 level, something which it struggled to do earlier this year, the pair should see gains extend further.

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