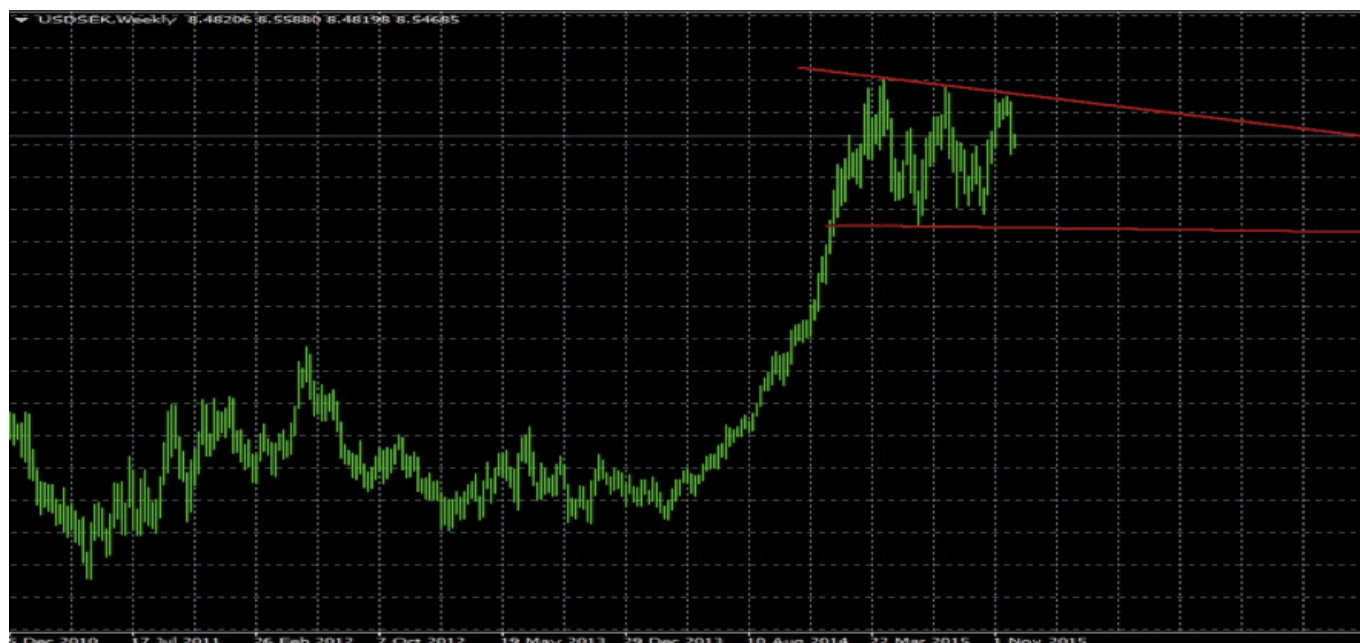


USD - The new carry trade?

Stockholm (HedgeNordic) - The USDSEK has been in the range between 8:01 and 8.88 since April this year and found a new bottom at 8:09 in the middle of October. The price has steadily risen and is now in the upper region of the range. The Riksbank also embarked on its own share of the global "currency war" through new stimulus packages and would preferably like to see the dollar strengthened further against the Swedish krona, which has also been the impact of the announced support purchases at home and an expected interest rate hike from the Federal Reserve on the 16th December.

The economic data published in the US has been strong since the Fed's latest meeting and Janet Yellen has indicated that a potential hike is in the pipeline. The market assesses the probability at around 70% and Friday's US Non-farm payrolls at 211k, above the 201k forecast has fuelled the expectations of a rise even further. If the United States raises the rates as the first country in the G8, it will signal a tightening of monetary policy, something that has not occurred since 2006.



Given that the stock market's surge in recent years has largely been due to very low interest rates and "cheap money" through asset purchases, a tightening will most likely lead to a significantly weakened risk appetite in the market which might trigger a bearish sentiment in the market. In a scenario where a potential fall in the stock market leads to an increasingly weak risk appetite, capital flows into the US dollar as a safe haven currency could contribute to the USDSEK breaking the range and take it up to 9.00 for the first time since March 2009. This brings up the prospects that the USD will be the new "carry trade" whereby investors sell a certain currency with a relatively low interest rate and uses the funds to purchase a different currency yielding a higher interest rate. This together with the broad technical outlook favors further USD gains well into 2016.

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