The Aerial View
Morning Briefing

Carry on with the Krona

- The eurozone is a source of pessimism in Sweden
- Belief in Riksbank's caution is justified
- SEK's role in the carry trade not so straightforward

The Swedish economy is by no means an under-performer - as we have noted - but the currency has been under some pressure since Thursday's unexpected spike in the unemployment rate.

Although employment has continued to rise, a full 0.6% point spike in the unadjusted jobless rate caught the market by surprise, and it came just days after a confidence-sapping 2.8% monthly drop in industrial orders.

Despite the increase, the unemployment rate remains around a 10-year low, but the market was not in the mood for reassurances given that the order figures were a hint of what lies ahead for the export-orientated Swedish economy.

While domestic orders dropped 1.6% m/m, export orders fell by 2.3% in a stern reminder of the growing gloom surrounding the economic outlook of Sweden's principal trading partner: the eurozone.

No sooner had the ECB slashed its 2019 GDP growth forecast by a hefty 0.6% points last month, than the OECD downgraded its own assessment of the Swedish economy;

Newswatch

1. Saudi Arabian oil minister assures on 'balance' in the market >

2. BOJ's Maeda stresses possibility of policy easing "If the economy's momentum for achieving our price target is threatened" >
and although Riksbank is no longer fighting deflation, the time and effort it has spent doing just that is reason enough to expect a suitably cautious approach to policy.

**Talk of the SEK’s resumed role as a funding currency is understandable**

Indeed, amid the latest run of weak European data (culminating in Wednesday’s weak PMIs), Riksbank has reiterated Governor Stefan Ingves’ observation last month that the “repo rate path is a forecast, not a promise”. And just possibly, Riksbank’s policy stance is now slowly aligning with the IMF’s views on Swedish monetary policy.

Either way, with confidence growing that Riksbank is not about to promote currency strength (directly or indirectly) with any allusions to a hike in the (-0.25%) repo rate, talk of the SEK’s resumed role as a funding currency is understandable. However, timing might be key to its success because SEK volatility has slumped to some interesting levels.

Although EUR/SEK experienced a prolonged period of low volatility from 2004 to 2008, on a one-month (historical, close-on-close) basis, it has only been lower than its present level on 59 days since the start of 2010, and half of this can be accounted for in two years: 2014 and 2017.

Notably, the highest average monthly volatility through any one year since 2010 came in 2015 (i.e. the year after a slump), although no appreciable rebound from low volatility came in 2018.

**One month historical volatility has only been lower than present on 280 days in the 10,703 days that have elapsed since 1990**

Things are a little more interesting for USD/SEK, however.

---

3. UK’s National Conservative Convention to debate ‘no confidence’ in Theresa May >

4. ECB’s Couere sees "no reason" for tiered deposit rate but stresses need to keep an eye on developments >

---

**On the Radar**

April 23, 2019

- EZ Apr consumer confidence (flash) (1500 GMT+1): Reuters consensus forecast -7.0; previous -7.2
- US Mar new home sales (1500 GMT+1) previous 0.667 mn, consensus forecast 0.650
- Federal Reserve – chairs meeting to discuss transparency of bank takeover rules
In USD/SEK, one-month historical volatility has only been lower than present on 280 days in the 10,703 days that have elapsed since 1990; and nearly 80% of those days can be accounted for in just three years: 1990, 1996 and 2014. Hence the fact that vol is now at its lowest levels in five years is not without significance.

But as a final point, it may interest readers to know that each subsequent year (i.e. 1991, 1997 and 2015) occupy three of the top four spots when we look at the largest year-on-year increases in (12-month average) historical volatility since 1990 (the other, unsurprisingly, being 2008). And for these three years, the bounce back has averaged 55%.

The month-long reprieve for the SEK may be over, but those warming to the idea of the currency’s renewed role as a vehicle in the carry trade would be well advised to take note of historic trends that may or may not have relevance to the present.

Please direct questions or comments to:

AerialView@BNYMellon.com
BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may be used as a generic term to reference the corporation as a whole and/or its various subsidiaries generally. This material and any products and services may be issued or provided under various brand names in various countries by duly authorized and regulated subsidiaries, affiliates, and joint ventures of BNY Mellon, which may include any of the following. The Bank of New York Mellon, at 225 Liberty St, NY, NY USA, 10286, a banking corporation organized pursuant to the laws of the State of New York, and operating in England through its branch at One Canada Square, London E14 5AL, UK, registered in England and Wales with numbers FC005522 and BR000818. The Bank of New York Mellon is supervised and regulated by the New York State Department of Financial Services and the US Federal Reserve and authorized by the Prudential Regulation Authority. The Bank of New York Mellon, London Branch is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV, a Belgian public limited liability company, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, authorized and regulated as a significant credit institution by the European Central Bank (ECB), under the prudential supervision of the National Bank of Belgium (NBB) and under the supervision of the Belgian Financial Services and Markets Authority (FSMA) for conduct of business rules, and a subsidiary of The Bank of New York Mellon. The Bank of New York Mellon operates in Ireland through its branch at 160 Queen Victoria Street, London EC4V 4LA, UK, registered in England and Wales with numbers FC29379 and BR014361. The Bank of New York Mellon SA/NV (London Branch) is authorized by the ECB and subject to limited regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request. The Bank of New York Mellon SA/NV operating in Ireland through its branch at 4th Floor Hanover Building, Windmill Lane, Dublin 2, Ireland trading as The Bank of New York Mellon SA/NV, Dublin Branch, is authorized by the ECB and is registered with the Companies Registration Office in Ireland No. 907126 & with VAT No. IE 9578054E. The Bank of New York Mellon, Singapore Branch, subject to regulation by the Monetary Authority of Singapore. The Bank of New York Mellon, Hong Kong Branch, subject to regulation by the Hong Kong Monetary Authority and the Securities & Futures Commission of Hong Kong. If this material is distributed in Japan, it is distributed by The Bank of New York Mellon Securities Company Japan Ltd, as intermediary for The Bank of New York Mellon. If this material is distributed in, or from, the Dubai International Financial Centre (“DIFC”), it is communicated by The Bank of New York Mellon, DIFC Branch, regulated by the DFSA and located at DIFC, The Exchange Building 5 North, Level 6, Room 601, P.O. Box 506723, Dubai, UAE, on behalf of The Bank of New York Mellon, which is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. This material is intended for Professional Clients only and no other person should act upon it. Not all products and services are offered in all countries.

The information contained in this material is intended for use by wholesale/professional clients or the equivalent only and is not intended for use by retail clients. If distributed in the UK, this material is a financial promotion.

This material, which may be considered advertising, is for general information purposes only and is not intended to provide legal, tax, accounting, investment, financial or other professional advice on any matter. This material does not constitute a recommendation by BNY Mellon of any kind. Use of our products and services is subject to various regulations and regulatory oversight. You should discuss this material with appropriate advisors in the context of your circumstances before acting in any manner on this material or agreeing to use any of the referenced products or services and make your own independent assessment (based on such advice) as to whether the referenced products or services are appropriate or suitable for you. This material may not be comprehensive or up to date and there is no undertaking as to the accuracy, timeliness, completeness or fitness for a particular purpose of information given. BNY Mellon will not be responsible for updating any information contained within this material and opinions and information contained herein are subject to change without notice. BNY Mellon assumes no direct or consequential liability for any errors in or reliance upon this material.

This material may be distributed or used for the purpose of providing any referenced products or services or making any offers or solicitations in any jurisdiction or in any circumstances in which such products, services, offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements.

The terms of any products or services provided by BNY Mellon to a client, including without limitation any administrative, valuation, trade execution or other services shall be solely determined by the definitive agreement relating to such products or services. Any products or services provided by BNY Mellon shall not be deemed to have been provided as fiduciary or adviser except as expressly provided in such definitive agreement. BNY Mellon may enter into a foreign exchange transaction, derivative transaction or collateral arrangement as a counterparty to a client, and its rights as counterparty or secured party under the applicable transactional agreement or collateral arrangement shall take precedence over any obligation it may have as fiduciary or adviser or as service provider under any other agreement.

Pursuant to Title VII of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the applicable rules thereunder, The Bank of New York Mellon is provisionally registered as a swap dealer with the Commodity Futures Trading Commission (“CFTC”) and is a swap dealer member of the National Futures Association (NFA ID 0420890).

BNY Mellon (including its broker-dealer affiliates) may have long or short positions in any currency, derivative or instrument discussed herein. BNY Mellon has included data in this material from information generally available to the public from sources believed to be reliable. Any price or other data used for illustrative purposes may not reflect actual current conditions. No representations or warranties are made, and BNY Mellon assumes no liability, as to the suitability of any products and services described herein for any particular purpose or the accuracy or completeness of any information or data contained in this material. Price and other data are subject to change at any time without notice.

Rates: neither BNY Mellon nor any other third party provider shall be liable for any errors in or delays in providing or making available the data (including rates, WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates) contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence. The WM/Reuters Intra-Day Spot Rates and WM/Reuters Intra-Day Forward Rates are provided by The World Markets Company plc (“WM”) in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees' negligence.

The products and services described herein may contain or include certain “forecast” statements that may reflect possible future events based on current expectations. Forecast statements are neither historical facts nor assurances of future performance. Forecast statements typically include, and are not limited to, words such as “anticipate”, “believe”, “estimate”, “expect”, “future”, “intend”, “likely”, “may”, “plan”, “project”, “should”, “will”, or other similar terminology and should NOT be relied upon as accurate indications of future performance or events. Because forecast statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict.

This document is intended for private circulation. Persons accessing, or reading, this material are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction. Currency Administration is provided under and subject to the terms of a definitive agreement between BNY Mellon and the client. BNY Mellon exercises no investment discretion thereunder, but acts solely pursuant to the instructions in such agreement or otherwise provided by the client. Unless provided by definitive agreement, BNY Mellon is not an agent or fiduciary thereunder, and acts solely as principal in connection with related foreign exchange transactions.

All references to dollars are in US dollars unless specified otherwise.

This material may not be reproduced or disseminated in any form without the prior written permission of BNY Mellon. Trademarks, logos and other intellectual property marks belong to their respective owners.

The Bank of New York Mellon, member FDIC.

© 2017 The Bank of New York Mellon Corporation. All rights reserved.