Sweden’s Hung Parliament Creates Investor Limbo: Nordic Credit

By Johan Carlstrom and Niklas Magnusson - Sep 15, 2014

Investors in Sweden’s bond and currency markets may be facing four years of political indecision that threatens to stall budget talks and add volatility to prices.

Voters yesterday ousted the government of Prime Minister Fredrik Reinfeldt and handed power to a Social Democrat-led opposition headed by Stefan Löfven, a union boss and former welder. A surge in support for the anti-immigration Sweden Democrats prevented the opposition from winning an outright majority.

“With this election result it becomes very uncertain,” said Carl Hammer, chief currency strategist at SEB AB in Stockholm. “It’s about the budgetary situation; we could see gradually increasing concerns” that will affect the “fast money” in the krona market, he said.

The outcome, which sent the krona to its lowest against the euro in more than two months, ends eight years of an administration that favored tax cuts and budget restraint, turning Sweden into an investor haven from Europe’s debt crisis. Though Reinfeldt’s coalition also ruled as a minority, the Sweden Democrats in practice voted with his government, providing a stable majority in the parliament.

The party, with which neither bloc wants to form a formal coalition because of its stance on immigration, won 12.9 percent, with 99.6 percent of the districts counted. Löfven’s opposition bloc got 43.7 percent, while Reinfeldt’s coalition garnered 39.3 percent.

New Elections

The Sweden Democrats are ready for new elections should last night’s result prove untenable, party secretary Bjoern Soeder said. If Löfven can’t muster a majority in the legislature to back his premiership, “it could fall apart already at that point,” Soeder said.

“The country has to be governed for the next four years and that’s going to be difficult if one isn’t ready to speak with us,” said Jimmie Åkesson, leader of the Sweden Democrats.

Swedish government bonds have delivered investors a 1 percent loss over the past week as poll results showed neither side would win a majority. No other Nordic government debt market has performed as badly over the same period, according to data compiled by Bloomberg.

Sweden’s krona dropped as much as 0.6 percent against the euro after the election results were published last night. It’s already the worst performing G-10 currency this year after the threat of
deflation forced the central bank to lower rates to 0.25 percent in July. The krona traded 0.3 percent lower against the euro as of 8:15 a.m. in Stockholm.

**Worst Scenario**

“If there is potential to price in a risk-premium in the krona, the time is now,” Martin Enlund, an analyst at Nordea Bank AB, said by phone. “You cannot find a krona scenario that is more negative than this.”

The Social Democrats now face negotiations with the bloc’s junior partners, the Green Party and the ex-communist Left. The Feminist Initiative, which had said it would support the opposition, won 3.1 percent, below the 4 percent needed to get into parliament. Unlike Reinfeldt’s coalition, the opposition didn’t present a joint manifesto before the election.

Loefven said after the votes were counted that he’s ready to start government talks and invited the Greens and the Left to discussions. He also said he was open to joining up with the Center Party and the Liberal Party, formerly part of Reinfeldt’s government. Both have already rejected such a collaboration. Loefven ruled out any cooperation with the Sweden Democrats.

“The worry is if no decisions can be made whatsoever and if things drag on and if one doesn’t at all understand how they should be able to form a government,” said Annika Winsth, chief economist at Nordea in Stockholm. If Loefven “wants to talk across bloc lines, then things could drag on. Then there won’t be a decision in the near-term.”

To contact the reporters on this story: Johan Carlstrom in Stockholm at jcarlstrom@bloomberg.net; Niklas Magnusson in Stockholm at nmagnusson1@bloomberg.net

To contact the editors responsible for this story: Tasneem Hanfi Brogger at thbrogger@bloomberg.net; Jonas Bergman at jbergman@bloomberg.net Jonas Bergman