

Sweden Currency & Macroeconomic Highlights

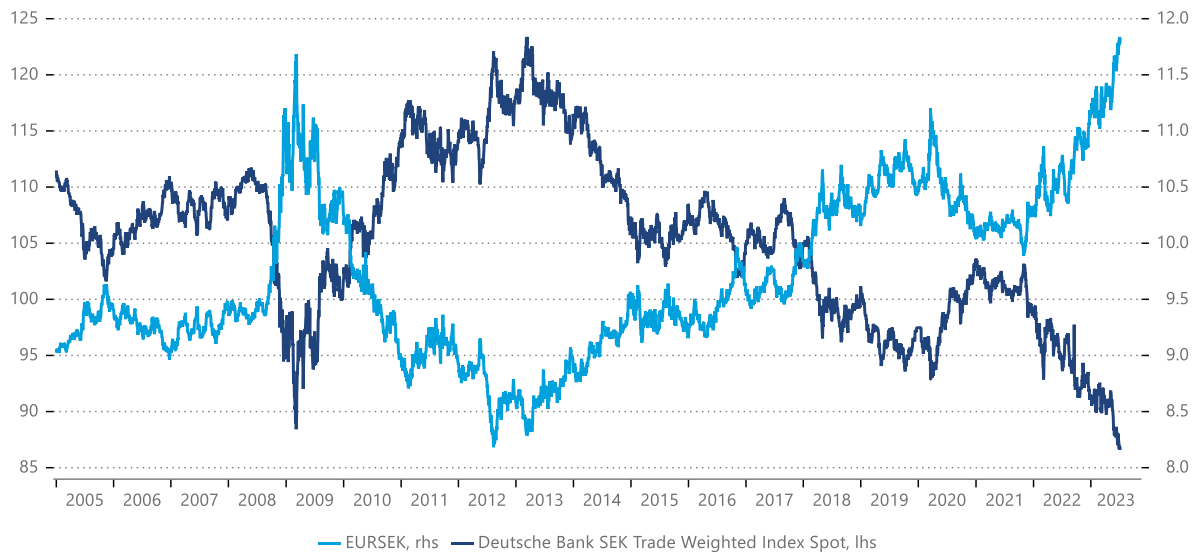


Swedish Krona: Macro and FX View

- The Swedish Krona (SEK) is weak on a historical trade-weighted basis.
- For most of last year, EURSEK has moved closely with its nominal 2-year rate differentials. A material repricing of the European Central Bank (ECB) in the second half of last year drove a weakening in the Krona relative to the Euro. Since then, rates have moved relatively closely in the two regions, marginally in favour of the Krona in the last month or so.
- However, the relationship between the currency and rates has recently broken down as investors shift their focus on the poor fundamentals of the economy and weak growth outlook. Sweden faces a difficult trade-off as the economy is sensitive to higher policy rates and particularly exposed to the industrial cycle, which continues to weaken. Recent sharp contractions in retail sales suggests household consumption is suffering from heavy debt burden. The economic backdrop is one where the Swedish economy is vulnerable to both residential and commercial real estate issues: high household indebtedness and high share of variable rate mortgages link the policy rate, household, and consumption, while Commercial Real Estate (CRE) loans make up one of the highest shares of total lending in G10.
- On the rates outlook, the Riksbank projections point to another 25bps hike in September, which is likely to be the last rate hike of the hiking cycle. Given its weaker domestic outlook and faster policy rate pass-through than the broader European economy, relative rate differentials could eventually move against SEK and so there is likely still scope for medium-term weakness.
- On the central bank's view on the currency itself, changes in the language of communication in the last policy meeting suggests a capitulation from the Riksbank on attempting to strengthen the currency via monetary policy channels (higher rates).
- Despite its poor fundamentals, we would be reluctant to short the currency here – the currency on our measures is undervalued (according to Purchasing Power Parity) and a consensus negative position for investors particularly amongst “real money” investors. While the string of downside surprises in the Euro area and China threatens the Krona through linkages within the broader European region, we remain somewhat constructive on broader (equity) risk sentiment stemming from our view that the US is on track for a soft landing.

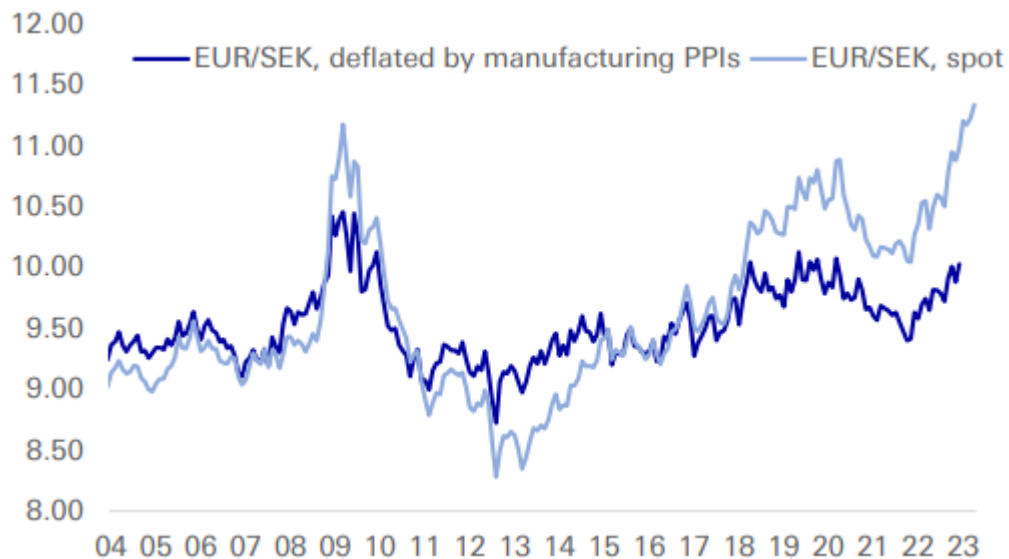
Selected Charts

Chart 1: SEK on trade weighted basis



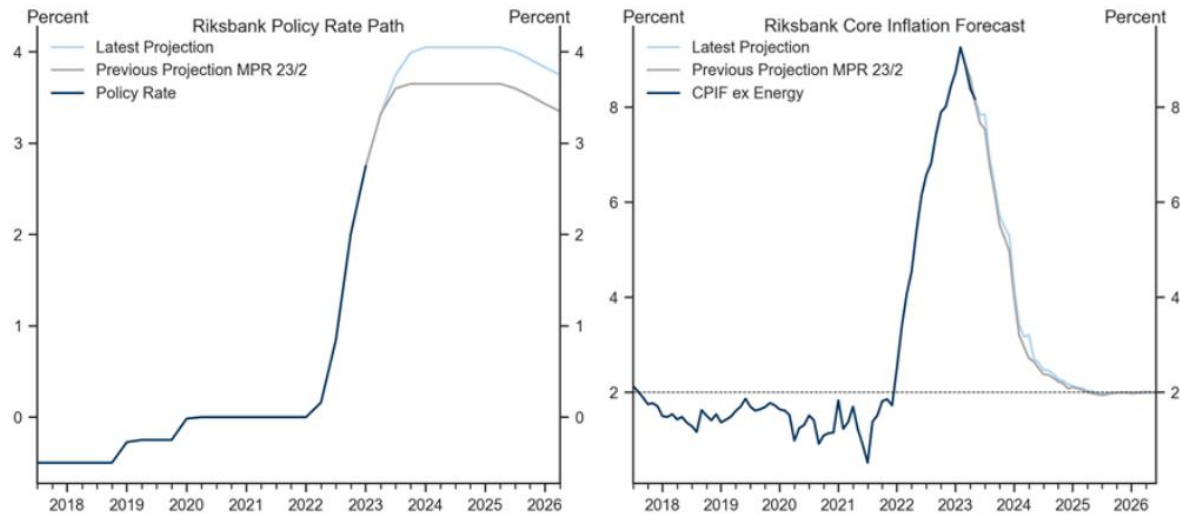
Source: Macrobond, Bloomberg, July 2023

Chart 2: SEK is cheap on a Purchasing Power Parity (PPP) basis



Source: Deutsche Bank, Bloomberg, June 2023

Chart 3: Riksbank projections

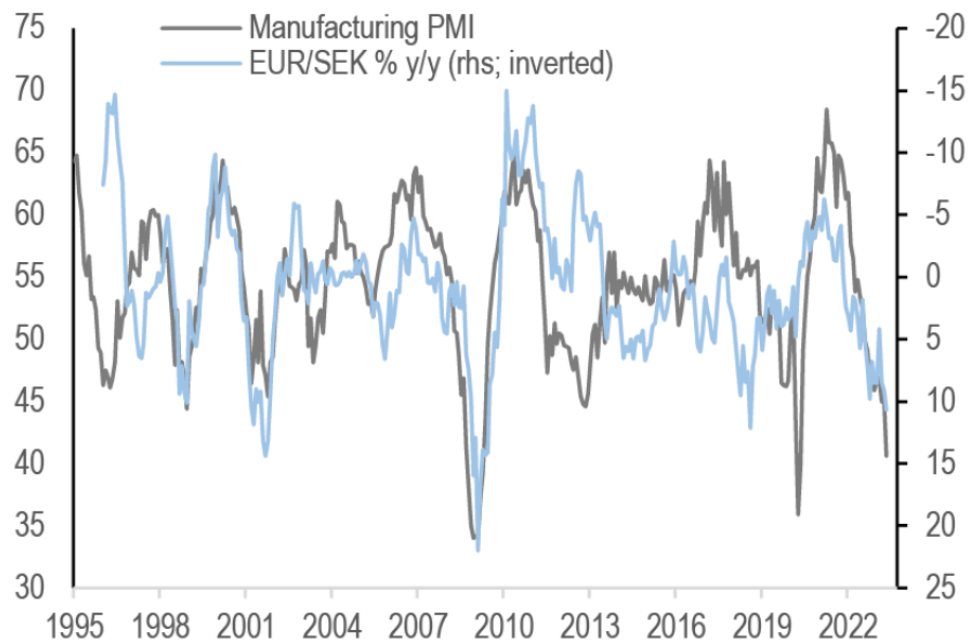


Source: Goldman Sachs Global Investment Research, Haver Analytics, Riksbank

Sourced: July 2023

Chart 4: Manufacturing Activity vs Currency

Sweden manufacturing PMI (lhs) vs EUR/SEK (y/y % change; rhs; inverted)



Source : Bloomberg L.P., J.P. Morgan

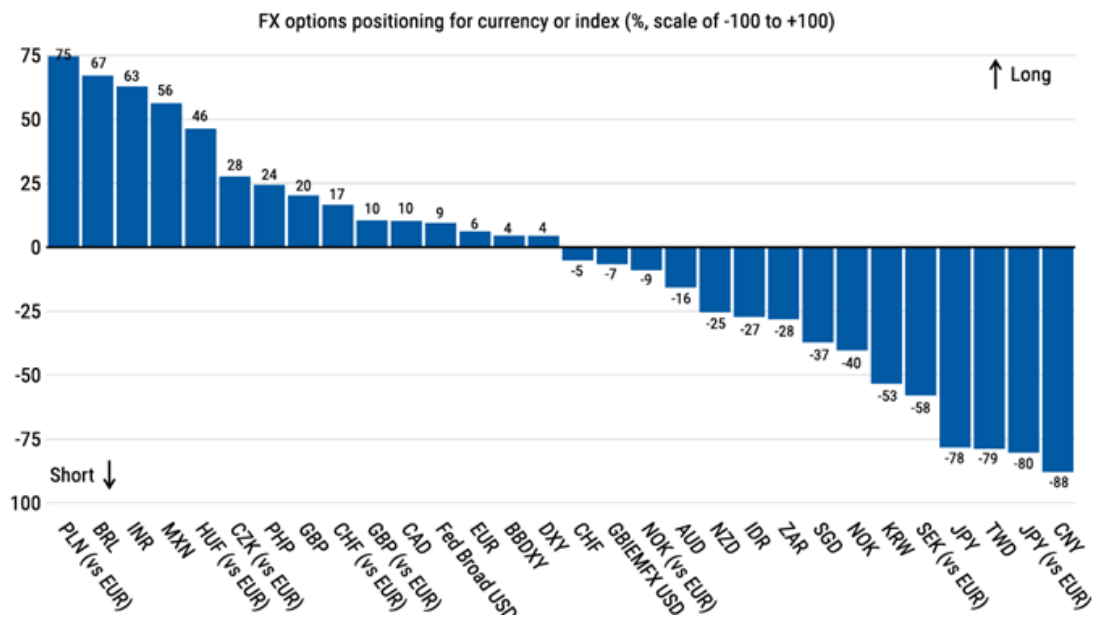
Sourced: July 2023

Chart 5: EURSEK vs 2Y Nominal yield differential



Source: Bloomberg, Macrobond, July 2023

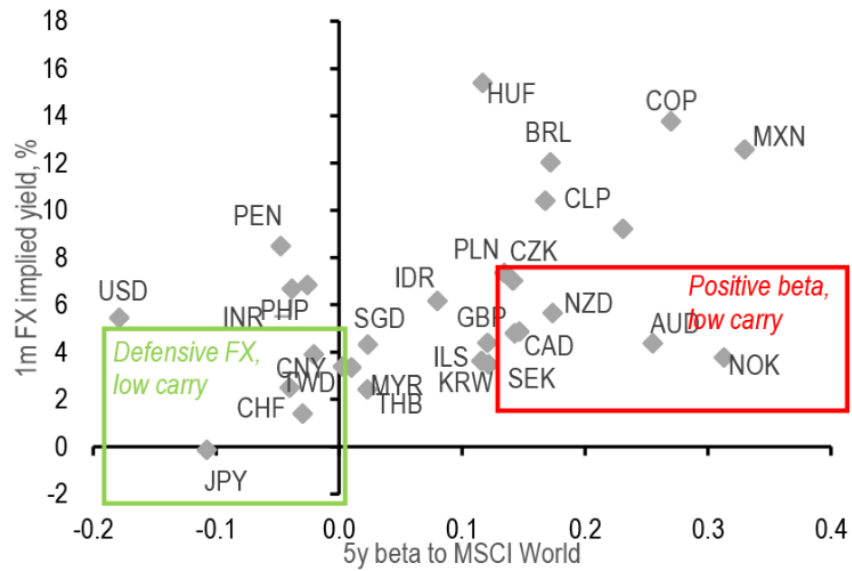
Chart 6: Positioning



Source: Morgan Stanley, July 2023

Chart 7: Currency “Beta” to global equity markets

1m FX implied yield (%) vs 5y beta to MSCI World equity index



Source: JPMorgan, July 2023

The views and opinions contained in this document are those of the Millennium Global Investments Economics Team, correct as at July 2023 and do not necessarily represent the views and opinions of Millennium Global Investments or any of its Portfolio Managers. Millennium Global Investments is authorised and regulated by the Financial Conduct Authority FRN 17109

This information is intended for Professional Clients only, not retail clients. This information does not constitute an offer to buy or a solicitation of an offer to sell and does not constitute an offer or solicitation in any jurisdiction in which such a solicitation is unlawful or to any person to whom it is unlawful. Please see Important Disclaimers on: <https://investments.millenniumglobal.com/regulatory-disclaimers>.