Danske Bank

Investment Research

FX commentary

Stock markets and the SEK – some details

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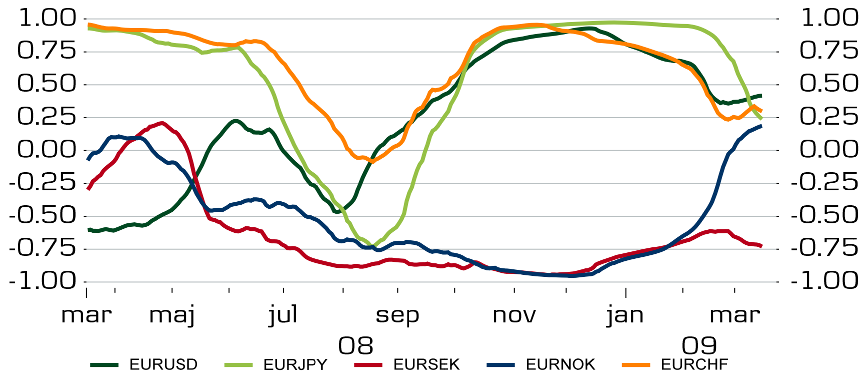
Stock market implications for the SEK

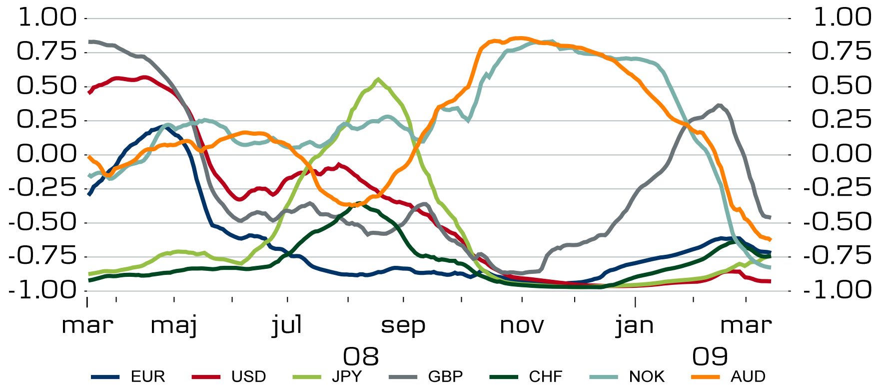
- **Global equity markets** have indeed been a **key driver** behind the historic depreciation of the SEK as well as its recent rebound. At least **two channels** can be identified: **risk sentiment** (primarily foreign investors) and **rebalancing flows** (primarily Swedish assets managers).
- At this point we are inclined to characterize the rebound in equities as a bear market rally, but either way it will continue to have **central implications for foreign exchange, not least the SEK**. As a short-term tactical trade we are short EURSEK (see "*Buy AUDJPY and sell EURSEK spot*", 16 Mar).
- Our calculations suggest that within G10 the **SEK, JPY and CHF have been the most susceptible to stock markets** over the last few years. While EURJPY has lost some correlation recently, EURSEK is still to a large extent stock market driven (upper chart).
- **SEK investors** betting on direction in the stock market should be careful which SEK pair to sell or buy. It might be well known that the best strategy **historically** has been trading SEK vs CHF, with JPY and EUR as 2nd and 3rd choice. **Last month's stock market correlation has increased in general and notably USDSEK is better correlated with S&P500 than all other G10 SEK crosses.** NOK, GBP and AUD should be avoided (lower chart and table).

SEK 100-day rolling correlation with S&P 500									
	CHF	JPY	EUR	USD	GBP	CAD	NOK	NZD	AUD
Mean since 2007	-0.78	-0.72	-0.53	-0.38	-0.14	0.00	+0.17	+0.25	+0.26
Last observation	-0.74	-0.74	-0.72	-0.93	-0.46	-0.77	-0.82	+0.13	-0.63

S&P 500 100D rolling FX level correlation



SEK crosses 100D level correlation vs S&P 500



Source: Ecowin, Danske Bank

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