

# FX Trading Portfolio

## Buy EUR/SEK on dovish Riksbank

- **Buy EUR/SEK at 10.73, target 11.00, stop loss at 10.58**
- **We expect the Riksbank to signal a delayed rate hike on Thursday**
- **Substantial room for re-pricing and a weaker SEK**

As outlined in *FX Strategy – EUR/SEK: Winter is coming, 11 October*, we foresee no imminent turnaround in the SEK's trend decline but instead believe that EUR/SEK will breach 11.00 by year end on the basis of weak Swedish fundamentals and the Riksbank cutting rates back to -0.50 in February. As a first step, we expect the Riksbank to signal a delay of the intended next rate hike at Thursday's meeting. We expect at least a verbal intervention stating the hike will come in February rather than December. Most likely it will be accompanied by a shift in the repo rate path too. Current pricing indicates +8bp in December (then flat), which is overly aggressive from our perspective. *In other words, we see scope for a substantial repricing should the Riksbank start to quiver, which should be accompanied by a substantial move higher in EUR/SEK.*

**We recommend buying EUR/SEK at 10.73 with a target at 11.00 and a stop loss at 10.58.**

### Buy EUR/SEK

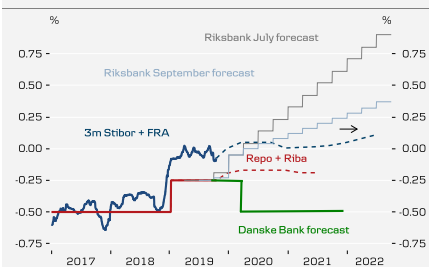
<b>Instrument:</b>	Spot
<b>Entry level:</b>	10.7300 (spot)
<b>Soft target:</b>	11.0000
<b>Hard stop-loss:</b>	10.5800

#### RIBA: 33% chance for December hike

30 okt	+0
08 jan	+8
19 feb	+0
29 apr	+0
08 jul	+0
23 sep	+0
02 dec	+0
17 feb	+0
<b>Σ</b>	<b>+8</b>

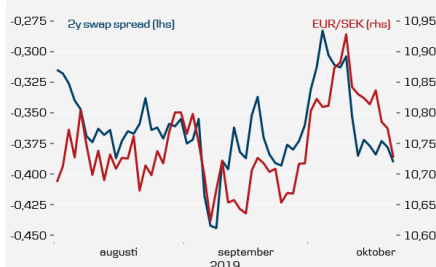
Source: Danske Bank

#### Room for dovish re-pricing



Source: Macrobond Financial, Riksbank, Danske Bank

#### Softer Riksbank set to weigh on SEK



Source: Macrobond Financial, Danske Bank

We are in the midst of a cyclical slowdown with sluggish GDP growth, falling resource utilisation and a deteriorating labour market (although the details on the latter remain clouded for the time being). Domestic demand has been weak for quite some time and inflation has fallen substantially below the 2% target. Lately this has also started to negatively affect inflation expectations, which we believe the Riksbank will have to address at some point. Moreover, the Fed and, most importantly, the ECB have eased policy on the back of an increasingly gloomy global growth outlook – an environment ill-suited for the SEK.

We have seen the krona strengthening the past couple of days, seemingly on positive Brexit-related headlines. We believe the importance of this will diminish come the Riksbank (Thursday), which will set the tone for the SEK. Herein also lies the biggest risk to our call – should the Riksbank keep its year-end hike on the table, the krona is set to strengthen further. With the latest inflation print spot on the Riksbank's forecast and the uncertainty regarding the labour market developments, this is not entirely far-fetched. We do believe, however, that we are due for a dovish shift from the Riksbank.

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# FX trading portfolio overview

Table 1: Danske Bank FX Trading Portfolio summary for 2018-present

	#	Cumulative Return	Average Return
Profitable	16	27.7%	1.7%
Neutral	1	N/A	N/A
Loss-Making	9	-18.8%	-2.1%
All Trades	26	8.8%	0.3%

Source: Bloomberg, Danske Bank

Table 2: Open trades

Trade	Opened	Entry	Closed	Current	PnL
Buy EUR/SEK spot outright	21/10/19	10.73		-	0.0%

Source: Bloomberg, Danske Bank

Table 3: Closed trades

Trade	Opened	Entry	Closed	Close level	PnL
Short USD/RUB spot outright	05/12/17	58.7309	18/01/18	56.4990	4.4%
Long USD/SEK spot outright	22/01/18	8.0190	25/01/18	7.8450	-2.1%
Short EUR/NOK spot outright	05/03/18	9.6541	16/03/18	9.4950	1.7%
Long NOK/SEK spot outright	05/12/17	1.0144	16/04/18	1.0870	7.6%
Sell EUR/USD spot outright	17/04/18	1.2400	24/04/18	1.2203	1.6%
Sell NOK/SEK spot outright	25/05/18	1.0755	13/06/18	1.0739	0.1%
Short EUR/HUF spot outright	05/12/17	314.0400	14/06/18	322.00	-2.5%
Sell EUR/NOK spot outright	11/09/18	9.7125	19/11/18	9.6425	1.0%
Sell EUR/SEK spot outright	19/12/18	10.32	08/01/19	10.1850	1.3%
Short NZD/CAD spot outright	03/12/18	0.9125	17/01/19	0.8958	1.8%
Short EUR/HUF spot outright	03/12/18	322.84	21/01/19	317.58	1.6%
Short EUR/NOK spot outright	01/03/19	9.74	08/03/19	9.85	-1.0%
Sell EUR/NOK via 2M 9.6130-9.8900 EUR/NOK risk reversal	12/03/19	9.74	10/05/19	10.16	0.0%
Long CAD, AUD, NZD vs JPY	08/04/19	100.00	13/05/19	97.00	-3.0%
Long USD carry basket vs JPY, SEK, CHF	03/12/18	100.00	04/06/19	101.5540	1.6%
Long NOK/SEK spot outright	03/12/18	1.0569	05/06/19	1.0825	3.2%
Sell AUD/NOK spot outright	21/05/19	6.0375	28/06/2019	5.98	0.9%
Buy 3M USD/NOK ATM straddle (strike 8.5470)*	24/04/19	8.58		9.10	-0.9%
Sell USD vs equal weighted CHF, MXN and NOK	20/06/19	100.0	01/08/19	98.1	-1.9%
Buy 3M USD/JPY ATM straddle (strike 109.99)	06/05/19	110.80	06/08/19	106.52	0.7%
Long EUR/USD via 9M 1.1475 call financed by sold 3M 1.1200 straddle	03/12/18	1.13	03/09/19	1.1164	-1.8%
Sell SEK/JPY spot	30/08/19	10.91	12/09/19	11.2200	-2.9%
Buy USD vs equal weighted CNH and MXN	29/08/19	100.00	13/09/19	97.3200	-2.7%
Sell EUR/NOK spot outright	09/09/19	9.8850	19/09/19	9.8900	0.0%
Buy EUR/HUF spot	31/08/19	331.11	11/10/19	331.7500	0.2%

Source: Bloomberg, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Stefan Mellin (Senior Analyst) and Jesper Petersen (Analyst).

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