

FX Convictions

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Short EUR/SEK

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- **Strong Swedish economy and inflation above 2% justify a change in monetary policy bias by the Riksbank...**
- **...resulting in a higher Swedish krona**
- **Meanwhile, a temporary weaker euro because of profit taking will also result in a lower EUR/SEK**
- **Our target is 8.75 and our stop loss is at 9.85**

Bullish on Swedish krona

Recently, the much higher-than-expected Swedish economic data (GDP, Industrial production and inflation) have resulted in a strengthening of the Swedish krona versus the euro. We expect the Swedish krona to continue to outperform the euro in the coming 18 months for several reasons. We think that there are enough reasons for the Riksbank to conduct a less accommodative monetary policy. First, core and headline inflation have risen above the 2% target and we expect them to remain above this level for the remainder of this year. Second, the Swedish economy grew at a brisk pace of 4.4% y-o-y and 1.7% q-o-q in Q2, with fixed investment, net-exports and private consumption all contributing to economic growth. We expect economic growth to remain strong in the coming quarters. Finally, house prices have risen strongly and the housing market is considered to be in an overheating phase. All these factors together point at a possible change in communication by the Riksbank into a direction of lower monetary stimulus. This should result in a higher Swedish krona.

On the other hand, we think that the euro has run ahead of itself on the back of ECB tapering expectations. We expect ECB President Draghi to calm down these expectations in the near term. It is likely that this will happen at the 7 September ECB meeting. As a result, a wave of profit taking on long euro positions by speculators will probably result in a lower euro (temporary) across the board, also versus the Swedish krona.

We have added euro short versus Swedish krona to our list of high conviction views. Our target is at EUR/SEK 8.75 (forecast of December 2018) and our stop loss is at 9.85.

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