

FX commentary

EUR/SEK update

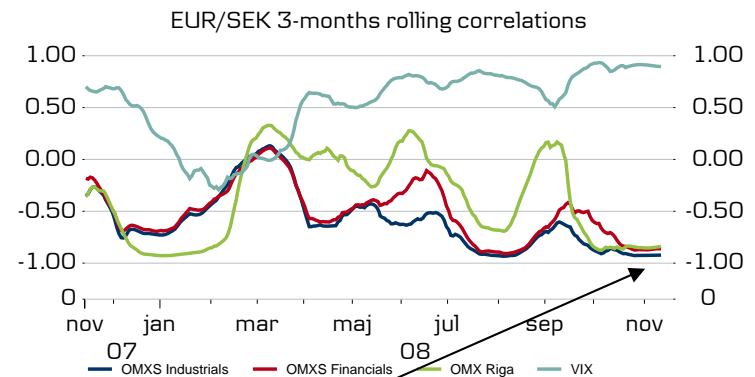
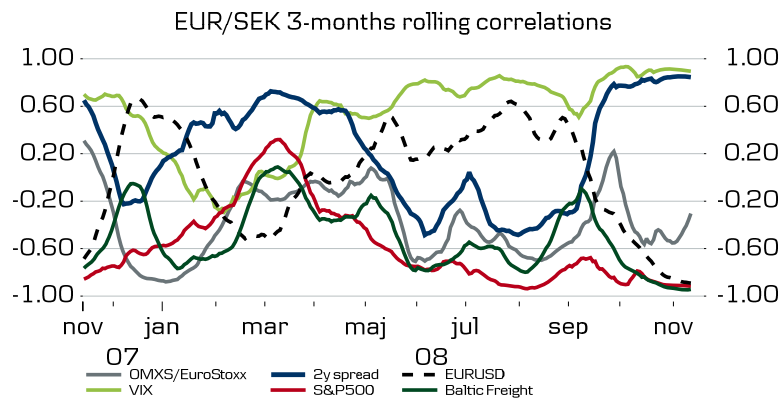
Thursday, 13 November 2008

Stefan Mellin
+46 8 568 805 92
mell@danskebank.se

EUR/SEK still risk on the upside

- Fear, solid risk aversion and continued deleveraging keep weighing on the SEK while EUR/SEK remains extremely volatile with 1M implied above 16% and intraday highs/lows over the last month often exceeding 20 figs.
- Reflecting the uncertainty it's also notable that normal SEK drivers currently exhibit extreme correlations; 3M rolling correlations with equities, risk sentiment proxies, Baltic freight, yield spread, USD are all close to 0.9 where direction-wise all of them back the recent increase in EUR/SEK. Relative equities however has supported the downside but correlation here has not been as strong lately.
- Overall, a lot of bad news is already priced in current EUR/SEK levels as our short-term financial model (STFM), while higher in the last few days, indicates fair value at around 9.85.
- From a long-term perspective EURSEK is now one of the most overvalued currency pairs in the G10 universe, but the near-term outlook suggests that substantial misalignment will not be adjusted any time soon.
- Our 1M target (forecast) at 10.10 has been met and while we forecast a SEK rebound in 2009 (6M forecast at 9.60) a turn around is not likely before risk sentiment improves markedly, stock markets find some ground (still very challenging times) and not least volatility comes down. The short-term risk in EUR/SEK therefore appears biased to the upside. The potential shock from a meltdown (devaluation?) in the Baltic region is another burden for the SEK. EUR/SEK might be seen as a proxy trade for the Baltic currencies as these markets do not function properly.
- Domestically, macro data will continue to deteriorate over the coming months; risk for a negative third quarter GDP, further weakness in the labour market but also expect frontloaded rate cuts by the Riksbank; 50bp in December while market is pricing in almost 100bp.
- Last week's week close at 10.06 was the first ever above 10.00. A week close above 10.06 would confirm the uptrend and a test of 10.17 (21 Oct high, "neckline") would be underway. A close below 10.00 would be SEK supportive.

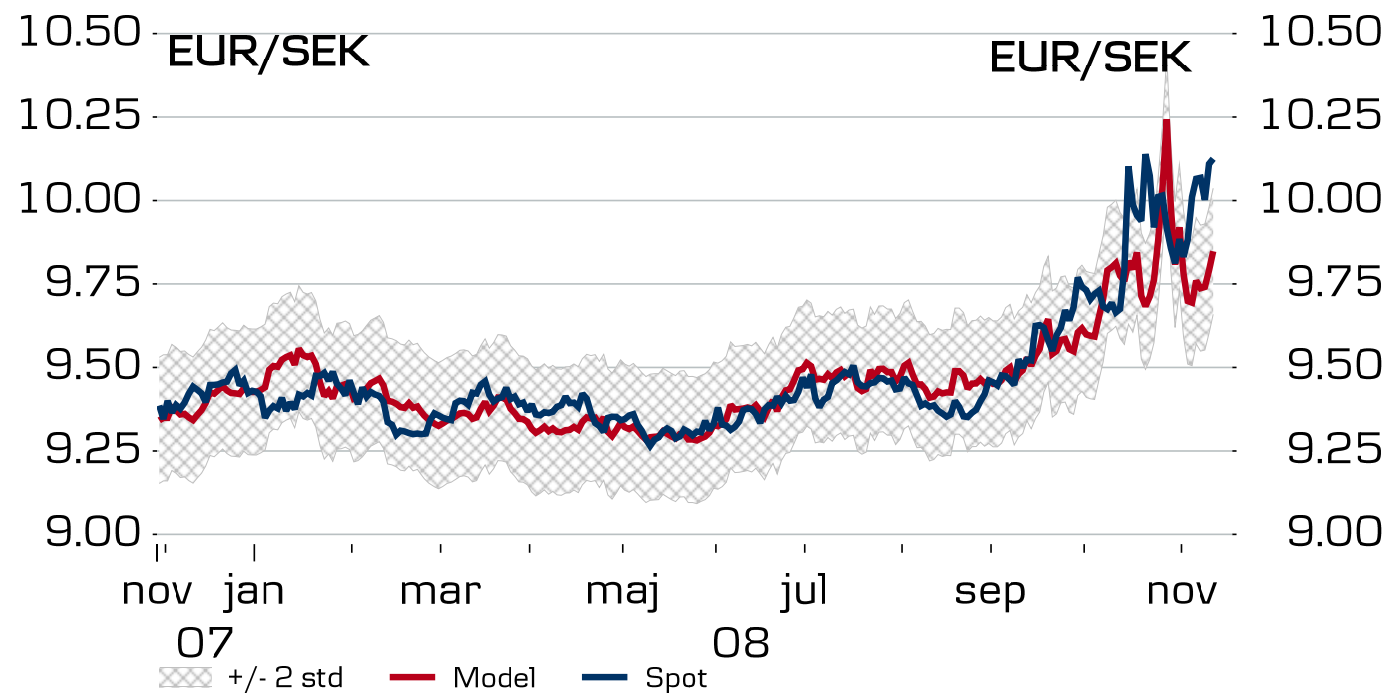
Extreme correlations with normal SEK drivers...



Witness the extreme correlation with industrial stocks - even higher (marginally) than with financials!



...but stretched according to our short-term financial model (STFM)



Model: Log MSCI, relative equities, FRA4 spread

- **Disclosure**
- *This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority.*
- *Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high quality research based on research objectivity and independence. These procedures are documented in the Danske Bank Research Policy. Employees within the Danske Bank Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and to the Compliance Officer. Research analysts are remunerated in part based on the over-all profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.*
- *Danske Bank research reports are prepared in accordance with the Danish Society of Investment Professionals' Ethical rules and the Recommendations of the Danish Securities Dealers Association.*
- *Financial models and/or methodology used in this report*
- *Recommendations and opinions in this research are formed based on a combination of Danske Bank's regression models using macroeconomic fundamentals and financial variables as input and a general market assessment. Various statistical methods are used to evaluate the market. Standard option pricing models are used in respect with derivatives.*
- *Risk warning*
- *Major risks connected with recommendations or opinions in this report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.*
- *Expected updates*
- *FX Crossroads is updated every week.*
- **Disclaimer**
- *This publication has been prepared by Danske Bank for information purposes only. It is not an offer or solicitation of any offers to purchase or sell any securities, currency or financial instrument. The evaluations, calculations, opinions and recommendations of the publication should not replace the making of own opinions about whether to make any such transaction. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it.*
- *Danske Bank, its affiliates or staff may perform business services, hold, establish, change or cease to hold positions in any securities, currency or financial instrument mentioned in the publication. Additional and/or updated information is available from Danske Bank. This publication is not intended for private customers in the UK or any person in the US. Danske Bank is regulated by FSA for the conduct and investment business in the UK and is a member of the London Stock Exchange.*
- *Copyright © Danske Bank A/S. All rights reserved. This publication is protected by copyright and may not be reproduced in whole or in part without permission.*
- *This report has been prepared by the correspondent of Auerbach Grayson & Company Incorporated ("AGC") named above on the date listed above. We are distributing this report in the U.S. and any U.S. person receiving this report and wishing to effect transactions in any security discussed herein, should do so only with a representative of Auerbach Grayson & Company Incorporated. Additional information on recommended securities is available on request.*