

## SEK rates: Riksbank preview

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# Riksbank: Hey hey, I saved the world today

The Riksbank announces its policy decision 27 April. Our main scenario is an unchanged policy rate, rate path and QE program. Read our macro comment [here](#). (in Swedish [here](#))

## 1. Our take on the policy announcement in a few bullets

- The Riksbank will make no change to the policy plan from November. Unchanged policy rate @ zero and 400bn SEK in QE purchases in 2021.
- No need for major changes to Riksbank's macro forecasts
- The pace of vaccinations has likely been slower than the Riksbank assumed in February.
- The QE details for Q3 may be announced. The amount of QE for Q3 should be around 70 bn and the distribution between asset should be unchanged.
- Overall, an rather boring in-between meeting the most likely outcome.

## 2. Overview of risk scenarios and our perceived probabilities

Prob.	Type	Scenario
80 %	Main	No change of policy. Distribution of QE in bond markets unchanged. ~70bn for Q3.
10 %	Dovish	The rate path is lowered to below zero for H2 2021 to signal a readiness to cut as economy opens up.
10 %	Hawkish	Reduced buying of covereds due to worries for house prices and household debt. Scaling back of liquidity measures.

## 3. QE program overview

QE & Issuance (bn SEK)		2020E	Actual	2021E Q1 <sup>1)</sup>	2021E Q2 <sup>1)</sup>	2021E <sup>2)</sup>	YTD	YTD%
<b>SGB</b>	Issuance	97	86.8			105	35.0	33.3%
	QE <sup>1)</sup>	72	70.5	13	10	30	11.3	37.7%
<b>SGBi</b>	Issuance	13	13.0			21	4.3	20.7%
	QE <sup>1)</sup>	3.5	4.5	0.5	2	15	4.0	26.7%
<b>T-bills</b>	Stock <sup>3)</sup>	170	252.5			188	125.0	
	QE	-	-	10	10	40	14.5	
<b>Covereds (bmk)</b>	Issuance	390	398.5			360	108.8	30.2%
	QE	210	211.1	70	60	220	81.7	37.1%
<b>KI (bmk)</b>	Issuance	77	68.7			65	21.3	32.7%
	QE	30	40.7	20	13	50	24.9	49.9%
<b>Other munis</b>	Issuance	45				40		0.0%
	QE	15	4.3	3.5	2	10	1.5	14.9%

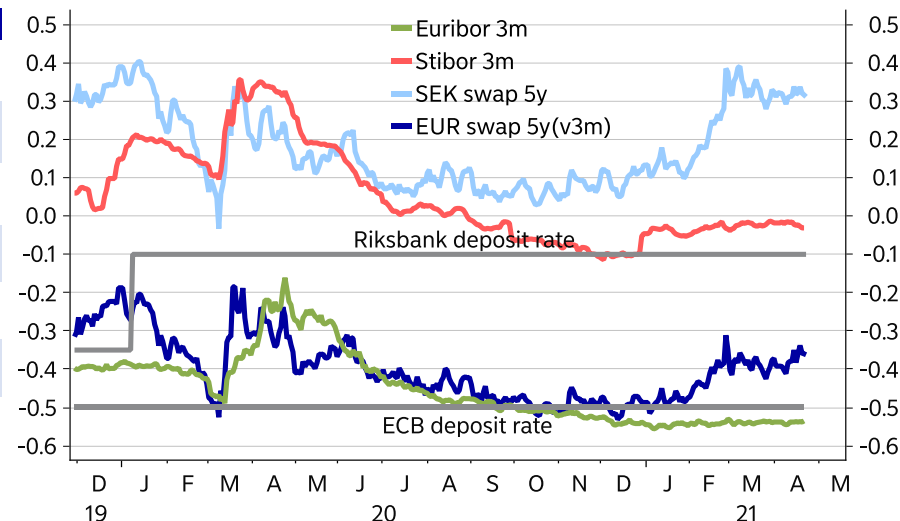
<sup>1)</sup> Based on official announcement. Split between SGB/SGBi and KI/other muni our projection.

<sup>2)</sup> Whole year of 2021

<sup>3)</sup> YTD and actual for T-bills is gross issuance, not stock

Source: Nordea

## 4. 3m Stibor, 5y swap rate and the policy deposit rate



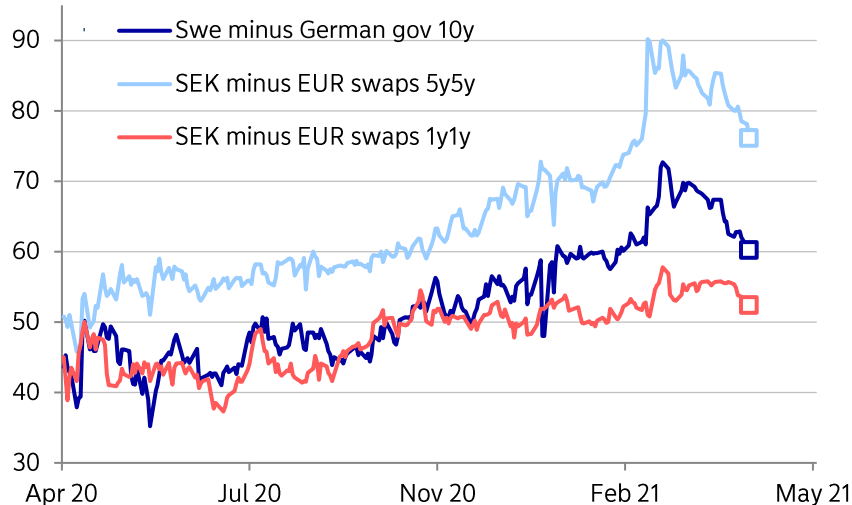
Source: Macrobond and Nordea

# Riksbank: A gentle massage for the front-end and covereds

1. About 2 bps in rate cuts this year is currently discounted (or less than 10% probability for a 25 bps rate cut). Non-zero probabilities for a rate hikes can be found in the pricing around mid-year 2022. **The pricing of the front-end seems reasonable to us.**

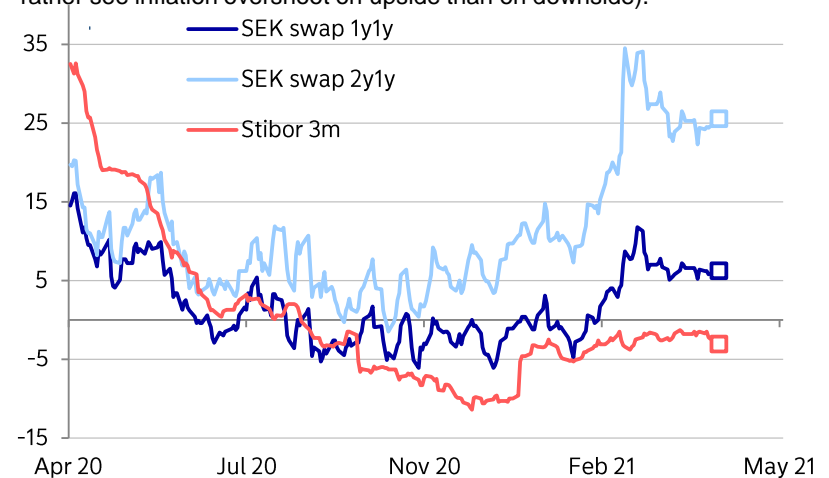
Meeting	Change (bps)		Policy rate	
	Mkt	Riksbank	Mkt	Riksbank
TODAY			0.00	0.00
27Apr21	-	-	0.00	0.00
01Jul21	-	-	0.00	0.00
21Sep21	-1	-	-0.01	0.00
25Nov21	-1	-	-0.02	0.00
10Feb22		-	-0.02	0.00
27Apr22		-	-0.02	0.00
01Jul22	+4	-	0.02	0.00
21Sep22	+4	-	0.06	0.00
25Nov22	+4	-	0.09	0.00

3. Spreads versus the Euro area has tightened somewhat, but this reflects more a plateau in US bond yields than any changed expectations on the Riksbank. **Swedish long-end rates may still prove sensitive to higher bond yields driven by stronger global macro.**



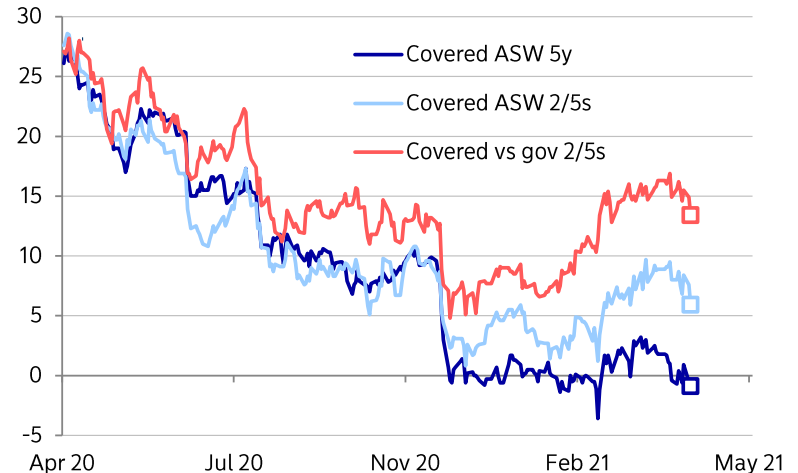
Source: Nordea

2. Looking further out the money-market curve, **some value in receiving outright can be found in our view**, given the current outlook of contained inflation, wages fixed the long-term deals and an asymmetric Riksbank (that rather see inflation overshoot on upside than on downside).



Source: Nordea

4. An unchanged Riksbank-policy should be supportive of covereds. Front-end covereds that are less disturbed by issuance has richened a lot and recently also long-end covereds have started to follow. We believe **that the covered spread curves should have potential to flatten further.**



Source: Nordea

Nordea

# Duration & covereds: One duration extension to rule them all

**1. Bias on duration on covereds** Not much new on the duration front, we stay short. In covereds we are torn between a neutral view, based on historically tight spreads and the risk for covered underperformance if trend of rising bond yields resumes, and a bullish view based on better “horizon-return-juice” in covered extensions into the govie index extension. An index-tracker that follows and combined index of goveis and covereds would be better off to implement as much of the duration extension in covereds as possible rather than in govies (see figure 3 and 4). Also, if global bond yields take another leap north, should not Swedish bonds that the Riksbank buys outperform the rest? The Riksbank buys covereds and long-end govies, but not intermediate govies. Also, a stoic Riksbank at next week’s policy announcement should benefit covereds. And even if you do not believe that anything will happen and that few investors are about to over-weight covereds ... should you not rather be a little too long that too short given the yield pick-up relative govies? Let’s see what the Riksbank does next week...

## Duration

(short/long)



*This week*

UNCH

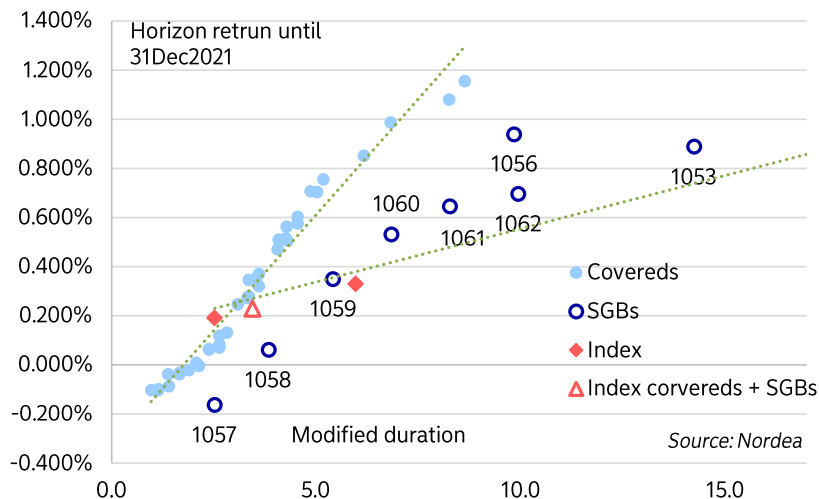
## Covereds

(underweight/overweight)

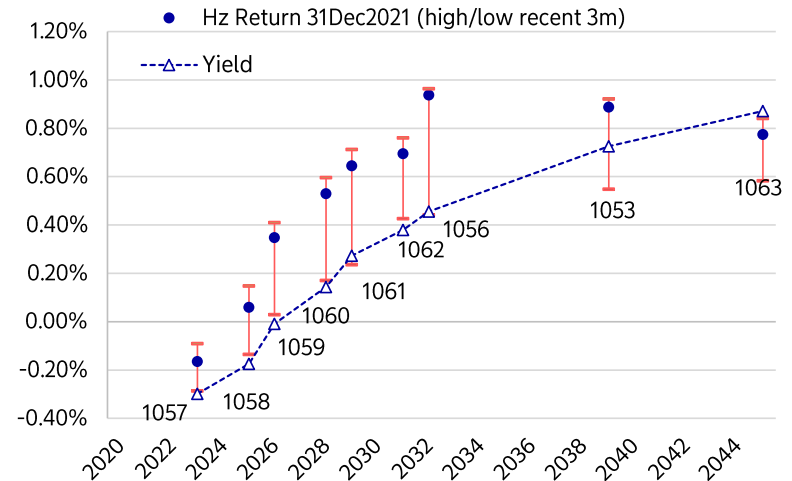


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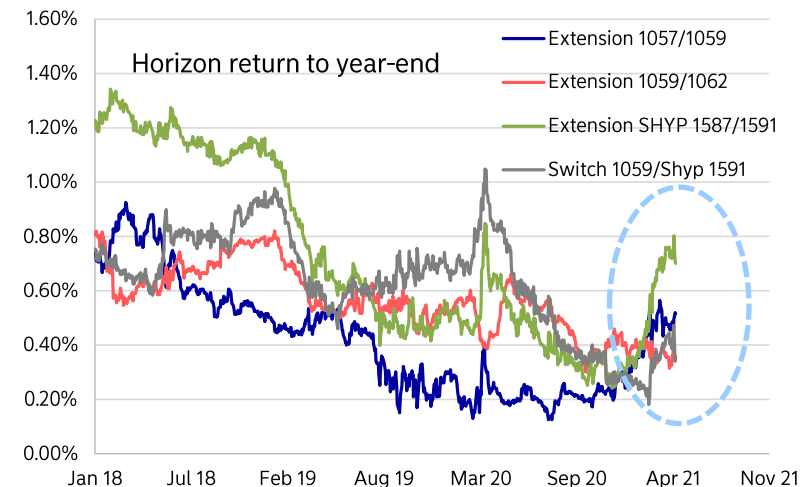
**3. ... but still lower than for covereds.**



**2. Horizon return in SGBs at the top of the recent range...**

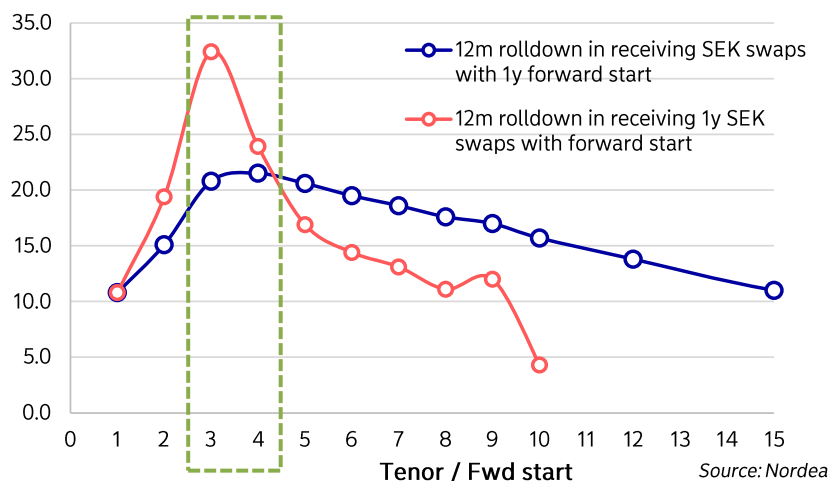


**4. The champion of extensions for maximizing horizon return is the plain covered extension once again.**

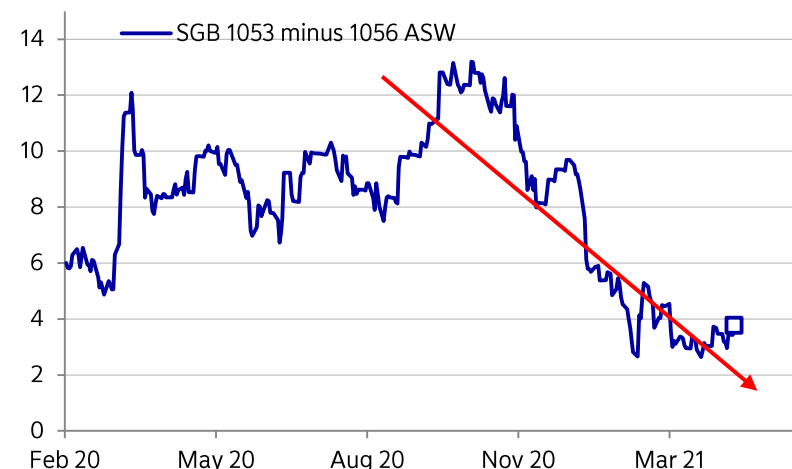


# Trade Ideas: Is the Riksbank overdosing on SGB 1053s?

**1. Curve slope.** The SEK swap curve is stuck in a no man's land in between the themes "rising global yields and steeper curves" and "fixed policy rates and contained inflation". Neither steepeners nor rolldown trades look that exciting. Looking at the shape of the term structure we note that the segment 3y to 5y is the one that sticks out as the most "receivable" the further out, the more "payable" the curve gets. After a steepening pause, curves like 5/10y, 1y5y/1y10y or 1y3y/10y may be heating up for continued ascension. If not, steepeners still roll positively. The risk on the downside for long-end rates is no doubt there but the economy should at least not tank near term (although optimistic expectations may be shaved off somewhat). We would like to find some more hard-core trigger point before adding steepeners to the list of trade ideas. Let's revisit the trade after the Riksbank's policy announcement next week...



**2. SGB ASW.** The Riksbank (RB) if focusing the QE purchases on the long-end of the SGB curve. On reason for this is likely that it wants to make its holdings of SGBs as share of outstanding amounts more equal between bonds. If one makes the assumption that the Riksbank aims at owning around 50% of outstanding amounts in the bonds SGB 1062 to SGB 1053, one gets a crude proxy of the distribution of purchases between the bonds: 18% 1062s, **0% 1056s, 52% 1053s**, 30% 1063s. So basically, the Riksbank will over-buy 1053s and under-buy 1056s. Also remember that 1056s will become the 10y benchmark SGB in a not-too-distant future, so the Debt Office should start to scale up issuance in this bond eventually. Perhaps the SGB 1053/1056 ASW curve has the potential to flatten further?



## 3. Relative value trade ideas

Action	Date	Trade	Comment
	8-Apr-2021	Buy SGB 1062 vs bunds, sell SGB 1059 vs bobls (risk weighted 2:1)	Index-extensions in a commoditized market. Some country spread tightening and flattening.
	18-Mar-2021	Buy Shyp 1594 ASW, sell Shyp 1587 ASW	Covereds should be more resilient than swaps on higher rates
	11-Mar-2021	Steepen SGBi 3112/3111, flatten SGB 1059/1056	Lagging a global trend. Read more <a href="#">here</a> .

# References: Publications year-to-date

## Swedish interest strategy publications year-to-date:

15-Apr-2021 [THURSDAY1500: Fiscal spending vs business cycle](#)  
8-Apr-2021 [THURSDAY1500: Government index-extension at the gate](#)  
8-Apr-2021 [SEK covereds: Supply update March](#)  
25-Mar-2021 [THURSDAY1500: After shortness comes longness, but not now](#)  
18-Mar-2021 [THURSDAY1500: Fear the swap market, not covereds](#)  
17-Mar-2021 [SEK linkers: BEI curve flatteners and a look at 3108 ahead of switches](#)  
11-May-2021 [THURSDAY: Monetary policy mid-cycle](#)  
4-Mar-2021 [THURSDAY1500: Value in receiving front-end SEK](#)  
3-Mar-2021 [SEK covereds: Supply update February](#)  
25-Feb-2021 [THURSDAY1500: Bonds lose wrestling stocks](#)  
24-Feb-2021 [SEK rates: Comment on the Debt Office's borrowing report](#)  
18-Feb-2021 [THURSDAY1500: Borrowing report preview](#)  
11-Feb-2021 [THURSDAY1500: It's the Governor's bonds, especially the long-end](#)  
4-Feb-2021 [THURSDAY1500: Riksbank preview](#)  
4-Feb-2021 [SEK covereds: Supply update January](#)  
28-Jan-2021 [THURSDAY1500: Bump on the road to higher yields](#)  
28-Jan-2021 [SEK linkers: BEIs overwhelmed by energy, but short-end lags](#)  
21-Jan-2021 [THURSDAY1500: At the center of the policy maze there is still a dove](#)  
14-Jan-2021 [THURSDAY1500: All a spread needs is love](#)  
11-Jan-2021 [SEK covereds: Supply update December](#)  
7-Jan-2021 [THURSDAY1500: Bearish noise, stiff SGBs](#)

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21-Dec-2020 [SEK covereds: Issuance outlook for 2021](#)  
17-Dec-2020 [THURSDAY1500: It's beginning to look a lot like 2021](#)  
10-Dec-2020 [THURSDAY1500: Stibor flooded with hot SEK liquidity](#)  
8-Dec-2020 [SEK linkers: The struggle of real rates, the currency and BEI](#)  
4-Dec-2020 [SEK covereds: Supply update November](#)  
3-Dec-2020 [THURSDAY1500: Play it like the Riksbank, add a steepener](#)  
1-Dec-2020 [SEK rates: A new over-night reference rate](#)  
26-Nov-2020 [THURSDAY1500: Riksbank take-aways](#)  
25-Nov-2020 [SEK covereds: A deeper look into the QE purchases](#)  
23-Nov-2020 [SEK covereds: Legal EU harmonization and the implications...](#)  
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13-Nov-2020 [SEK rates: A look at the new 25y SGB \(1063\)](#)  
12-Nov-2020 [THURSDAY1500: Whiplashed back to neutral](#)  
10-Nov-2020 [SEK linkers: No love from policy makers](#)  
5-Nov-2020 [THURSDAY1500: 10y SGB ASW a touch too wide](#)  
4-Nov-2020 [SEK covereds: Supply update October](#)  
29-Oct-2020 [THURSDAY1500: A sacrifice to the Bull God](#)  
22-Oct-2020 [THURSDAY1500: From long to neutral in covereds](#)  
21-Oct-2020 [Stibor: Certainly uncertain going into year-end](#)  
15-Oct-2020 [THURSDAY1500: Borrowing report preview](#)  
8-Oct-2020 [THURSDAY1500: Don't fight the gorilla in SEK swap](#)  
5-Oct-2020 [SEK covereds: Supply update September](#)  
1-Oct-2020 [THURSDAY1500: Two flavours of steepening](#)  
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](#)

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