

SGBs: New 50y SGB (1064)

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

Completion timestamp: 1 June 2021 08:30 CET
Dissemination timestamp: 1 June 2021 09:00 CET



New 50y Swedish government bond:

- The Debt Office plans to issue 10 bn through syndication of the new bond SGB 1064
- Maturity: dd-MMM-2071 (1-June-2071 ?), Coupon: x (1.25% ?)
- Introduction date set to 16 June
- OMRX T-Bond index will increase by a just over 0.5 years and the dv01 of the outstanding SGB stock will increase by ~9%
- Convexity value is considerably higher than in other bonds and offers some protection against higher yields. A 50 bps yield increase will **decrease** the modified duration by ~1.5 yrs (compare this to a 30y DKK callable 1%53 that will experience an **increase** of duration of ~2 yrs with the same shift in the yield curve)

Estimation

- Reasonable range versus SGB 1062:
+80/+105 bps

- Reasonable range versus FRTR 0.5% 25-May-2072:
+10 / +35 bps

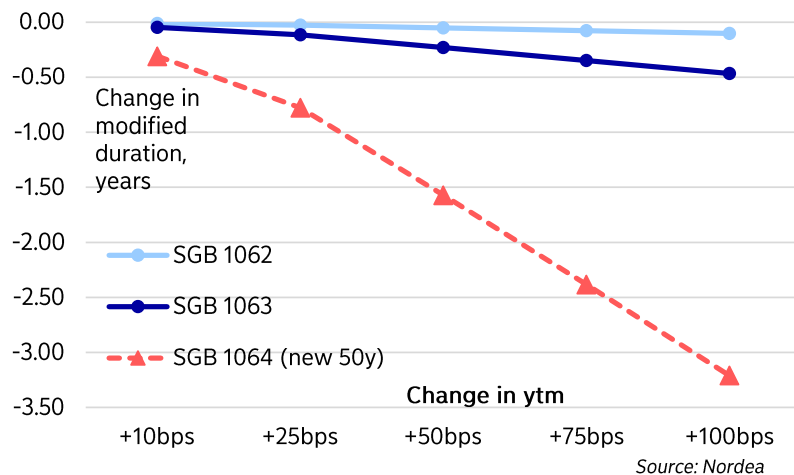
(calc date: 28-May-2021, ref rate 1062=0.415)

Indata and illustration of the convexity value

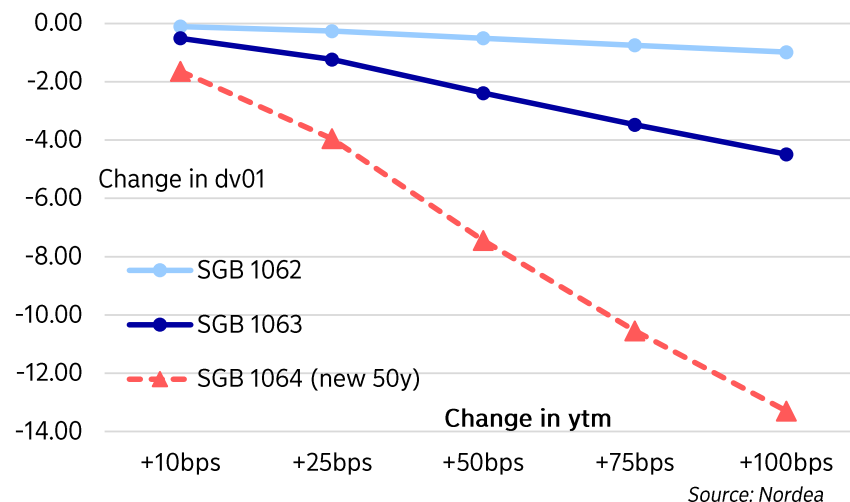
1. Convexity in SGB 1064 significantly higher than in other bonds.

Bond	Coupon	Maturity	Yield	Repo rate	Dirty price	ttm	Mod dur	DV01	Convexity	OutAmt	RB Owns%
SE 1054	3.5	2022-06-01	-0.345%	-0.350%	103.8630	1.01	1.00	1.04	0.02	108.1	61%
SE 1057	1.5	2023-11-13	-0.285%	-0.350%	105.2204	2.46	2.41	2.54	0.09	95.9	56%
SE 1058	2.5	2025-05-12	-0.160%	-0.350%	110.6733	3.96	3.82	4.22	0.21	76.1	57%
SE 1059	1	2026-11-12	0.005%	-0.325%	105.9719	5.46	5.31	5.62	0.36	76.2	49%
SE 1060	0.75	2028-05-12	0.169%	-0.250%	104.0489	6.96	6.79	7.06	0.56	57.5	54%
SE 1061	0.75	2029-11-12	0.298%	-0.325%	104.1799	8.47	8.17	8.51	0.79	60.3	53%
SE 1062	0.125	2031-05-12	0.415%	-0.325%	97.1855	9.96	9.85	9.57	1.04	49.1	39%
SE 1056	2.25	2032-06-01	0.503%	-0.325%	118.6495	11.02	9.93	11.78	1.36	26.5	50%
SE 1053	3.5	2039-03-30	0.787%	-0.275%	145.5601	17.85	14.21	20.69	3.56	43.2	33%
SE 1063	0.5	2045-11-24	0.943%	-0.125%	90.6168	24.51	22.73	20.60	5.09	15.5	23%
SE 1064	1.25	2071-06-01	1.250%	0.000%	100.0000	50.04	37.01	37.01	16.76	10.0	

2. Change in modified duration to change in yield-to-maturity

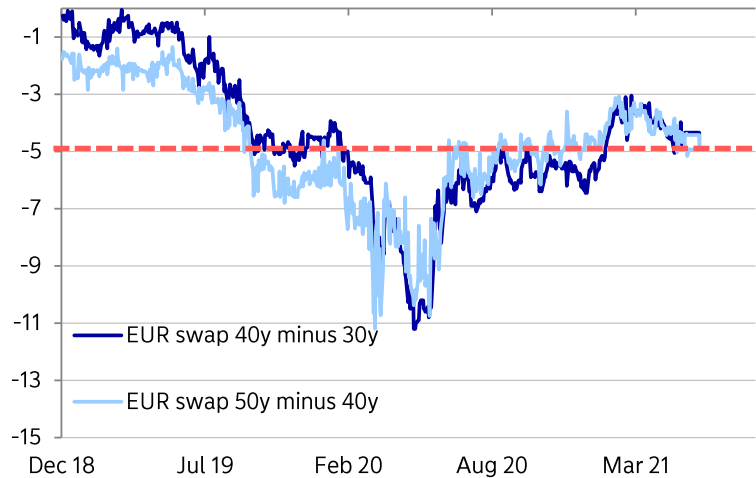


3. Change in dv01 to change in yield-to-maturity



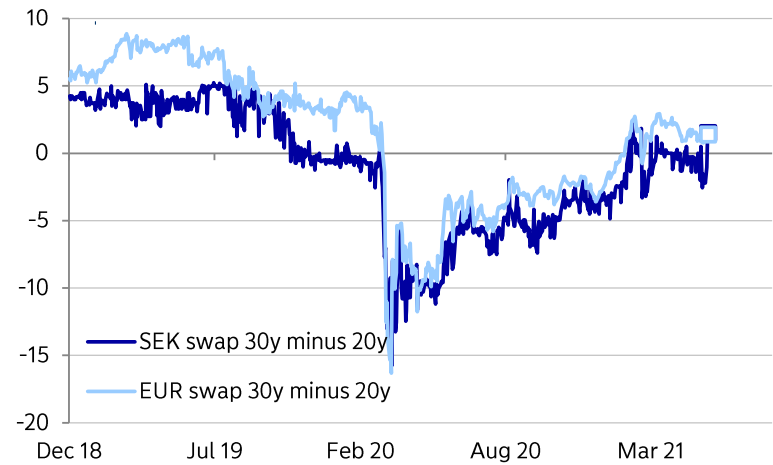
Assuming a SEK swap 30y+ curve

1. The EUR swap curve is inverted on tenors 30y+ and the negative slope has been relatively stable around -5 bps since H2 2020



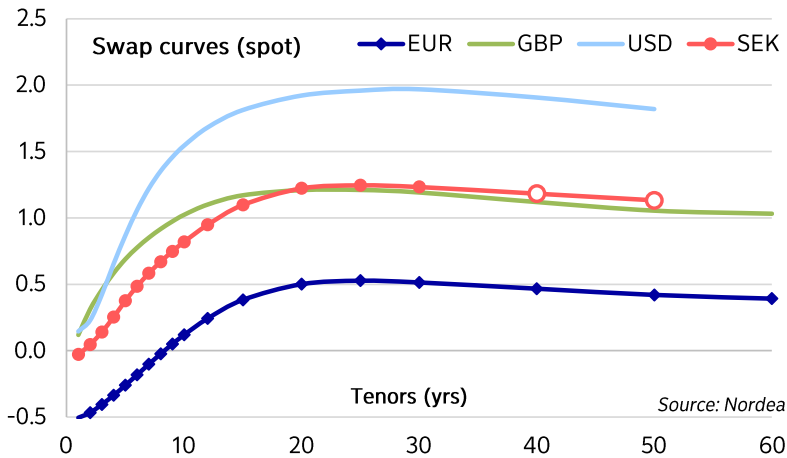
Source: Nordea

2. The SEK swap curve slope has recently been a mirror of EUR swap curve in the segment 20/30y.



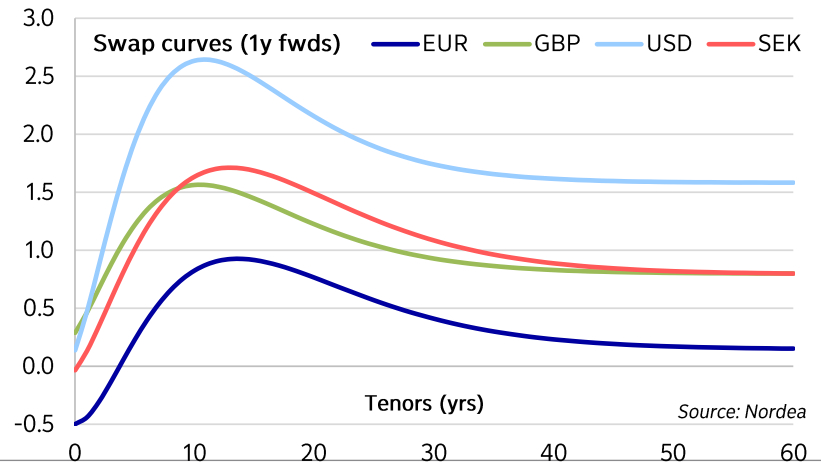
Source: Nordea

3. We assume a SEK 40y swap 5 bps below the SEK 30y swap and a 50y swap 5 below the 40y swap...



Source: Nordea

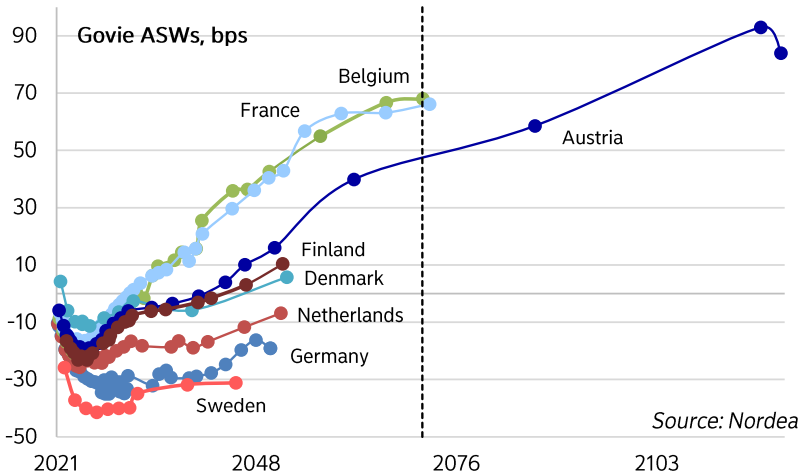
4. This gives us an extended SEK swap curve that neither in spot nor in forward space is obviously wrong.



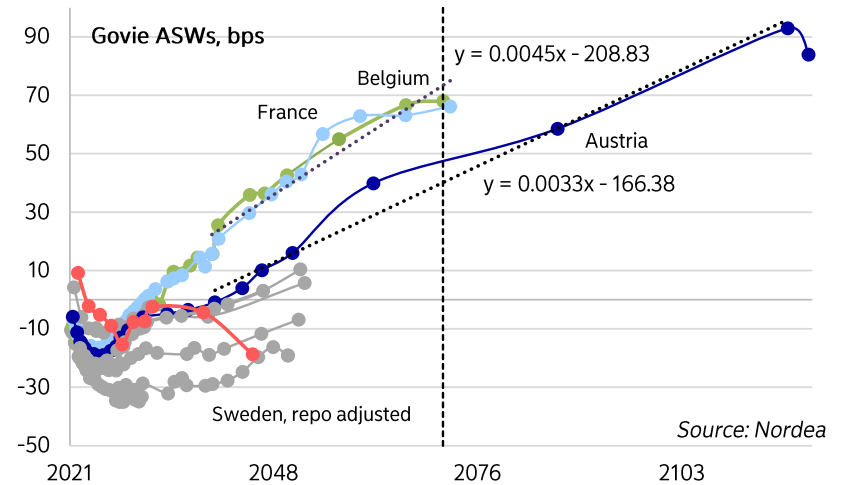
Source: Nordea

Comparing SGB and Euro ASWs

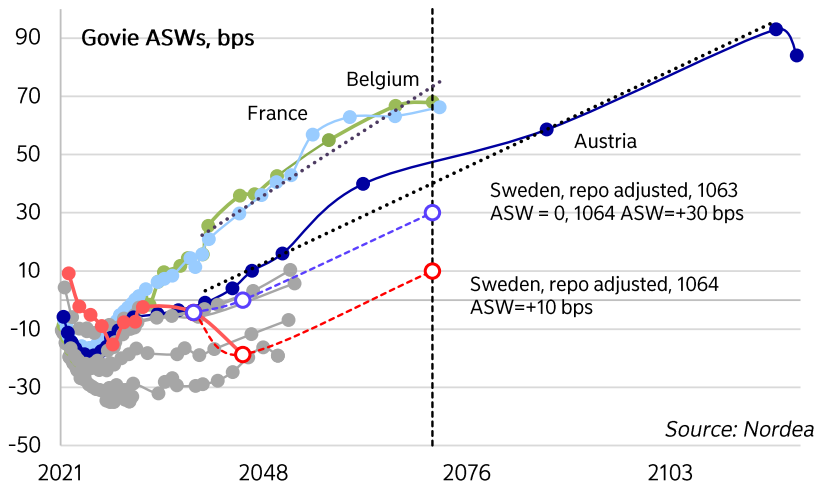
1. We compare the SGB long-end to core Euro govies to up around 30y and then to Austria, France and Belgium on tenors ~50y, using our estimation on SEK swaps 30y+ on the previous page.



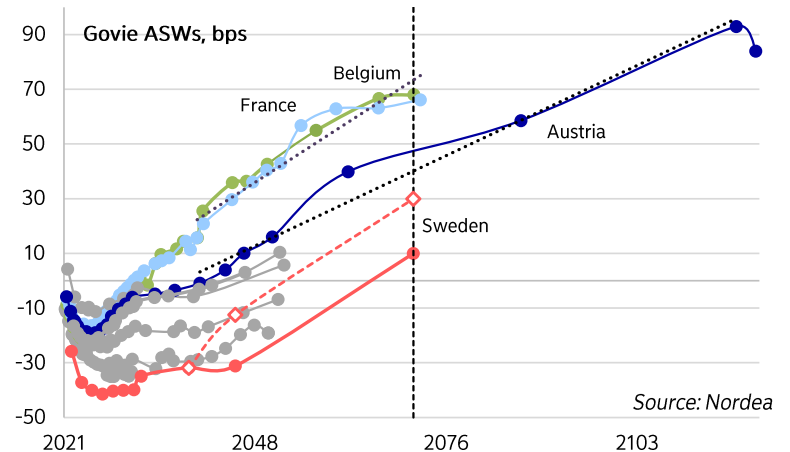
2. We look at the slope in the ASW curve on tenors 20y+ and also make repo squeeze adjustments in each SGBs



3. We then assume a reasonable number for the repo adjusted SGB 1064 ASW, both with the current reading of SGB 1063 and allowing 1063 to be set higher than current level (in order to fit to the steeper Euro ASW slope)

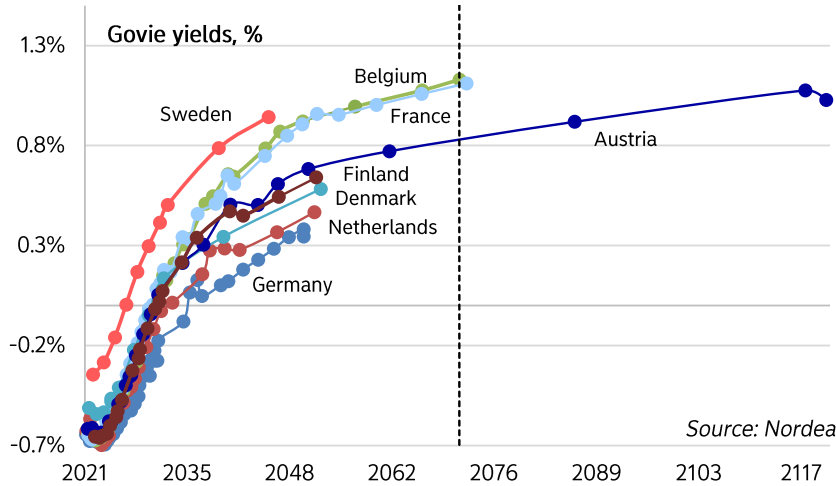


4. Recalculating the SGB ASW to market ASWs and then putting the number into context of SGB 1062 and a spread to the French longest bond maturing in 2072, we get levels according to box below...

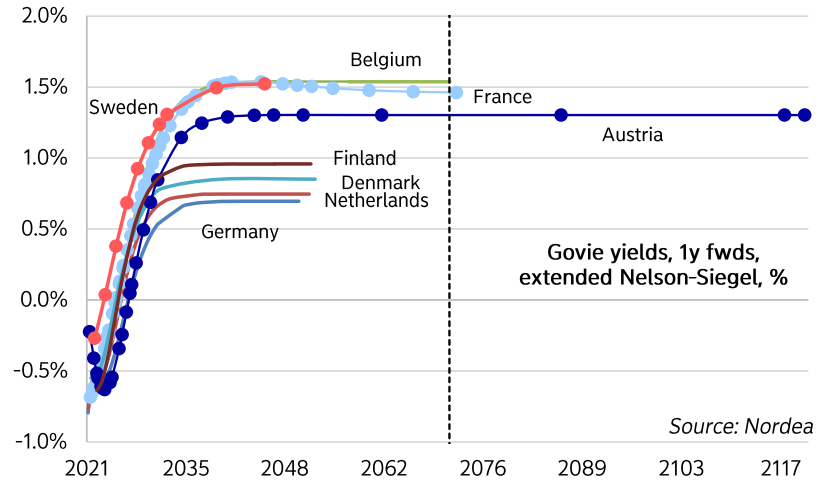


Comparing to Euro bond yields

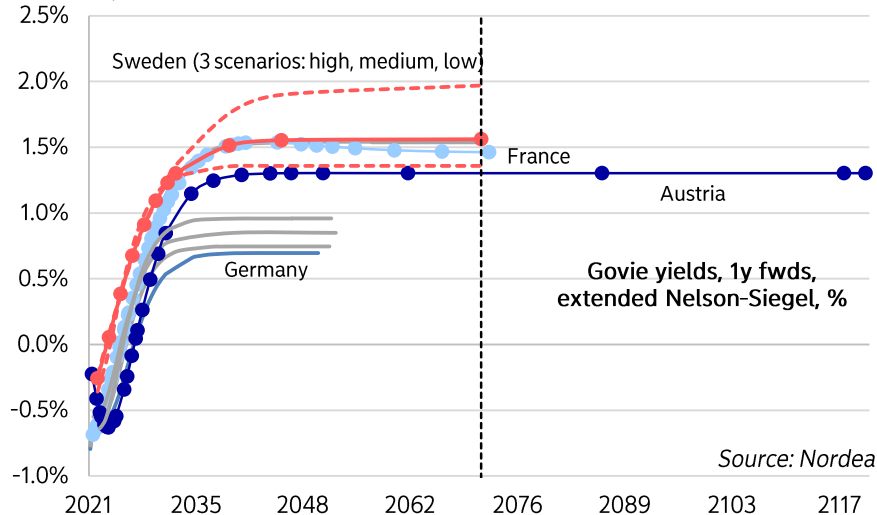
1. Yield curves using yield-to-maturities



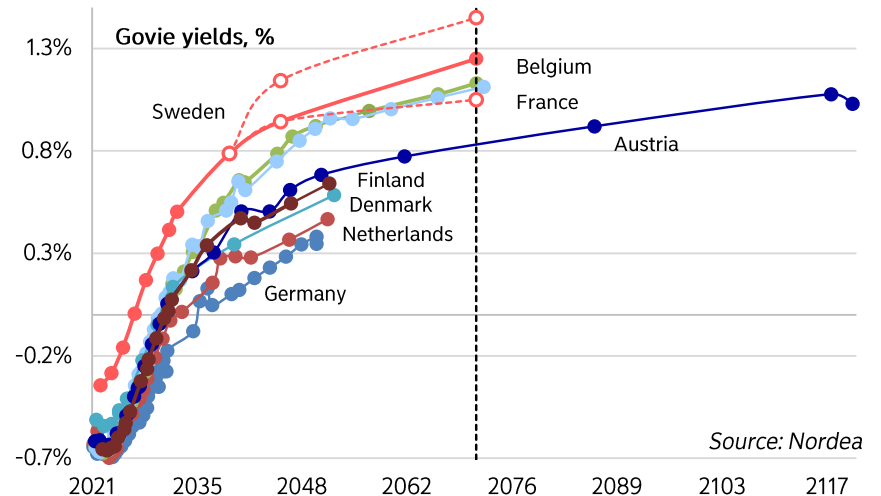
2. 1y forward yields using an extended Nelson-Siegel model



3. 1y forward rates in three scenarios for SGB 1064. The forward converge to 2%, 1.5% and 1.35%.



4. Low scenario assumes 1y fwd spread to Germany the same on SGB 1064 as for short maturities, the medium and high scenarios correspond to the two scenarios on the previous page (pricing versus ASWs)



Impact on bond index

Impact on government bond index of 10bn in outright issuance

Calc date: 2021-05-31
 Previous reweight date (t=0): 2021-05-31
 Next reweight date (t=1): 2021-06-10

Dur index (calc date): **t=0** 7.16 **t=1** 7.70

Chg
0.540

Bond	Maturity	Amount		Weight		MDur(calc date)	Change in Weight	Change in nominals	Duration weight t=1
		t=0	t=1	t=0	t=1				
SE 1057	2023-11-13	95,885	95,885	18.6%	18.2%	2.41	-0.34%	0	5.7%
SE 1058	2025-05-12	76,126	76,126	15.5%	15.2%	3.81	-0.28%	0	7.5%
SE 1059	2026-11-12	76,164	76,164	14.8%	14.6%	5.30	-0.27%	0	10.0%
SE 1060	2028-05-12	57,513	57,513	11.0%	10.8%	6.78	-0.20%	0	9.5%
SE 1061	2029-11-12	60,339	60,339	11.5%	11.3%	8.16	-0.21%	0	12.0%
SE 1062	2031-05-12	49,140	49,140	8.8%	8.6%	9.84	-0.16%	0	11.0%
SE 1056	2032-06-01	26,500	26,500	5.8%	5.7%	9.92	-0.10%	0	7.3%
SE 1053	2039-03-30	43,213	43,213	11.5%	11.3%	14.20	-0.21%	0	20.9%
SE 1063	2045-11-24	15,472	15,472	2.6%	2.5%	22.72	-0.05%	0	7.4%
SE 1064	2071-06-01	0	10,000	0.0%	1.8%	37.01	1.81%	10,000	8.7%

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