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## Nordic Currencies Beaten in Market Slump Lure Goldman (Update2)

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By Bo Nielsen



Jan. 12 (Bloomberg) -- The world's biggest foreign-exchange traders are snapping up Sweden's krona and Norway's krone after they weakened even more than some of the worst emerging market currencies.

Current-account surpluses and forecasts by the Organization for Economic Co-operation and Development that Nordic economies will avoid the worst of the global recession made the currencies **Goldman Sachs Group Inc.**'s top picks for 2009, with potential gains of more than 17 percent. Deutsche Bank AG, the biggest trader in the \$3.2 trillion-a-day market, said last week the krone

and krona are "well placed" for a rebound.

"It's pretty clear the Scandinavian currencies weakened excessively last year," said **Thomas Stolper**, a foreign-exchange analyst at Goldman Sachs in London. "These economies should hold up better than euroland and with improvements in market conditions some of this misalignment will be reversed."

The krone plunged 22 percent against the dollar last year as oil, Norway's biggest export, tumbled as much as 78 percent from its peak in July and investors piled into Treasuries as the credit squeeze sapped demand for currencies that are harder to trade in times of turmoil. The krona slid 17 percent.

The declines surpassed even those of some of the worst performers in emerging markets. The Argentine peso lost 8.8 percent as the government nationalized private pensions to shore up the nation's finances. The Thai baht tumbled 14 percent amid anti-government demonstrations that blockaded the nation's main airport and as the country changed prime minister four times.

'Very Cheap'

The krone has weakened 1.6 percent in the past five trading days to 7.0566 per dollar, while the krona has lost 2.1 percent to 8.0282. Goldman Sachs predicts Norway's currency will trade at 5.52 by year-end, and Sweden's at 6.55.

"From a pure fundamental perspective, the krona and the krone have become very cheap," said **Thomas Kressin**, a Munich-based fund manager at Pimco Europe Ltd., which manages \$25 billion. "In the flight to quality, small illiquid currencies like the Scandinavians were losing out" last year, he said.

Norway's current-account surplus, the broadest measure of trade and a gauge of a country's ability to borrow, will total 13.3 percent of gross domestic product in 2009, the biggest in the developed world, according to the Paris-based Organization for Economic Co-operation and Development. Sweden's surplus, at 6.5 percent of the economy, will be the fourth-largest among the 30 OECD members.

Watching Stocks

The speed of recovery may depend on equities and whether investors buy riskier assets, according to

**Paresh Upadhyaya**, a money manager who helps oversee about \$50 billion in currency assets at Putnam Investments in Boston. The MSCI World Index dropped 2.5 percent last week. The Standard & Poor's 500 Index lost 4.5 percent.

Norway's benchmark OBX Stock Index declined 0.61 percent last week after losing 53 percent last year. Sweden's OMX Stockholm 30 Index fell 1.15 percent following a 39 percent depreciation in 2008.

"It is essential that we see some stability in equity markets before these currencies can rally," said Upadhyaya, who says the krona and krone are undervalued by at least 10 percent.

The amount of trading in the Scandinavian currencies may make investors reluctant to buy on concern they won't be able to quickly reverse their bets, he said. They account for 2.5 percent of global foreign-exchange, according to the Bank for International Settlements in Basel, Switzerland.

Stronger exchange rates may hurt exporters already reeling from the global recession by making their goods more expensive.

#### Volvo Cuts

Gothenburg-based **Volvo AB** said it may cut more than 2,000 jobs, mostly in Sweden, after receiving 115 orders for heavy trucks in Europe in the third quarter, down from 41,970 a year earlier. Oslo-based **Norsk Hydro ASA**, Europe's second-largest aluminum producer, said Nov. 10 it may reduce production.

The Norwegian economy will expand 1.3 percent this year while Sweden's will show zero growth, according to the OECD. The U.S. economy will shrink 0.9 percent and the euro region will contract 0.6 percent, the OECD said.

Swedish inflation likely slowed to 1.4 percent in December, from 2.5 percent, according to the median **forecast** of 15 economists surveyed by Bloomberg before a Jan. 13 report from Stockholm-based Statistics Sweden. The unemployment rate may have risen to 4 percent last month, from 3.5 percent, a separate report will show Jan. 16, according to a **survey** of 10 analysts. Norway is due to publish December trade balance figures Jan. 15.

Based on purchasing-power parity, which measures the relative level of currencies based on the cost of goods in different countries, the krone and krona are the only ones undervalued versus the dollar among their eight most-traded peers, according to data compiled by Bloomberg. On that basis, Sweden's currency is 20.9 percent undervalued, and Norway's is 1.74 percent.

#### Currency Bull

"If we see a further gradual normalization in the markets, then strong fundamentals and extreme undervaluations will begin to matter," **Henrik Gullberg**, a currency strategist at Deutsche Bank in London, wrote in the Jan. 8 note to clients. "The Scandinavian currencies look well placed to capitalize."

For Goldman Sachs, the Norwegian krone is the most undervalued currency versus the euro, falling short of the bank's fair value by 42 percent, according to a Jan. 8 research report. At 25 percent, the Swedish krona is the third most undervalued.

The krona ended last week at 10.7646 per euro, a gain of 0.39 percent, while the Norwegian krone finished at 9.42 to the euro, appreciating 1.66 percent. Deutsche Bank sees the krona at 9.5 per euro by March and the krone at 8.4 per euro.

The two currencies, together with the British pound, will be the only three to strengthen versus the dollar in 2009 among the 10 most-traded, according to strategists' predictions compiled by Bloomberg. The krone will advance to 6.68 per dollar, based on the median of 19 forecasts, and the Swedish krona to 7.75 per dollar, the median of 21 predictions showed.

#### Short Positions

Investor bets may also signal the currencies are poised to rebound, according to Boston-based State Street Corp., the world's second-biggest custodian of assets, with \$14 trillion of pension and mutual-fund money.

Short positions, or bets on a decline, against the krone have been higher only 4 percent of the time in the past decade, said **Dwyfor Evans**, a strategist in Hong Kong at State Street. Bets against the krona have been higher only 13 percent of the time. On three of the past four occasions when investors reversed those bets, the currencies rallied, he said.

"Institutional investors are extremely short both currencies," said Evans. "That opens up for a position unwind which may drive the currencies higher."

#### Ski Boost

Norway's Prime Minister **Jens Stoltenberg** said Dec. 19 that the country will spend more of its \$300 billion pension fund, which is supplied by oil revenue, to bolster growth. Norway is the world's fifth-biggest oil exporter.

"We can use more" of the money when needed, Stoltenberg told reporters. Oil prices fell more than 53 percent last year.

The National Debt Office in Sweden on Dec. 17 said the krona was "far from the levels that can be justified by more fundamental conditions," and plans to buy as much as 15 billion kronor (\$2 billion) in the first quarter.

Declines in the currencies are aiding tourism. Occupancy rates are up 10 percent from last year in the 6,300-bed Hemsedal Ski Centre in Norway, according to tourist board director **Gunn Eidhamar**. In Aare, the second-biggest resort in Sweden, foreign visitor numbers have also increased, said Anna Wersen, marketing manager at Skistar Aare.

"It's expensive to go to the Alps and buy euros and the krone is very cheap to foreigners," Eidhamar said. "Lucky for us."

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