

FX Alpha

Lower NOK/SEK stop

Key takeaways

- We lower the stop to our long NOKSEK recommendation to 0.9480 (spot ref: 0.9744). We continue targeting 1.0240
- 1) NOK disconnected from front-end rates this year. 2) SEK resilience slightly surprising. Positioning may help explain both
- Our recommendation more structural than tactical. Positioning still poses some risks, as would lower oil prices & hawkish ECB

The trade

On 1 February we recommended buying NOK/SEK with spot reference 0.9949, targeting 1.0240 and stop/loss 0.9780 (see [Buy NOK/SEK 1 Feb 24](#)). We lower our stop/loss to 0.9480 (spot reference 0.9744), maintaining our 1.0240 target.

NOKSEK lower despite wider front-end rate differentials

Norges Bank has been repriced higher, both in absolute terms and vs. most of its G10 peers this year, in line with the mostly hawkish domestic developments (and our house call). Yet NOK seems disconnected from front-end rate differentials, unlike the rest of G10 FX (Exhibit 2).

Meanwhile, we are slightly puzzled by SEK's resilience this year: for most of the past weeks, both EURUSD and EURSEK were slightly down despite the little changed ECB-Riksbank front-end differential (Exhibit 3). In addition, we continue to see scope for the Riksbank to be repriced lower vs. the ECB (see also [World at a Glance 28 Feb 24](#).)

Positioning adjustment likely one reason

Positioning adjustments are likely a key reason behind the above and, as a result, this year's NOKSEK price action. Our flows do indeed suggest NOKSEK longs are somewhat pared back (see Exhibit 1 and [LCBF 26 Feb 24](#)).

But NOKSEK higher more structural than tactical

The NOKSEK positioning remains long – although we do not find it stretched – hence continues posing risks to our trade. But our faith in higher NOKSEK is more structural (3-9 months) than tactical, as we also discuss in [Constructive Scandies in '24, with a preference for NOK 24 Jan 24](#). This is why we have chosen a much lower stop/loss.

Besides positioning, lower oil prices and a hawkish ECB—which typically matters more to the Riksbank & SEK than Norges Bank & NOK—are other risks to our trade.

For a list of our open and closed trades, please refer to the latest [Global FX Weekly](#) publication.

29 February 2024

Currency Strategy
Global

G10 FX Strategy

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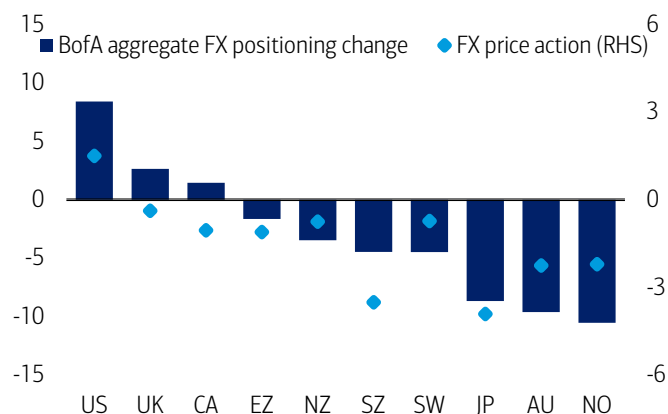
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Exhibit 1: YTD FX positioning change vs FX price action

FX positioning changes this year very well in line with the FX price action

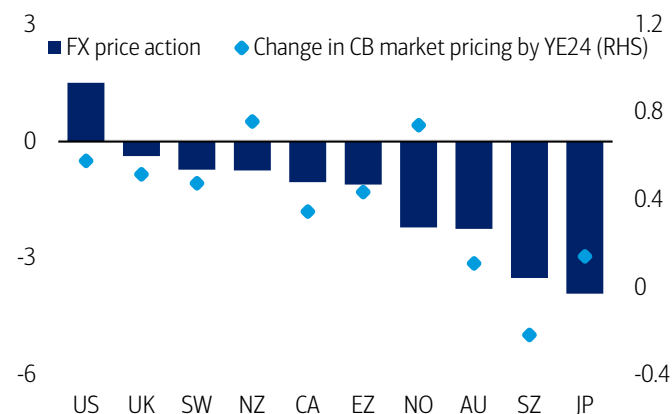


Source: BofA Securities, Bloomberg. Data are for the period Jan 5-Feb 23. +50 (-50) represents a max long (short) positioning level relative to history. We show returns vs USD (percent) and use the Dollar Index (DXY) in the case of USD. Currencies ranked on their YTD positioning change.

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Exhibit 2: YTD FX price action vs change in YE24 CB pricing

NOK seems disconnected from front-end rates unlike rest of G10

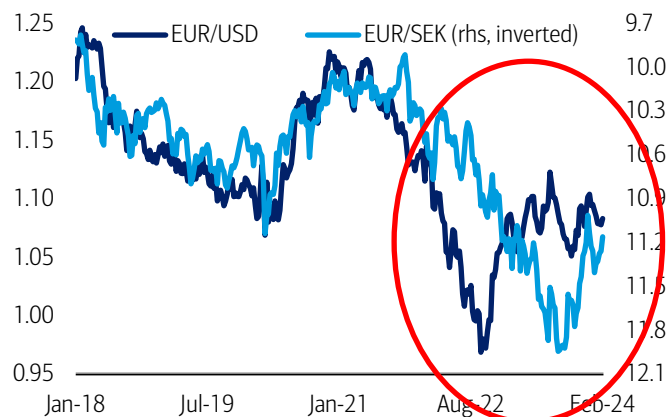


Source: BofA Securities, Bloomberg. Data are for the period Jan 5-Feb 23. We show returns vs USD (percent) and use the Dollar Index (DXY) in the case of USD. Changes in central bank market pricing are in percentage points. Currencies ranked on their YTD FX price action.

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Exhibit 3: EURUSD vs inverted EURSEK

Both EURSEK and EURUSD moved slightly lower in the past weeks



Source: BofA Securities, Bloomberg. Weekly Data through Feb 23

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