

SEK linkers: BEI curve should flatten despite downside CPI surprise

Mats Hydén
Chief Analyst
+46 8 407 91 04
mats.hyden@nordea.com

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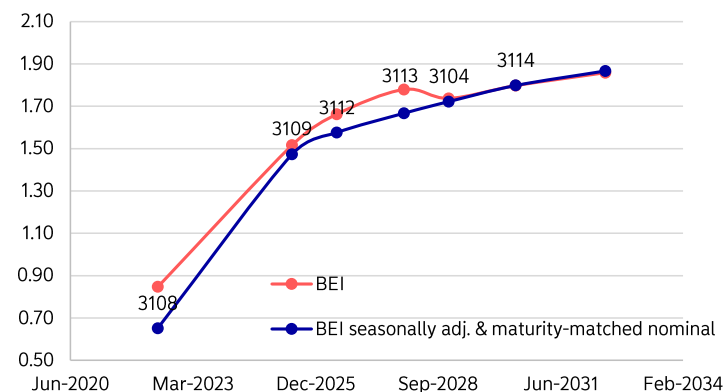
SEK linkers: Preview on the buy-backs of SGBi 3108

- In order to reduce outstanding amount of SGBi 3108 as it becomes shorter than one year in June the Debt Office offers to buy-back the bond in switches to other bonds on a number of occasions.

First round: 5th & 8th February

- Second round: 19th, 22th & 23rd March
- We currently see more value in the short-end of the SGBi curve than in the long-end
- Given our CPI forecast we see fair-value in SGBi 3108 at -1.22% in real yield (on close of 15-March)

1. The break-even inflation curve in SGBi's



Source: Nordea

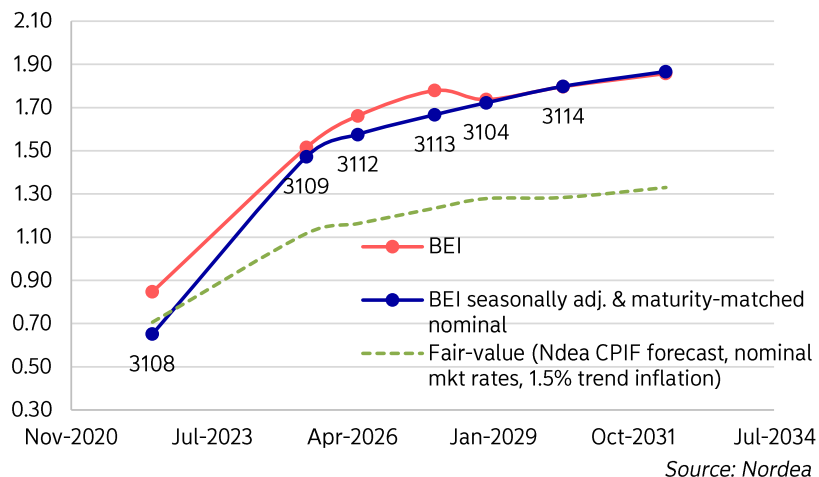
Date	Auction type	Debt Office action	Bond	Cpn	Maturity	Amount, mn SEK
18-Mar-2021	Issuance	Sells	SGBi 3112	0.125	01-Jun-2026	500
18-Mar-2021	Issuance	Sells	SGBi 3111	0.125	01-Jun-2032	750
19-Mar-2021	Bond switch	Sells	SGBi 3109	1	01-Jun-2025	1000
19-Mar-2021	Bond switch	Buys	SGBi 3108	0.25	01-Jun-2022	1100
22-Mar-2021	Bond switch	Sells	SGBi 3112	0.125	01-Jun-2026	1750
22-Mar-2021	Bond switch	Buys	SGBi 3108	0.25	01-Jun-2022	1900
23-Mar-2021	Bond switch	Sells	SGBi 3113	0.125	01-Dec-2027	500
23-Mar-2021	Bond switch	Buys	SGBi 3108	0.25	01-Jun-2022	3100

3. SGBi carry table

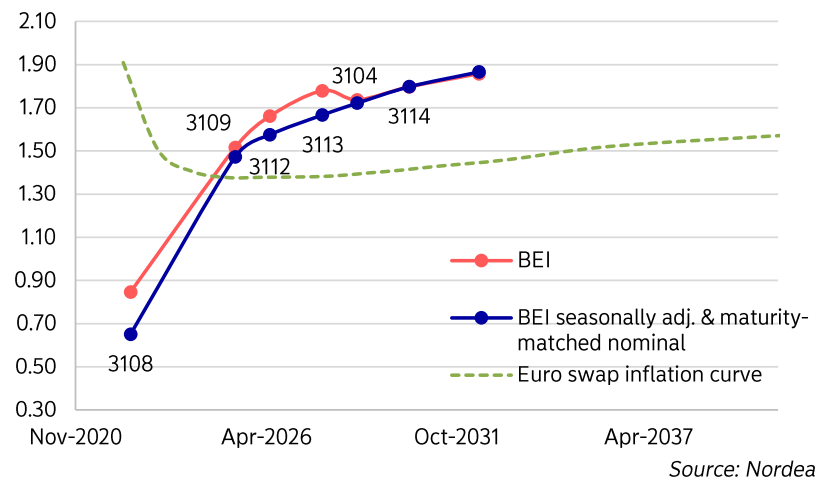
Calculation date: 15-Mar-2021				Carry to:				B/E carry to:				Repo rates			
Bond	#	Yld	B/E	1-Apr	1-May	1-Jun	1-Jul	1-Apr	1-May	1-Jun	1-Jul	Comparator	#	Linker	Nom
SGBi 0.25 06/22	3108	-1.16	0.85	-18.0	-2.3	4.1	12.4	-18.1	-2.5	3.7	11.9	SGB 3.5 06/22	1054	-0.15	-0.33
SGBi 1 06/25	3109	-1.68	1.52	-5.6	-2.2	-1.7	-1.0	-5.8	-2.8	-2.8	-2.5	SGB 2.5 05/25	1058	-0.15	-0.36
SGBi 0.125 06/26	3112	-1.66	1.66	-4.4	-1.7	-1.2	-0.6	-4.7	-2.4	-2.5	-2.5	SGB 1 11/26	1059	-0.15	-0.33
SGBi 0.125 12/27	3113	-1.63	1.78	-3.4	-1.2	-0.8	-0.3	-3.7	-2.1	-2.3	-2.4	SGB 0.75 05/28	1060	-0.15	-0.33
SGBi 3.5 12/28	3104	-1.58	1.74	-3.2	-1.1	-0.7	-0.1	-3.5	-2.0	-2.2	-2.2	SGB 0.75 05/28	1060	-0.15	-0.33
SGBi 0.125 06/30	3114	-1.52	1.80	-2.4	-0.7	-0.4	0.1	-2.7	-1.7	-1.9	-2.1	SGB 0.75 11/29	1061	-0.15	-0.33
SGBi 0.125 06/32	3111	-1.40	1.86	-2.0	-0.5	-0.1	0.4	-2.3	-1.4	-1.6	-1.8	SGB 2.25 06/32	1056	-0.15	-0.28
Inflation path				Jan	Feb	Mar	Apr								
SE CPI				m/m											
				-0.37	0.27	0.15	0.16								

SEK linkers: Riksbank is pushing on break-even inflation

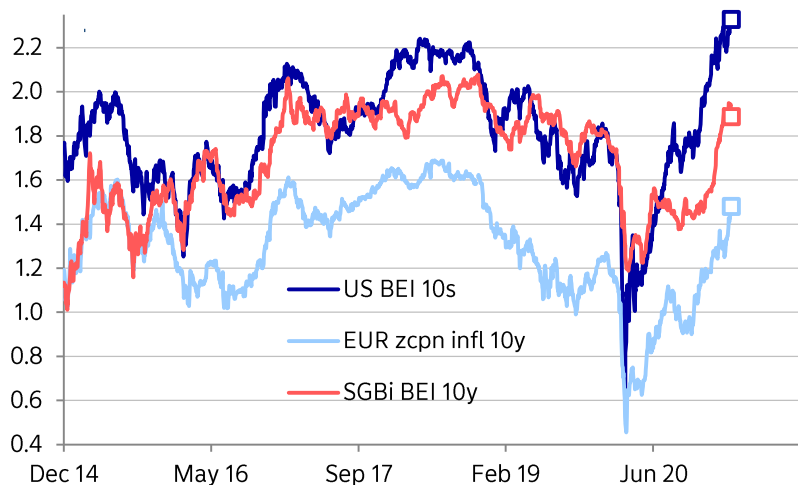
1. SGBi break-even inflation looks high on all tenors compared to a “fair-value” calculation using Nordea’s CPI forecast, market nominal yield curve and 1.5% trend inflation.



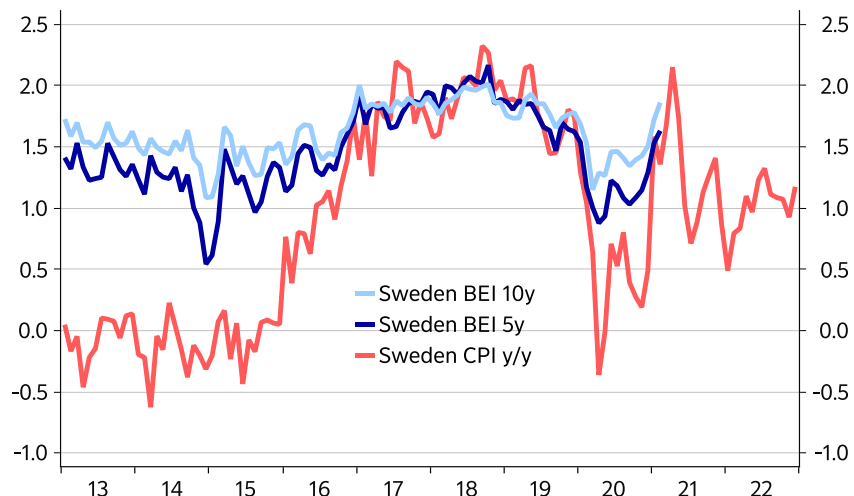
2. SGBi BEIs are much higher than Euro swap BEIs and the gap has widened recently...



3. 10y BEIs approaching 2% with strong momentum. The Riksbank’s increased QE purchases of SGBi’s is a major driver of the Swedish BEIs

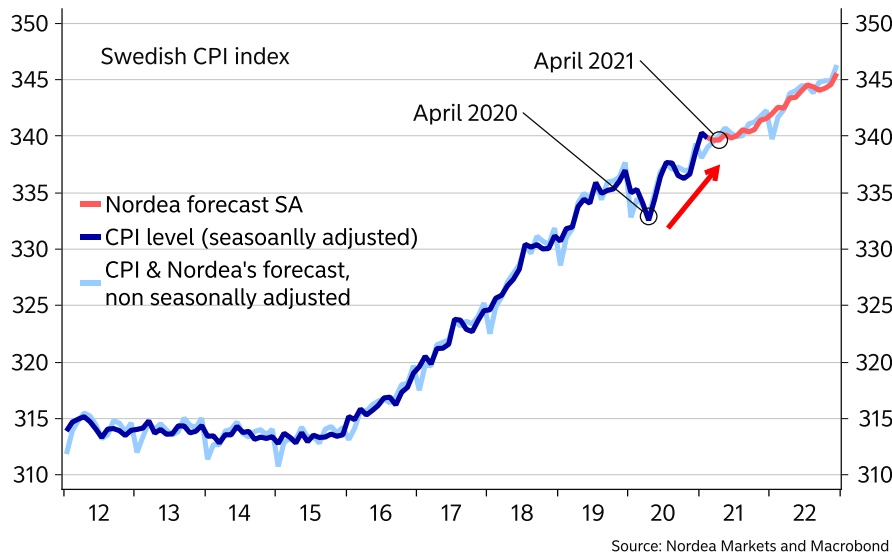


4. BEIs’ correlation to headline CPI is a thing that should not be. But one cannot rule out that base effects during Q2 will continue to support BEIs.

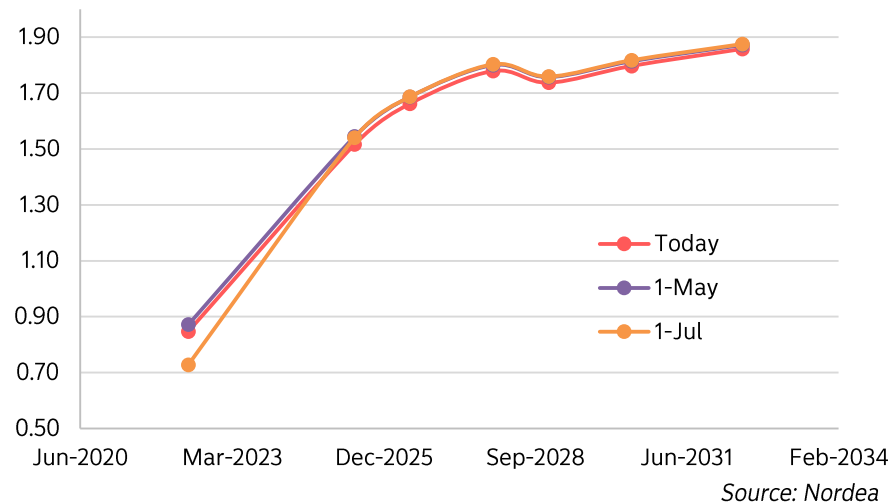


SEK linkers: Unusually neutral carry season

1. Energy prices and the irregular basket re-weighting in January have put prices on an upward trajectory earlier than previously projected, but only a few positive months left to feed-through into SGBi carry.



2. The higher-than-usual January CPI number was still negative, but the February number not doubt neutralized that number, leaving the carry-profile for the coming months unusually neutral.



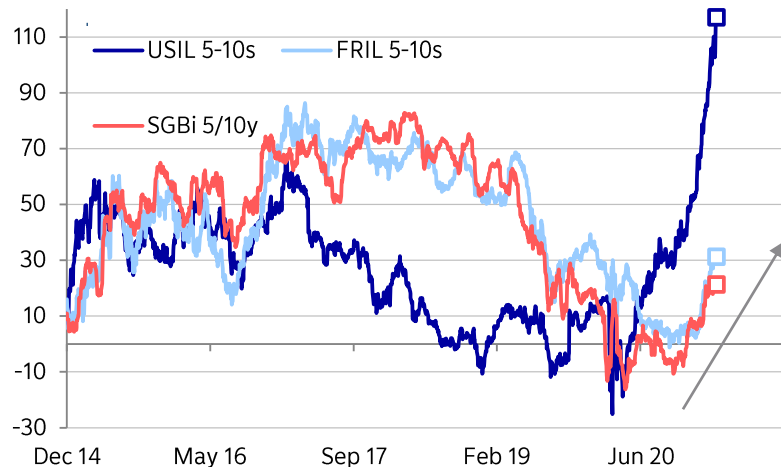
3. Carry given our inflation forecast.

Calculation date: 15-Mar-2021

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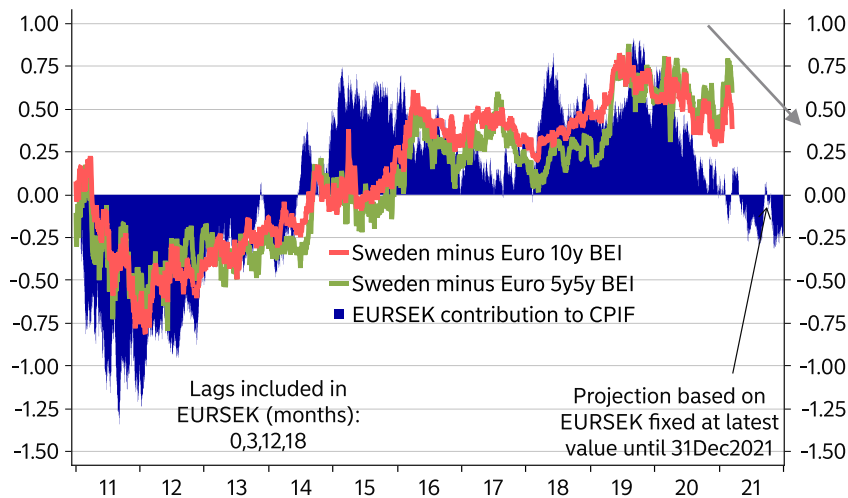
SEK linkers: Real curve should stay steep, but BEI curve should flatten

1. Yield curve steepeners are in fashion, and that goes for real rate steepeners as well. SGBi curve steepeners should have more to go, despite Riksbank being a loose cannon.



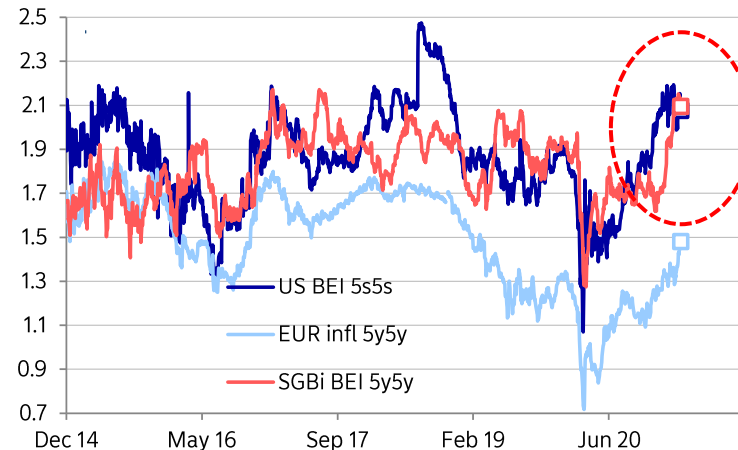
Source: Nordea

4. Apart from cyclical factors (such as commodity prices), Swedish inflation is still experiencing downward pressure from lagged effects of a stronger SEK. Make the prancing long-end BEIs stick out even more...



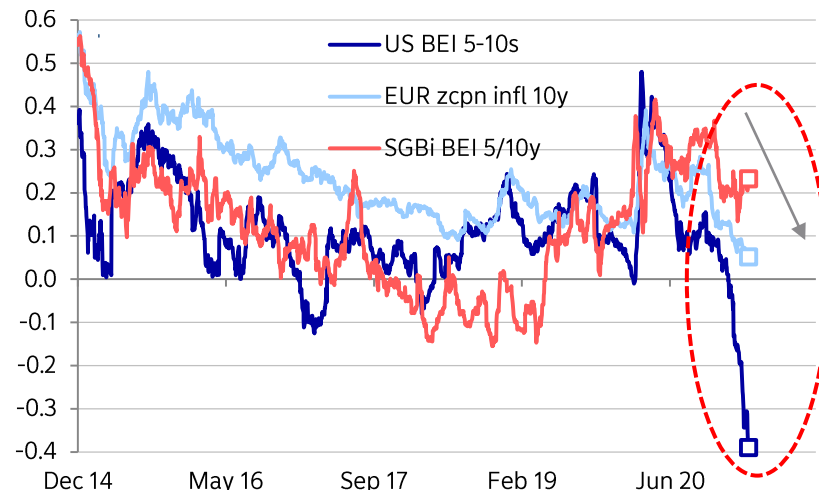
Source: Macrobond and Nordea

2. By turning up the QE-heat on the illiquid SGBi market, the Riksbank has made 5y5y BEI explode on the upside. Higher forward inflation in Sweden than in the US? Really?



Source: Nordea

3. If the market goes from a state of “no price increases” to a state of “some price increases”, should not short-end BEI move in tandem with long-end, or even overshoot the long-end? Given the rise in long-end BEIs, also short-end BEIs should have potential to rise more...



Source: Nordea

Nordea

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