Trade Idea – Foreign Exchange
Economic strength to support the Krona
26th February 2016

Riksbank pre-empts monetary easing abroad

- At its latest meeting the Swedish central bank (Sveriges Riksbank or the “Riksbank”) lowered its benchmark interest rate further into negative territory to −0.5%, the second lowest interest rate in the developing world behind Switzerland (currently −0.75%). The move is consistent with the Riksbank’s aim to pre-empt any loosening of monetary policy measures by the European Central Bank (ECB), in order to prevent a sharp appreciation in the SEK and a simultaneous fall in domestic inflation (see Figure 1). While the interest rate cut initially bolstered the EUR/SEK exchange rate, we expect this to reverse in the coming month. The Swedish economy is currently outperforming its counterparts in mainland Europe by some margin and we are beginning to see signs that the Riksbank’s use of interest rates is reaching its limit, thus we see risks to the EUR/SEK currency pair currently skewed to the downside.

Figure 1

Riksbank pre-empts the ECB

Negative rates support inflation

Source: Bloomberg, ETF Securities

Limit reached?

- Unlike the three previous rate cuts in 2015, the latest decision to cut interest rates was split, with two of the six members of the Riksbank’s Executive Board preferring to leave the rate unchanged. Those members highlighted the possibility that use of the interest rate in influencing the economy may be reaching a “limit” and that further cuts could not be made “without problems arising”. The concern is that the underlying fundamentals of the Swedish economy are strong and that inflation is likely to rebound in the medium term in any case. Furthermore, additional rate cuts risk damaging the nation’s banking sector. Therefore, despite rhetoric suggesting a willingness to do more, we believe it is unlikely that the Riksbank will cuts rates further without a significant catalyst.

Swedish economy shows strength

- The Swedish economy is currently growing at a blistering pace of 3.9% YoY, over double the pace of the Eurozone, and unemployment is at the lowest level in seven years (see Figure 2). Despite this economic outperformance the SEK has fallen almost 2% against the Euro in 2016 (Source: Bloomberg), reflecting the impact of the Riksbank’s dovish policy measures. In
coming weeks, we believe that the Riksbank’s reduced appetite for further rate cuts will allow markets to price in this relative strength and cause the SEK to recoup some of its recent losses against the Euro.

**Figure 2**

**Swedish growth soars**

**Unemployment continues to drop**

![Graph showing Swedish GDP YoY compared to Euro Area GDP YoY, and Sweden Unemployment Rate against Eurostat Unemployment Eurozone. Source: Bloomberg, ETF Securities.]

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

**Currency ETPs**

**EUR Base**
- ETFS Long SEK Short EUR (EUSE)
- ETFS Short SEK Long EUR (SEEU)

**GBP Base**
- ETFS Long SEK Short GBP (GBSK)
- ETFS Short SEK Long GBP (SKGB)

**USD Base**
- ETFS Long SEK Short USD (LSEK)
- ETFS Short SEK Long USD (SSEK)

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 ETFS 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 based on publicly available information. Although ETF Securities endeavours to ensure the accuracy of the content in this communication, ETF Securities 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 has expressed its own opinions related to product or market activity, these views may change. Neither ETF Securities, 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 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 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 is authorised to behave in any way which would lead you to believe otherwise. ETF Securities 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.

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