

Forex Focus: Swedish Krona Steps Into Spotlight

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A DOW JONES NEWSWIRES COLUMN

LONDON (Dow Jones)--A survey of the global currency landscape is hardly a pretty picture.

With their economies barely limping out of recession, the Group of 4 nations are more concerned with keeping liquidity levels high and their currency levels low.

Commodity-driven economies and those with better balance sheets may look like a better option but their currencies are now looking expensive.

This leaves only one rally bright spot on the currency canvas--the Swedish krona.

Demand for the Swedish currency has been hampered in recent weeks as elections loomed and then left the country with a hung parliament.

The center-right government of Prime Minister Frederik Reinfeldt is still negotiating with opposition parties but it could still end up with a majority if irregularities in one district force a repeat vote there.

However, the whole election is becoming much less of an issue.

Not only has Sweden coped successfully with minority governments many times before but, unusually, the center-right has been returned to power for a second term in a row and support for the left has fallen to the lowest levels since 1914.

With politics out of the way, the strong fundamentals of the Swedish economy can now shine and the outlook for the krona become more favorable.

With growth this year expected to reach 4.6% before slipping a little to 3.5% in 2011, Sweden comes out on top as far as western European countries are concerned.

Of course, exports into the rest of Europe contribute to this strong growth profile but so does a healthy domestic demand that is helping to keep the country ahead of its faltering neighbors.

The Riksbank has already hiked Swedish interest rates since the world started to recover from recession, and can be expected to keep rates on a gradual incline.

Strong trade flows and a healthy fiscal position also set the country well apart from the rest of Europe, ensuring that the krona should continue to tick all the right boxes.

Although the Norwegian krone may not be too far behind, it probably won't be seen in quite such a positive light due to previous strong gains and the fact that the Norges Bank was slightly more dovish than expected earlier this month.

In recent weeks, as the election uncertainty has taken its toll, the euro has been able to push gradually ahead against the Swedish krona, pushing it back to nearly SEK9.300 on fears that Reinfeldt would face more of a political battle than he has.

As this fades and the prospects for the euro zone recovery and monetary policy appear even more uncertain given recent economic data, the euro looks more a sell against the krona and the single currency could well sink to under SEK9.00 in coming months.

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