

## SWEDISH KRONA OUTLOOK

The Swedish Krona depreciated since 2013 with an average decline of 2 per cent per annum versus the Euro. This followed a sharp appreciation of the Krone lasting from 2009 to the end of 2012. At the highest point the Krone reached 11.57 to the Euro on the 9<sup>th</sup> of March 2009. In the aftermath the Krona appreciated until 8.25 versus the Euro on the 21<sup>st</sup> of August of 2012. From thereon both Government(s) and the Svenska Riksbank pursued an active gradual devaluation strategy of the Krona against the Euro.

What has happened now? The peak on the 19. of March 2020 has similar patters as on March 9<sup>th</sup> of 2009: Rather low volume trading currency compared to Euro or even the USD and a deep dependence of Sweden with international business partners, foremost still today Germany. Underlying is, for example, the increased financial uncertainty resulting from the spread of the coronavirus and all the expectations related to it. The key economic data from Sweden appeared to have stabilized in January. However, this is likely to be a short-term optimism due to the partial US-China trade agreement and Brexit in late January. Clearly, the main issue is and will be in the short term the Corona crisis that will cause volatility in the Krona foreign exchange market.

Economic uncertainty has abated in the short term. However, the indices may decline slightly in the near future due to the economic consequences of the coronavirus spread. The activity indices are currently signalling economic growth of around 1% in the near future.

The Swedish economy remains fragile after long years of doing very well. Over the past 2 years, annual economic growth has dropped from 2.7% in 2017 to 1.2% in 2019. At the same time, unemployment rose only slightly to 7.1% in January 2020 sinking since autumn 2019.

At the February interest rate meeting, Riksbank of Sweden left the base rate unchanged at zero%. The interest rate path, i.e. Riksbank's expectation of the key rate development continues to show that the key rate is likely to remain unchanged over the next few years. In January, the Riksbank's preferred inflation target, CPIF (i.e. inflation without mortgage costs), was

1.2%. This is slightly below the Riksbank's forecast of 1.6 per cent and is also the lowest inflation rate since last seen in September 2016. When viewed in isolation, the inflation data indicate that the likelihood of a rate cut has increased.

We believe the Krona should return in the mid range to 10.5 with fluctuations and higher volatility – in our opinion the range is likely to be 10.5 to 11.0. Notwithstanding, we still believe that the Krona could come under pressure in the near future given the high level of dependence of international trading partners due to the Corona virus situation. Our recommendation is to closely observe the current crisis, which is in contrast to 2008/2009 not due to financial imbalances but due to an external Black Swan event – the Corona Virus - and hopefully will leave as it came – in an unexpected and quick way.

The current spike is clearly due to an overreaction. Technically speaking its classical Dornbusch overshooting.....should anybody be bored during these days here is the read - Rüdiger Dornbusch (1976). "Expectations and Exchange Rate Dynamics". Journal of Political Economy.

## ICCI CAPITAL

