

THE AUSTRALIAN

		STOCK QUOTES		Enter company code					
MARKET	85	IAG	+0.83% 6.1	QBE	-1.38% 12.82	NAB	+0.47% 38.83	SUN	+0.96% 1
S&P/ASX 200	AUD/USD		TOP GAINER GUD		TOP LOSER FMG				
+0.69%	-1.00%		+7.66%		-5.66%				
5919.9000	\$0.78		\$8.57		\$2.00				

Scandinavian markets to heat up despite European troubles

STIRLING LARKIN THE AUSTRALIAN MARCH 28, 2015 12:00AM



The Nordic stockmarkets have been some of the best performers, year-to-date, across the developed world. Source: Supplied

Though they may identify as Europeans, the Nordic and Scandinavian peoples have always prided themselves on being independently minded, unique yet resilient in the face of adversity.

This was exemplified during World War II, when Sweden, determined to maintain neutrality despite the German military build-up surrounding the Scandinavian Peninsula, found an ingenious way to ascertain who was, in fact, a genuine Nordic and who may have been a European feigning their true origins, such as Gestapo spies.

Along the border with Norway, by asking the commuter to pronounce the number “77”, due to its tricky pronunciation in Swedish, Swedish border guards were instantly able to discern whether the speaker was native Swedish, Norwegian or, in fact, German.

Today, in our ever more deeply integrated and globalised economy, Scandinavians again face increasingly complex foreign incursions, testing their ingenuity.

Decimated global oil prices, Swiss National Bank sporadic interventions, investment banking scandals, uncapped ECB quantitative easing stimuli and rising geopolitical tensions with neighbouring Russia, are some of the many recent and immediate externalities confronting stability across this peninsula.

Global investors and in particular, ultra high net worth individuals, who have traditionally looked to this part of Europe for its dependability, are now having to reassess all of their grounded perceptions and assumptions.

Juxtaposed against this uncertainty is the interesting fact that the Nordic stockmarkets — OMX Stockholm 30, OMX Helsinki and the OMX Copenhagen 20 — have been some of the best performers, year-to-date, across the developed world.

Taking Sweden as a perfect example, with its OMX index at a high, even factoring in Swedish Krona interest rate differentials, Sweden has been a winner from the oil price plunge and with a current account surplus of more than 5 per cent of GDP, its real economy continues to have the ability to grow throughout 2015.

This is equally important for Swedish stock and bond investments because the krona is generally viewed as a cyclical currency.

Because they are considered an industrial-led economy, the krona has always been viewed as pseudo proxy for global growth; one of the prime reasons it did so well between 2009 and 2013.

However, in recent months, the data has turned soft globally, especially in Europe and since the krona tends to follow the European economic cycle, weak eurozone growth has obviously weighed on the currency, coupled with the external challenges earlier mentioned.

Even despite this, it would still be difficult to argue that the krona was overvalued considering that, in 2014 the currency pairing lost 17 per cent against the US dollar and 7 per cent versus the euro.

Short-term rate differences have helped support the Swedish krona since 2011, but that changed when, in 2014, the Sveriges Riksbank, Sweden's Central Bank, saw its macro-prudential oversight role shifted to a separate agency.

No longer within its remit to be concerned about the impact of asset prices and overleveraging, the Sveriges Riksbank has managed to lower interest rate expectations, which has led to tightening up on rules surrounding mortgage lending and is forcing borrowers to make more capital repayments on existing debts (something our Australian RBA would love to be able to do).

The resulting shift in monetary policy stance, which had underpinned the krona's advantage, has now been removed.

On March 18, the Sveriges Riksbank announced an expanded government bond purchase program totalling purchases of now SEK40 billion monthly, which will include bond maturities of up to 25 years and will be carried out every Thursday starting March 26 and continue until May this year.

This announcement will lift total bond purchases to 7 per cent of the outstanding volume of nominal Swedish government bonds and constitute a significant 1 per cent of Sweden's GDP. Why these particulars are important to the global investor, is that they signal that the Swedish will and have taken decisive steps to ensure the Swiss National Bank and the European Central Bank stimuli, does not, by association, artificially stimulate the krona's ascension.

The Riksbank's open-ended quantitative easing commitments show how seriously they take protecting their declared inflation targets in the face of ECB and SNB rivalry.

The global investor now should view this posture as supportive for Swedish equities relative to returns from the US markets, such as the S&P 500 and the Nasdaq. Even on a trend-adjusted basis, OMX Stockholm 30 valuations look undervalued and ergo an opportunity to buy.

The biomedical giant AstraZeneca (AZN: OMX), Volvo Group which makes farm machinery, heavy trucks and consumer vehicles (VOLVB: OMX) and the industrial machinist Sandvik (SAND: OMX) are all exemplifiers of this momentum uptrend on the Nordic Exchange Stockholm (NES).

For conservative, globally minded UHNW investors, the Citi Economic Surprise Index, which measures the actual outcome of economic data releases relative to consensus estimates, as seen in the graph, has become an increasingly popular tool to gauge relative volatility across Nordic markets ranging across the entire debt to equities spectrum. As the graph shows this normally stable economic zone is experiencing exceptional volatility in recent times.

Particularly when paralleled against US bellwethers, which are currently attempting to gauge the impact of the expected interest rate rise by the US Federal Reserve, such indices can become particularly helpful for the global investor, considering complementary developed market investments

within and across the Scandinavian Peninsula.

Holding a sound appreciation for the unique nuances of Nordic commercial enterprises is also an important requirement for the global investor who, to date, may not have yet ventured further north than the FTSE or eurozone investment hemisphere.

But for those, who have grasped these important nuances, measuring the differentials between Europe, Asia, North America and Scandinavia, the opportunity to invest wisely in 2015 has only increased.

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