Black Swan Capital
# Currency Currents

Wednesday 7 October 2009 www.blackswantrading.com

**Key News**

- **The euro zone's economy shrank more than previously thought** in the second quarter of 2009, data showed on Wednesday, because contributions from household demand and trade turned out to be smaller than initially estimated. (Reuters)
- Millions of American job-hunters risk permanent unemployment as industries undergo radical change and some skills become irrelevant in the wake of the worst U.S. economic recession in 70 years. (Reuters)

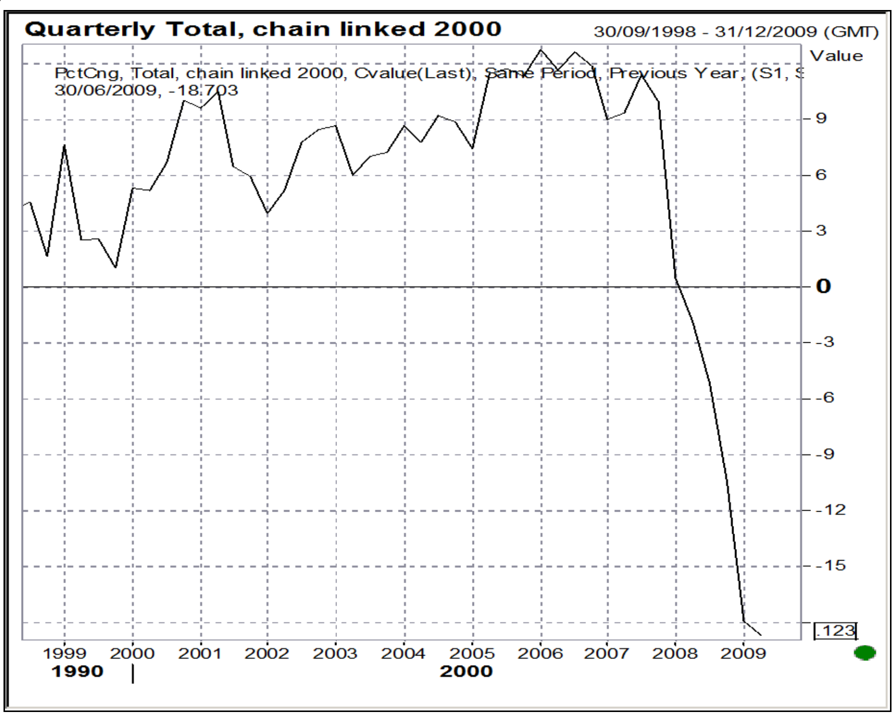
## Quotable

"Hope always seems to spring eternal in liquidity-driven financial markets. That is very much the case today in the aftermath of the biggest liquidity injection in modern history. Unfortunately, along with that hope comes an acute sense of short-term memory loss – notably, a failure on the part of the broad consensus of investors to grasp the toughest lessons of the Great Crisis and Recession of 2008-09. This is a dangerous combination for increasingly frothy financial markets."

Stephen Roach (writing in today's *FT*)

## FX Trading – Will Latvian Pain Hit the Krona?

Latvia is under severe pressure, to say the least. Take a look at the GDP % change year over year:



The chart shows an 18+% decline in GDP yoy!  Ouch!

Latvia is taking on much of this pain precisely because it chooses not to devalue its currency, which is pegged to the rising euro.  The Prime Minister of Latvia has been firm in his commitment, but yesterday he made clear his commitment is splintering a bit and could have an impact on lenders to Latvia—which primarily make up Swedish banks.

*FT*: **Nordic banks could face huge losses on lending to Latvia under government proposals to limit the amount lenders can collect from mortgage holders**.

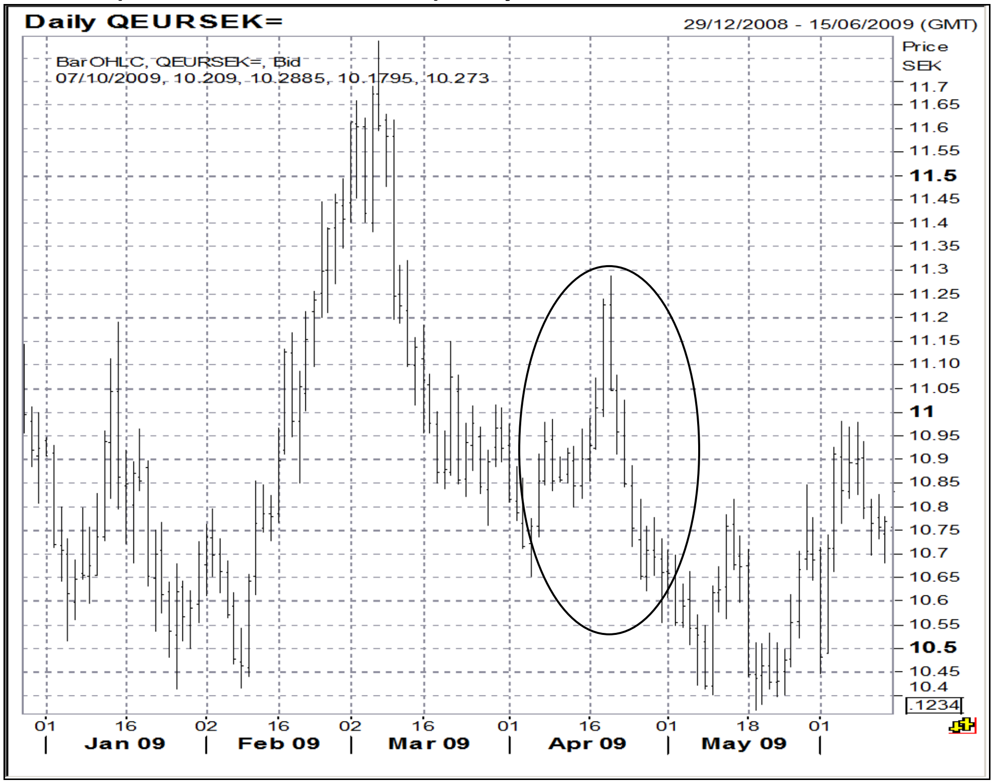
The move would make it easier for Latvia to devalue its currency by removing the risk that holders of foreign currency loans would be faced with crippling debts if it did so.

The Latvian government led by Valdis Dombrovskis, prime minister, confirmed yesterday that it was drafting legislation that would cap the amount banks could collect to the current value of properties rather than the value of the loan. This would trigger big losses for banks such as Swedbank, SEB and Nordea, which dominate the Latvian market, because property prices have fallen 70 per cent.

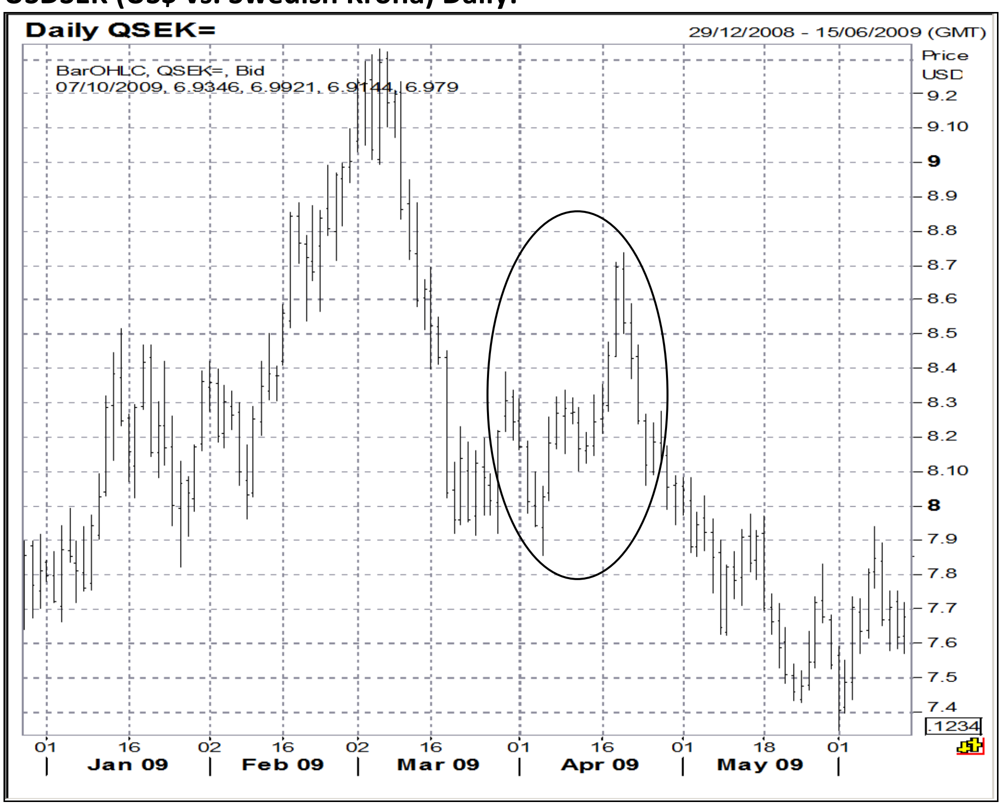
**Swedbank A (STO) thru 10/6/09:**


Swedbank's stock got hammered last time devaluation talk seeped into the market place.  And guess what, Sweden's currency didn't like it either.

## EURSEK (euro vs. Swedish Krona) Daily:




## USDSEK (US$ vs. Swedish Krona) Daily:



Maybe other factors were also at play in Europe at the time, but not only did the Swedish Krona fall against the dollar, the euro did too.  You can measure this in the relative percentage change in the two pairs during April '09 (as Swedish bank stocks got hammered):

- EURSEK appreciated around 5.7%
- USDSEK appreciated around 8.8%

Stay tuned.

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