Nordea MARKETS

1 October 2020

SEK rates: Two flavours of steepening

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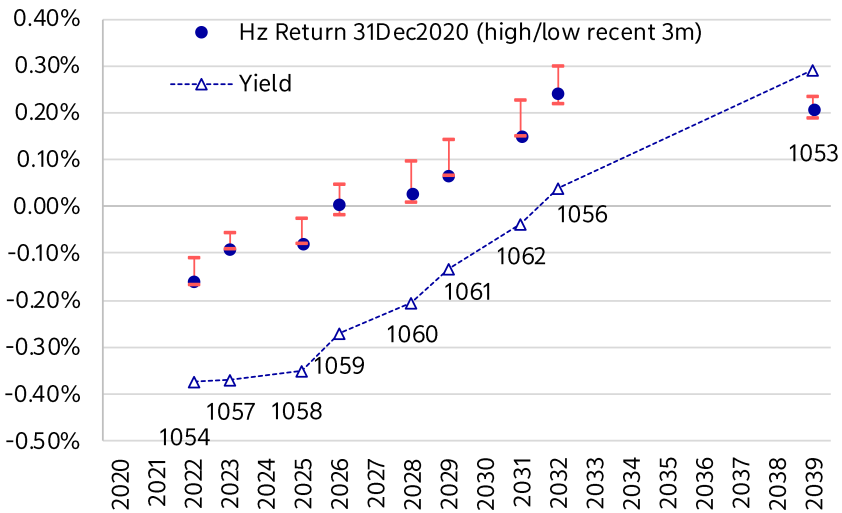
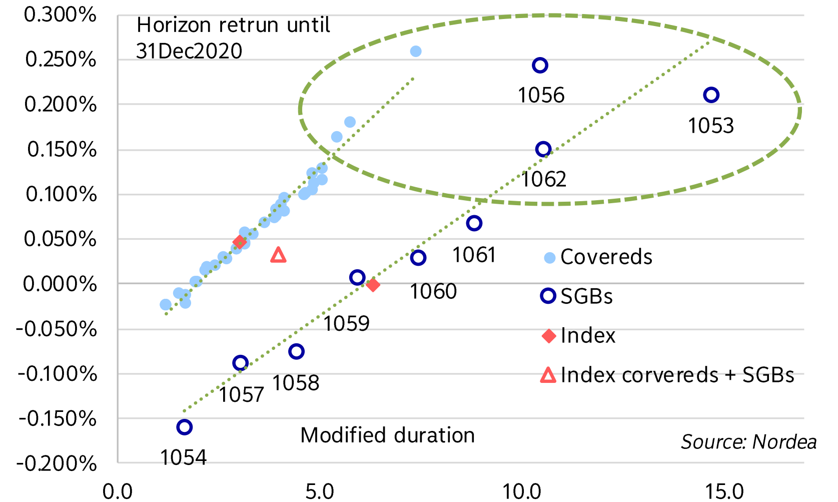
Completion timestamp: 1 October 2020 14:30 CET
Dissemination timestamp: 1 October 2020 15:00 CET

Duration: Horizon return in bond indices close to zero, but not at lows

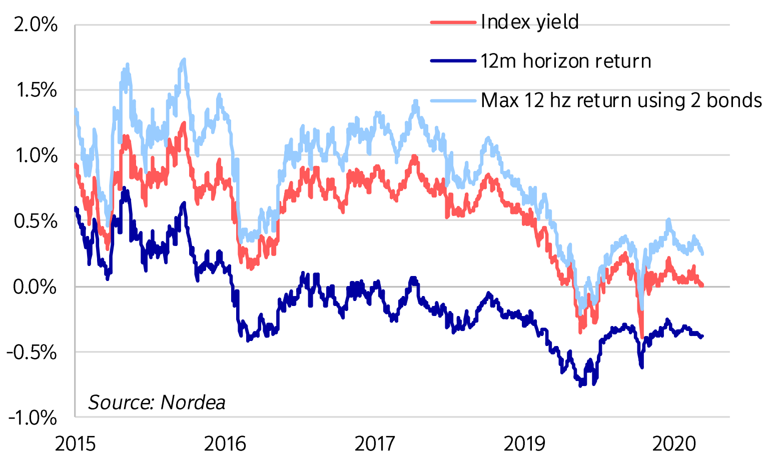
2. Low bond yields and a flat curve mean low horizon returns. Around half of all bonds have returns below or at zero.



2. The tightening of covered spreads and the flattening of the spread curve put horizon returns on covereds not far above govies. Only at tenors 5y+ there seem to be some extension value. Especially in SGB 1056.



3. Historically, horizon return of government bond index has been lower (i.e. negative) but only for short periods of time, characterized by risk-off mode in the markets. Yet, the curve shape offers a bit of re-allocation value as can be illustrated by comparing index to a portfolio of just two bonds with same duration as index.



4. Bias on duration and covereds. We trust the Riksbank to buy covered spreads yet somewhat tighter. Horizon returns around zero imply that an asset allocator (having alternatives to bonds) should under-weight bonds. But for a bond-only portfolio, the equation is more complicated. Our bias remains neutral.

Duration (short/long)	★★★☆☆
Covereds (underweight/overweight)	★★★★☆

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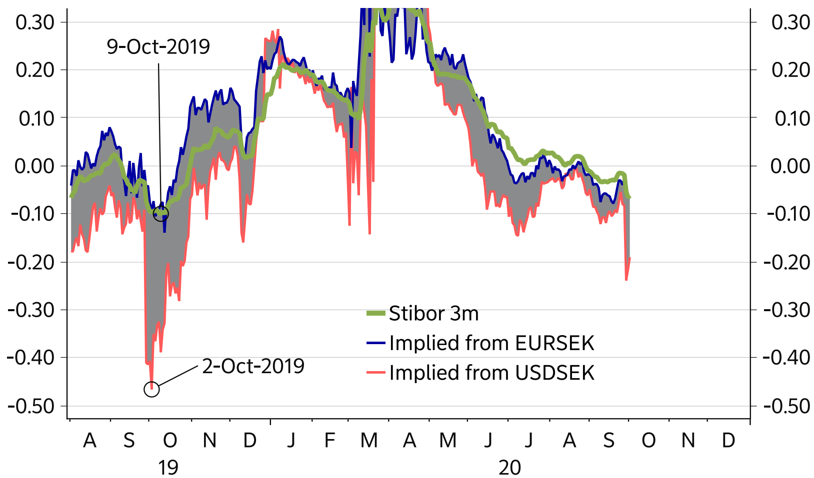
Stibor: Into the year-end fog

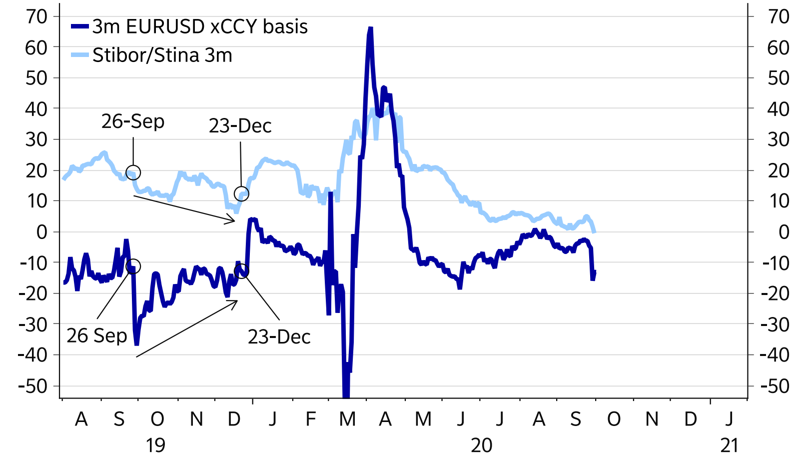
Lower correlation to USD-factors speaks for less year-end effect. But last year, Stibor decreased despite low correlation. And this year-end, the surge in deposits adds additional uncertainty that should start to be reflected in a wider distribution of Stibor fixing contributions during Q4.

1. Turn-of-the-quarter development in USD-funding less so far than in 2019…



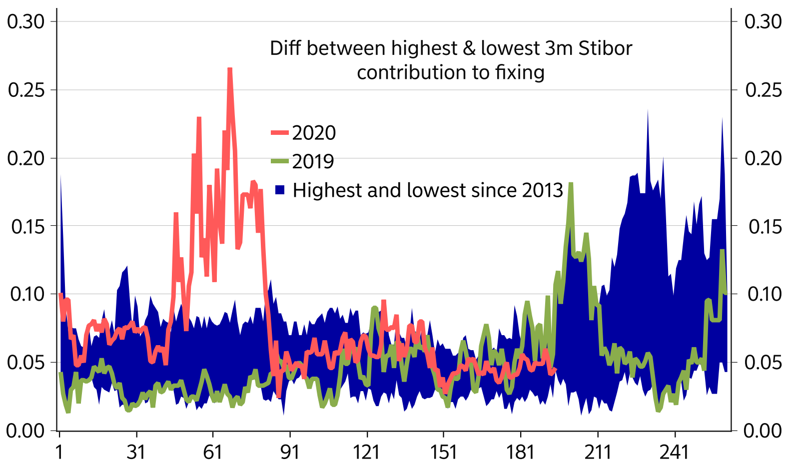
Source: Nordea Markets and Macrobond

2. …but last year, Stibor-spreads went on a solo race. Decreasing despite EURUSD 3m basis increasing. What will happen this year?



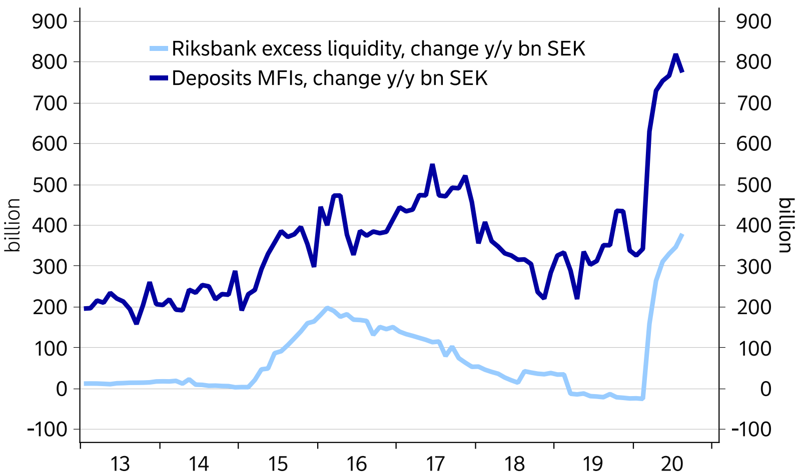
Source: Macrobond and Nordea

3. Not only third-party pundits as myself are confused. The Stibor contributors will likely be as well.



Source: Macrobond and Nordea

4. Riksbank's QE has created an unusual surge in deposits at banks. This could trigger lower Stibor contributions as deposit rates may temporarily be lowered to reflect balance sheet fees/taxes. Visibility = low.



Source: Macrobond and Nordea

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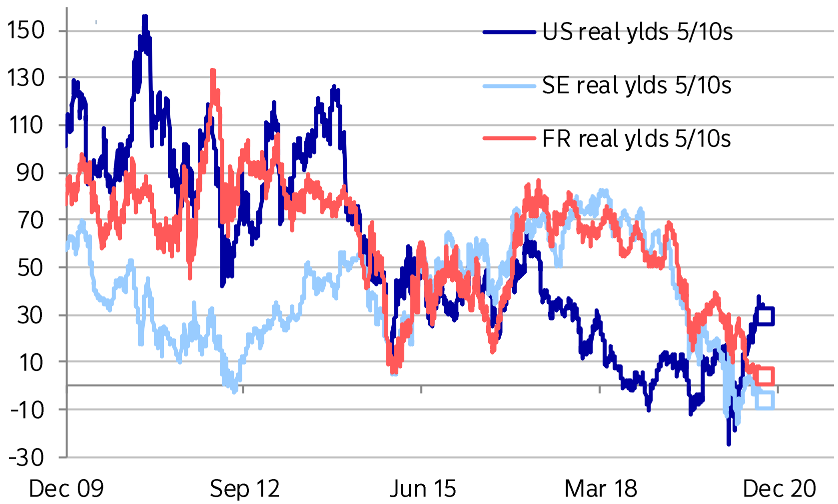
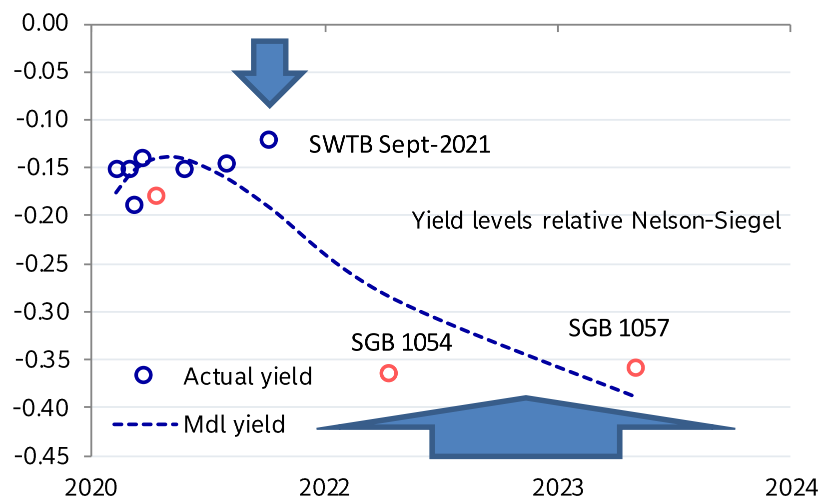
Trade Ideas: A little bit of steepening

1. If the market real yield curve is seen as reflection of overall monetary policy (policy rate, balance sheet, guidance, credibility etc), should it ever be inverted? Why should policy keep real rates artificially high just to push them to down at a later point in time? Perhaps an inverted real yield curve could be seen sign of no confidence in monetary policy, eventually triggering the central bank to fight back (re-steepening the real rate curve again)… Compared to other markets, the SGBi curve is extra-ordinary flat/inverted. Is the Riksbank not credibly reckless enough? As the Fed is.

2. Both SGB 1054 and 1057 look expensive as we discussed last week. Increased bill auction sizes going forward may keep bills trading with a supply discount but eventually also the front-end bond yields should experience an upward drift. SGB 1054 or 1057 can be sold against swaps, individual RIBA contracts or the September 2021 bill.



Source: Nordea



Source:Nordea

3. Relative value trade ideas

Action	Date	Trade	Comment
New	1-Oct-2020	Buy SWTB Sep-21, Sell SGB 1054	
	10-Sep-2020	Steepen FRA Dec-21/Sep-21	Time to think about the year-end
	6-Aug-2020	Buy SGB 1054 ASW, Sell SGB 1057 ASW	More of the Same
	28-May-2020	Buy KI 2505 ASW	The Great Spread Death
	28-May-2020	Buy SGB 1053 ASW, Sell SGB 1058 ASW	The Great Spread Death

References: Publications year-to-date

Swedish interest strategy publications year-to-date:

24-Sep-2020	THURSDAY1500: Inflation expectations key for rate cut
17-Sep-2020	THURSDAY1500: Guiding the bond-buying monster with a steady hand
10-Sep-2020	THURSDAY1500: Time to think about the year-end
3-Sep-2020	SEK covereds: Supply Update August
3-Sep-2020	THURSDAY1500: Rising equity vol a threat to higher yields
27-Aug-2020	THURSDAY1500: Ups and downs in the wave of cheapening
20-Aug-2020	THURSDAY1500: Illusions of higher yields
13-Aug-2020	THURSDAY1500: From long to neutral duration bias
11-Aug-2020	SEK linkers: Value in SGBi 3108 ahead of July CPI
6-Aug-2020	THURSDAY1500: More of the same
6-Aug-2020	SEK covereds: Supply update July
6-Jul-2020	SEK covereds: Supply update June
25-Jun-2020	THURSDAY1500: The Riksbank moves later, not now
11-Jun-2020	THURSDAY1500: Transition to longness
10-Jun-2020	SEK linkers: Value in outright break-evens, but…
4-Jun-2020	THURSDAY1500: The untwisting of spread curves
4-Jun-2020	SEK covereds: Supply update May
28-May-2020	THURSDAY1500: The Great Spread Death
19-May-2020	SEK rates: Borrowing report take-aways
14-May-2020	THURSDAY1500: Cheap long-end SGBs reflect potential…
12-May-2020	SEK rates: Preview Debt Office borrowing report
7-May-2020	THURSDAY1500: Waiting for the supply-day
7-May-2020	SEK covereds:Supply update April
23-Apr-2020	THURSDAY1500: Riksbank in emergency mode, but no cut
16-Apr-2020	THURSDAY1500: Issuance under the Riksbank's umbrella
15-Apr-2020	SEK rates: Stibor and the ghost of collateral
8-Apr-2020	SEK rates: SGB issuance and consequences for bond yields
3-Apr-2020	SEK covereds: Supply update March
2-Apr-2020	THURSDAY1500: Long
1-Apr-2020	SEK rates: More SGBs, but first a lot more bills
26-Mar-2020	THURSDAY1500: In the Riksbank and covereds we trust
25-Mar-2020	SEK rates: Stibor ahead of the USD auction
24-Mar-2020	SEK rates: Preview on new government 10y (SGB 1062)
19-Mar-2020	THURSDAY1500: thoughts on SGBs and covereds
17-Mar-2020	SEK linkers: Preview on the bond switches to SGBi 3114
13-Mar-2020	SEK rates: Stibor and the battle of liquidity against credit
12-Mar-2020	THURSDAY1500: Off
5-Mar-2020	THURSDAY1500: Yield curve control, anyone?
4-Mar-2020	SEK covereds: Supply update February

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27-Feb-2020	THURSDAY1500: Bonds rule the world
20-Feb-2020	THURSDAY1500: A good place in the bubble of everything
18-Feb-2020	SEK rates: The fall of Stibor
13-Feb-2020	THURSDAY1500: Getting to neutral
13-Feb-2020	SEK rates: More government borrowing in pipeline
12-Feb-2020	SEK linkers: Real index after the switches
11-Feb-2020	SEK rates: Bond index outlook
6-Feb-2020	THURSDAY1500: Riksbank silence
5-Feb-2020	SEK covereds: Supply update January (the Meltup part 2)
30-Jan-2020	THURSDAY1500: Crushed by the Virus
28-Jan-2020	SEK linkers: Preview on the new 10y index-linked bond
23-Jan-2020	THURSDAY1500: Everything is melting up, why shouldn't covereds
21-Jan-2020	SEK rates: Maturity preferences, house prices and the curve slope
16-Jan-2020	THURSDAY1500: The character of growth
16-Jan-2020	SEK rates: Good risk-reward in 5/10y steepeners
14-Jan-2020	SEK linkers: 10y BEI rich, SGBi 3102 cheap
09-Jan-2020	THURSDAY1500: A barren wasteland with a gust of higher yields
09-Jan-2020	SEK covereds: Supply update December
08-Jan-2020	SEK rates: The rise of Stibor
03-Jan-2020	SEK covereds: Liquidity reserves on the horizon

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