

SEK rates: Low inflation supports receiving

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

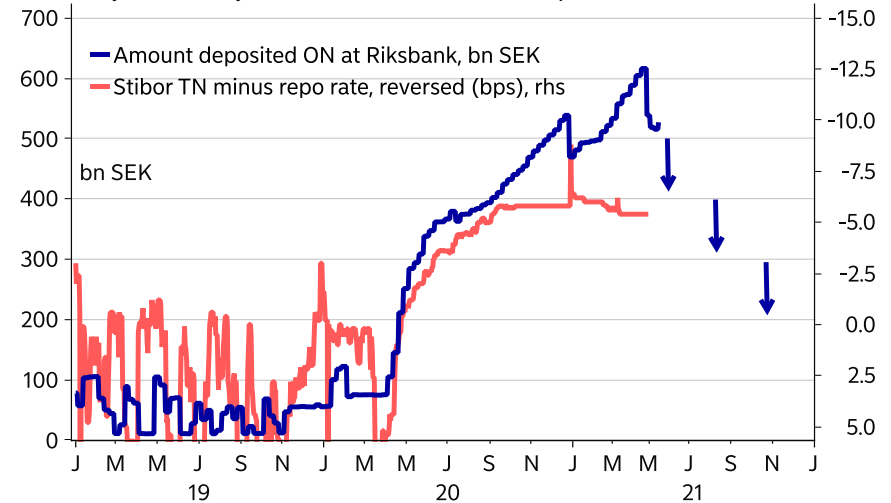
Completion timestamp: 6 May 2021 14:30 CET
Dissemination timestamp: 6 May 2021 15:00 CET



Riksbank: Fixed policy with build-in tapering

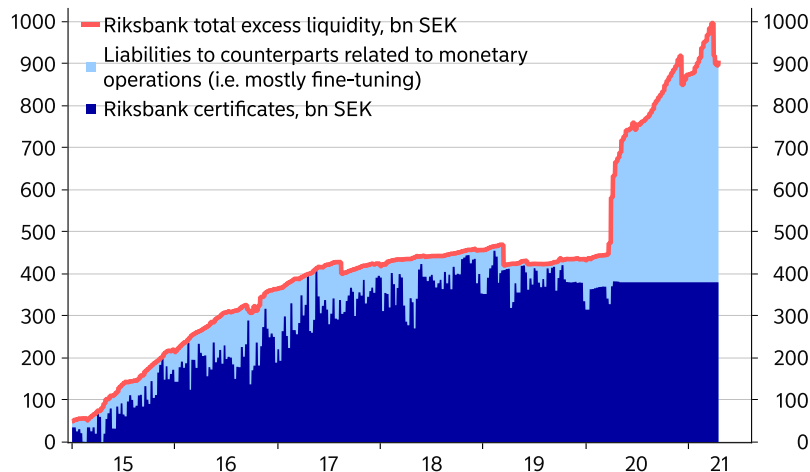
- The Riksbank's policy announcement last week did not lead to any measurable market reaction. The "envelope" for QE in Q3 and for the whole year of 2021 was well inline with the projections from February
- The QE purchases was slightly tilted towards more covereds and less bills than trivial guess based on previous quarter. Purchases in SGBs will continue to be focused on the long-end.
- The Riksbank re-committed to its policy plan and it is hard to see how data turn-outs until the July meeting would be able to swing policy in any direction.
- The QE-plan implies a gradual tapering over the course of the year. The frequency of the SEK liquidity auctions is reduced from weekly to monthly, also a marginal tightening of support. It is also worth noting that the outstanding volume of SEK liquidity support has dwindled during April from just under 170bn to around 30bn SEK. The reduction has led to a decrease of excess liquidity by a corresponding amount and is likely a consequence of less demand from corporations for loans, plenty of liquidity in the banking system and a will to reduce risk of future stigma in connection to being involved in government support operations.

2. Riksbank has started to normalize the certificate cap, draining the money market on ON money that has been slushing around in the Riksbank deposit facility. Eventually this will decrease downward pressure on Stibor.



Source: Nordea Markets and Macrobond

2. Excess liquidity has decreased somewhat as the outstanding amount of SEK liquidity lending by the Riksbank has been reduced.



Source: Nordea Markets and Macrobond

3. Overview of QE measures. Estimates based on Riksbank guidance and own calculations

| QE & Issuance (bn SEK) | | 2021E ²⁾ | YTD | YTD% | 2021 Q2 (E) | 2021 Q3 (E) | 2021 Q4 (E) |
|------------------------|---------------------|---------------------|-------|-------|-------------|-------------|-------------|
| SGB | Issuance | 96 | 35.0 | 36.5% | - | - | - |
| | QE ¹⁾ | 30 | 12.6 | 41.8% | 10 | 7 | 7 |
| SGBi | Issuance | 21 | 5.6 | 26.7% | - | - | - |
| | QE ¹⁾ | 15 | 4.0 | 26.7% | 2 | 3 | 3 |
| T-bills | Stock ³⁾ | 188 | 132.5 | | - | - | - |
| | QE ⁴⁾ | 20 | 14.5 | | 10 | 0 | 0 |
| Covereds (bmk) | Issuance | 360 | 108.8 | 30.2% | - | - | - |
| | QE | 220 | 93.7 | 42.6% | 60 | 50 | 40 |
| KI (bmk) | Issuance | 65 | 23.0 | 35.4% | - | - | - |
| | QE | 50 | 26.2 | 52.4% | 13 | 12 | 9 |
| Other munis | Issuance | 40 | | 0.0% | - | - | - |
| | QE | 10 | 1.5 | 14.9% | 2 | 1 | 1 |

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

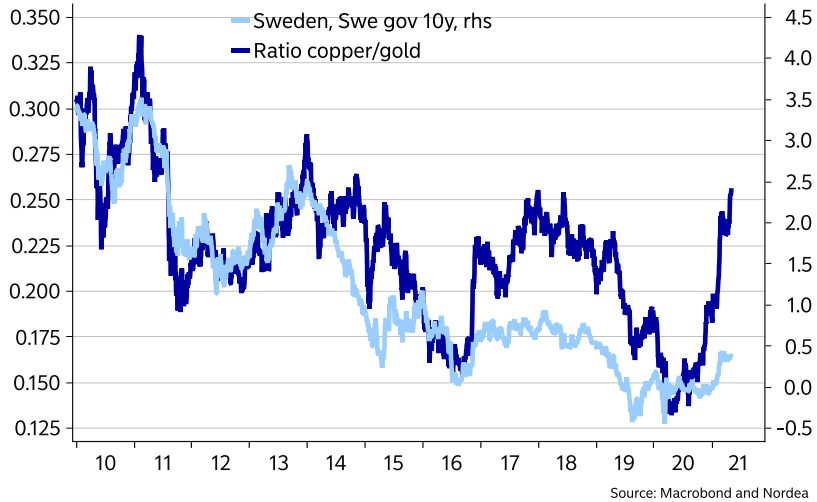
²⁾ Whole year of 2021

³⁾ YTD and actual for T-bills is gross issuance, not stock ⁴⁾ Est. for QE in bills as increase

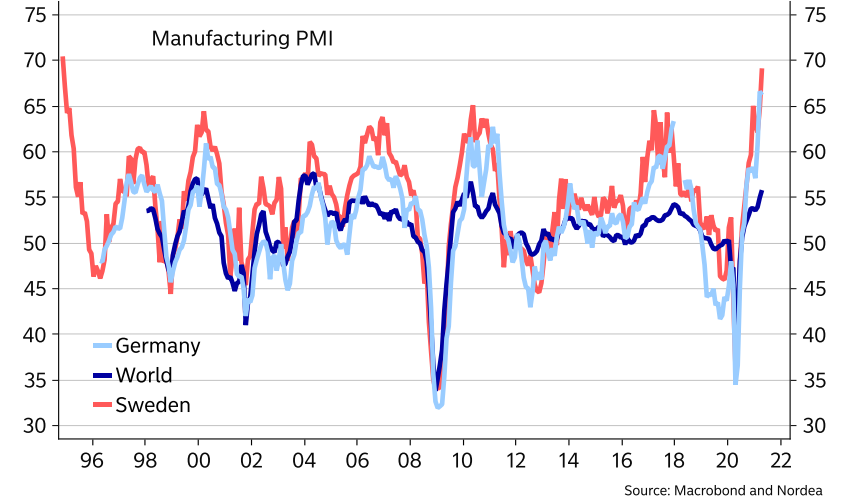
Source: Nordea

Duration & covereds: Bond baisse entrenching

1. Activity soars as does prices on input goods and commodities. Not bond friendly.

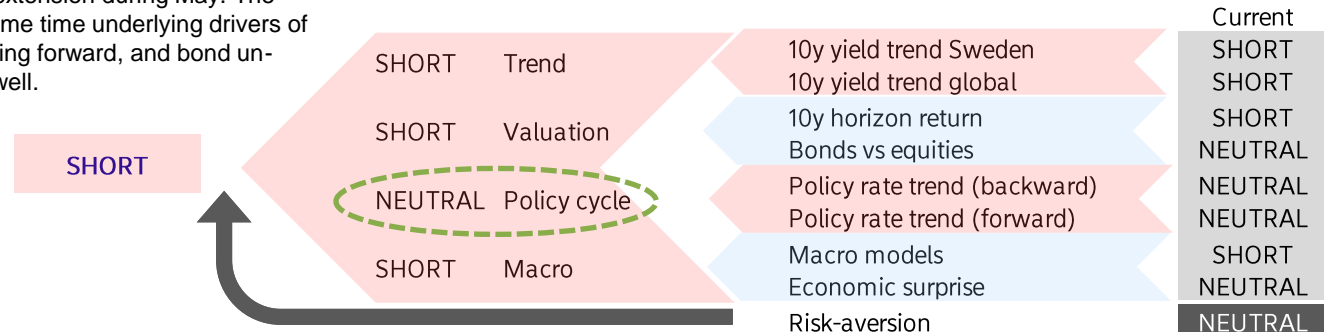


2. With a rebel yell, manufacturing has come back, bigger and stronger than ever.



3. **Bias on duration on covereds** Riksbank buys and buys. Like there is no tomorrow. But the overall policy plan was left unchanged last week, and liquidity support facilities are beginning to be rolled back and sterilization of excess liquidity has started with the increase of the certificate cap. We change our policy cycle input from “easing” to “neutral”. Our duration bias process is now closer to switching a notch towards more shortness.

Covered bonds may benefit from the index-extension during May. The covered curve is also rather steep. At the same time underlying drivers of issuance is pointing at more bond supply going forward, and bond unfriendly environment may hurt covereds as well.



Duration

(short/long)



This week

UNCH

Covereds

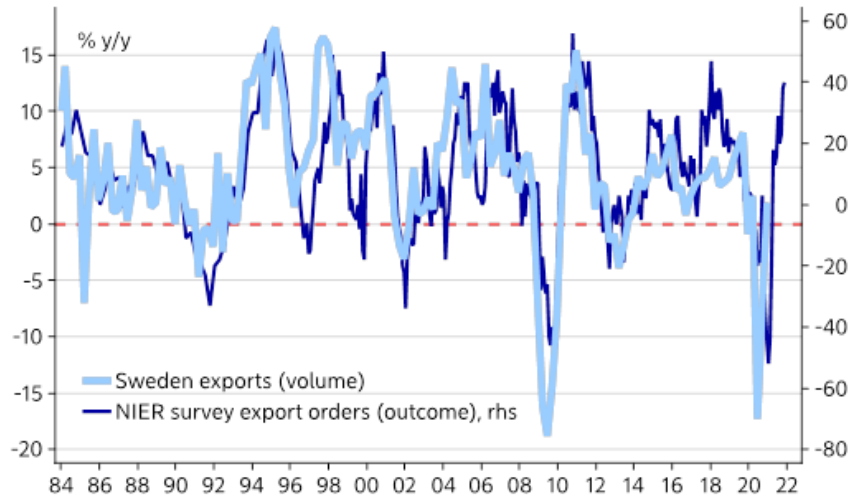
(underweight/overweight)



UNCH

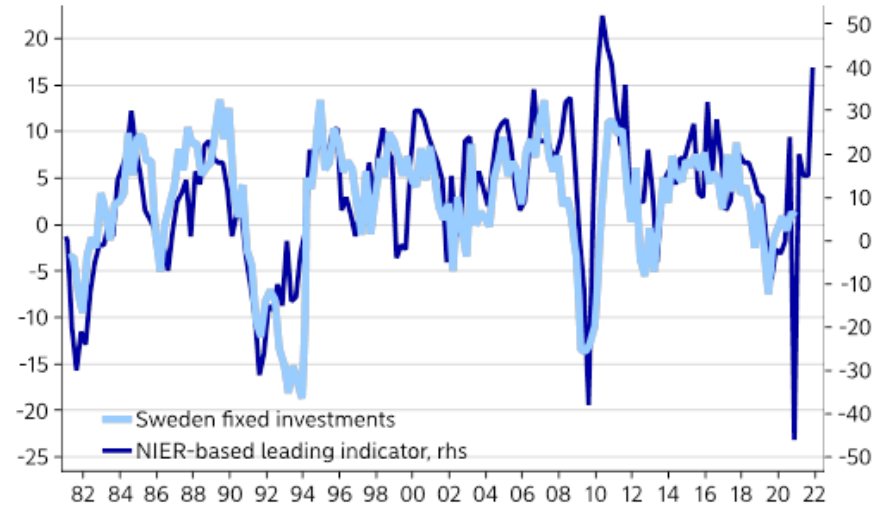
SEK macro: Activity roars, but inflation is dead

1. Survey indicators for industry massively on the upside



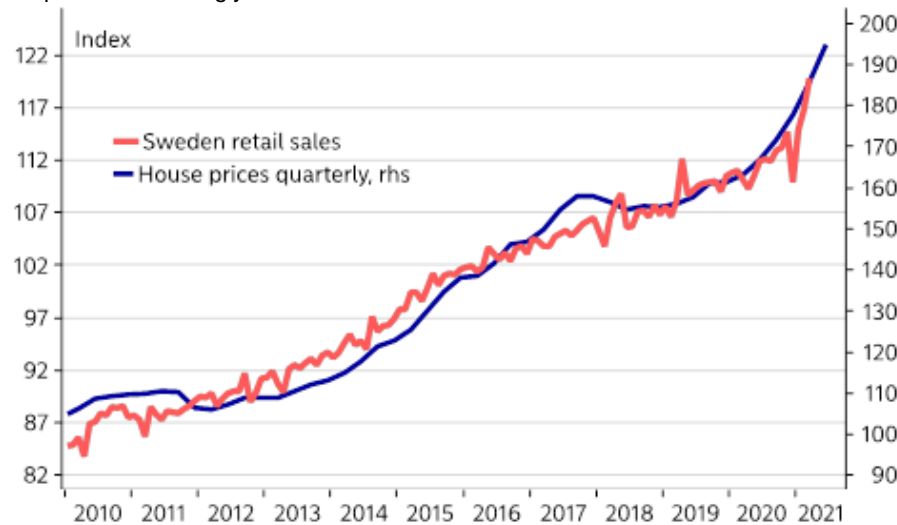
Source: Macrobond and Nordea

2. And domestic drivers of growth also improving in a big way



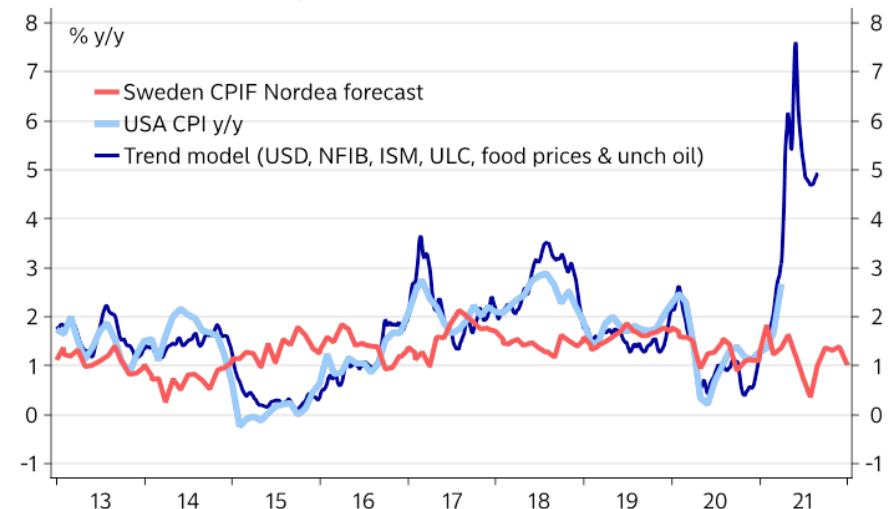
Source: Macrobond and Nordea

3. Households have hoarded cash and are asset prices junkies. Retail sales exploded accordingly.



Source: Nordea Markets and Macrobond

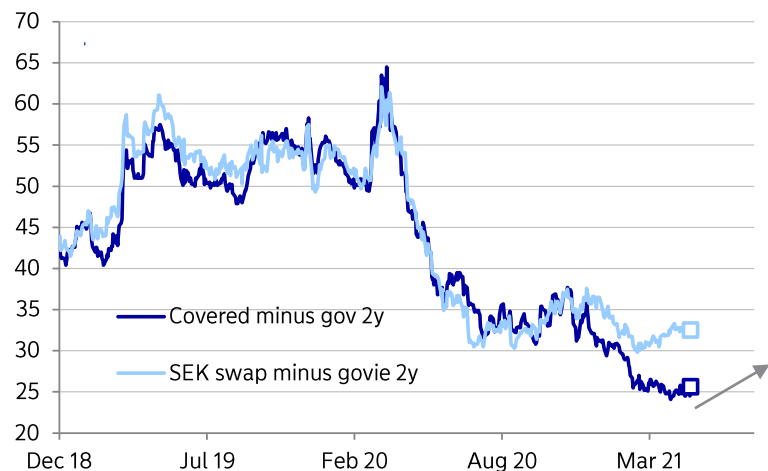
3. But low wages increases, a globalized labour market, retail prices capped by web-based competition and a passive fiscal policy make Swedish inflation outlook bleak, especially compared to the US.



Source: Macrobond and Nordea

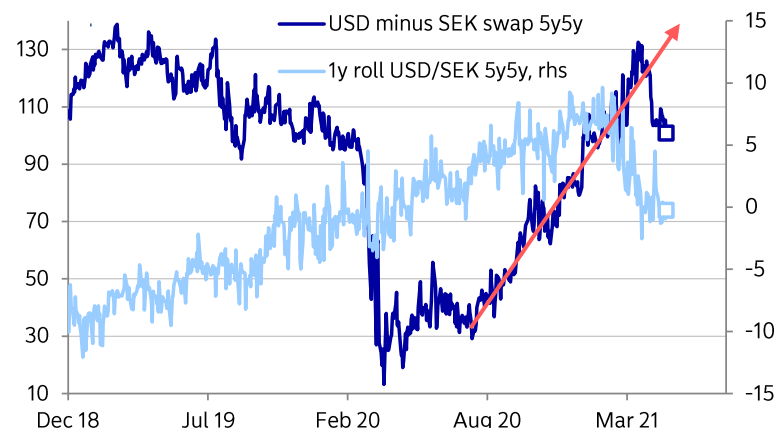
Trade Ideas: Sell front-end covereds vs govies

1. Covereds. Front-end covereds are very, very rich. No doubt that there are good reasons for this: covered QE, massive excess liquidity, high deposit stocks, scarcity of short-term assets (?) and issuers that gradually lowers their repo rates. One can argue that the “fair-value” of 2y covered ASWs should be around -10 bps, i.e. close to current levels. Still, comparing covereds to govies, the super-tight spread levels and the continued scarcity in SGBs make covered/govie spread wideners an option for market turbulence with “zero” option premium. What is there not to like? As the certificate cap increases step by step, ON excess liquidity will dwindle and the marginal money-market rate will likely rise from the -10bps handle and creep up towards the policy rate, pulling front-end covereds with it.



Source: Nordea

2. Country spread. The increase in USD long-end rate since H2 2020 has made it very expensive to be short US treasuries vs Bunds or SGBs for a repo funded or FX hedged investor. However, looking at forward started swaps, the paying USD 5y5y vs SEK rolls close to flat (and even slightly positive). The trend in the spread is obvious and the recent set-back may prove temporary. An important driver over the coming months may turn out to be relative inflation. Indicators for US inflation point to the moon, while for Sweden they point straight down into the under-world. Swedish CPI ex energy y/y numbers will reach (according to our forecast) near 20-year lows during the summer. The divergence in fiscal response to the pandemic and Sweden’s globally integrated labour market (in 2020 working permits for foreigners were the third highest on record, despite travel restrictions and lock-downs) may also manifest itself in higher USD 5y5y relative SEK.



Source: Nordea

3. Relative value trade ideas

| Action | Date | Trade | Comment |
|--------|-------------|---|---|
| New | 6-May-2021 | Receive SEK swap 5y5y, pay in USD | Cheap way to exposed for higher USD rates and low Swedish inflation |
| New | 6-May-2021 | Sell 2y Shyp bond future, buy 2y SGB bond future | Cheap option for market turbulence |
| Remove | 8-Apr-2021 | Buy SGB 1062 vs bunds, sell SGB 1059 vs bobls (risk weighted 2:1) | Could have more given index-extension, but value-wise SGBs look rich (+8 bps) |
| | 18-Mar-2021 | Buy Shyp 1594 ASW, sell Shyp 1587 ASW | Covereds should be more resilient than swaps on higher rates |
| Remove | 11-Mar-2021 | Steepen SGBi 3112/3111, flatten SGB 1059/1056 | No catch up to global trend and no action in CPI near-term. (+3 bps) |

References: Publications year-to-date

Swedish interest strategy publications year-to-date:

22-Apr-2021 [THURSDAY1500: Riksbank preview](#)
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 flattens 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](#)

...

...

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...](#)
19-Nov-2020 [THURSDAY1500: A scent of balance sheet in the air](#)
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](#)

Disclaimer and legal disclosures

Origin of the publication or report

This publication or report originates from: Nordea Bank Abp, including its branches Nordea Danmark, Filial af Nordea Bank Abp, Finland, Nordea Bank Abp, filial i Norge and Nordea Bank Abp, filial i Sverige (together "Nordea") acting through their unit Nordea Markets.

Nordea Bank Abp is supervised by the European Central Bank and the Finnish Financial Supervisory Authority and the branches are supervised by the European Central Bank and the Finnish Financial Supervisory Authority and the Financial Supervisory Authorities in their respective countries.

Content of the publication or report

This publication or report has been prepared solely by Nordea Markets.

Opinions or suggestions from Nordea Markets may deviate from recommendations or opinions presented by other departments in Nordea. The reason may typically be the result of differing time horizons, methodologies, contexts or other factors.

Opinions and price targets are based on one or more methods of valuation, for instance cash flow analysis, use of multiples, behavioural technical analyses of underlying market movements in combination with considerations of the market situation and the time horizon. Key assumptions of forecasts, price targets and projections in research cited or reproduced appear in the research material from the named sources. The date of publication appears from the research material cited or reproduced. Opinions and estimates may be updated in subsequent versions of the publication or report, provided that the relevant company/issuer is treated anew in such later versions of the publication or report.

Validity of the publication or report

All opinions and estimates in this publication or report are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report and are subject to change without notice.

No individual investment or tax advice

The publication or report is intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. This publication or report has been prepared by Nordea Markets as general information for private use of investors to whom the publication or report has been distributed, but it is not intended as a personal recommendation of particular financial instruments or strategies and thus it does not provide individually tailored investment advice, and does not take into account the individual investor's particular financial situation, existing holdings or liabilities, investment knowledge and experience, investment objective and horizon or risk profile and preferences. The investor must particularly ensure the suitability of an investment as regards his/her financial and fiscal situation and investment objectives. The investor bears the risk of losses in connection with an investment.

Before acting on any information in this publication or report, it is recommendable to consult one's financial advisor.

The information contained in this publication or report does not constitute advice on the tax consequences of making any particular investment decision. Each investor shall make his/her own appraisal of the tax and other financial merits of his/her investment.

Sources

This publication or report may be based on or contain information, such as opinions, recommendations, estimates, price targets and valuations which emanate from:

Nordea Markets' analysts or representatives,
Publicly available information,
Information from other units of Nordea, or
Other named sources.

To the extent this publication or report is based on or contain information emanating from other sources ("Other Sources") than Nordea Markets ("External Information"), Nordea Markets has deemed the Other Sources to be reliable but neither Nordea, others associated or affiliated with Nordea nor any other person, do guarantee the accuracy, adequacy or completeness of the External Information.

The perception of opinions or recommendations such as Buy or Sell or similar expressions may vary and the definition is therefore shown in the research material or on the website of each named source.

Limitation of liability

Nordea or other associated and affiliated companies assume no liability as regards to any investment, divestment or retention decision taken by the investor on the basis of this publication or report. In no event will Nordea or other associated and affiliated companies be liable for direct, indirect or incidental, special or consequential damages resulting from the information in this publication or report.

Risk information

The risk of investing in certain financial instruments, including those mentioned in this document, is generally high, as the market value is exposed to a lot of different factors such as the operational and financial conditions of the relevant company, growth prospects, change in interest rates, the economic and political environment, foreign exchange rates, shifts in market sentiments etc. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. When investing in individual shares, the investor may lose all or part of the investments.

Conflicts of interest

Nordea, affiliates or staff in Nordea, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

To limit possible conflicts of interest and counter the abuse of inside knowledge, the analysts of Nordea Markets are subject to internal rules on sound ethical conduct, the management of inside information, handling of unpublished research material, contact with other units of Nordea and personal account dealing. The internal rules have been prepared in accordance with applicable legislation and relevant industry standards. The object of the internal rules is for example to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Nordea Markets that no direct link exists between revenues from capital markets activities and individual analyst remuneration. Research analysts are remunerated in part based on the overall profitability of Nordea Bank, which includes Markets revenues, but do not receive bonuses or other remuneration linked to specific capital markets transactions. Nordea and the branches are members of national stockbrokers' associations in each of the countries in which Nordea has head offices. Internal rules have been developed in accordance with recommendations issued by the stockbrokers associations. This material has been prepared following the Nordea Conflict of Interest Policy, which may be viewed at www.nordea.com/mifid

Important disclosures of interests regarding this research material as well as recommendation changes in the past 12 months are available at: <https://research.nordea.com/FICC>

Distribution restrictions

The securities referred to in this publication or report may not be eligible for sale in some jurisdictions. This research report is not intended for, and must not be distributed to private customers in Great Britain or the United States.

In the United States, to the extent that this publication or report includes an analysis of the price or market for any derivative and is not otherwise exempt from the applicable U.S. Commodity Futures Trading Commission (CFTC) regulations, it is approved for distribution in the United States to US persons that are eligible contract participants from a CFTC perspective. Nordea Bank Abp is a provisionally registered swap dealer with the CFTC. Any derivatives transactions with US persons must be effected in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In Singapore, this research report is intended only for, and may be distributed only to, accredited investors, expert investors or institutional investors who may contact Nordea Bank Singapore Branch of 138 Market Street, #09-01 CapitaGreen, Singapore 048946.

This publication or report may be distributed by Nordea Bank Luxembourg S.A., 562 rue de Neudorf, L-2015 Luxembourg which is subject to the supervision of the Commission de Surveillance du Secteur Financier.

This publication or report may be distributed by Nordea Bank Abp Singapore Branch, which is subject to the supervision of the European Central Bank, the Finnish Financial Supervisory Authority and the Monetary Authority of Singapore.

This publication or report may be distributed in the UK to institutional investors by Nordea Bank Abp London Branch of 6th Floor, 5 Aldermanbury Square, London, EC2V 7AZ, which is under supervision of the European Central Bank, Finanssivalvonta (Financial Supervisory Authority) in Finland and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request.

This publication or report may not be mechanically duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

Further information on Nordea available on www.nordea.com