

SEK rates: 5 bps spread widening may be the new 50 bps

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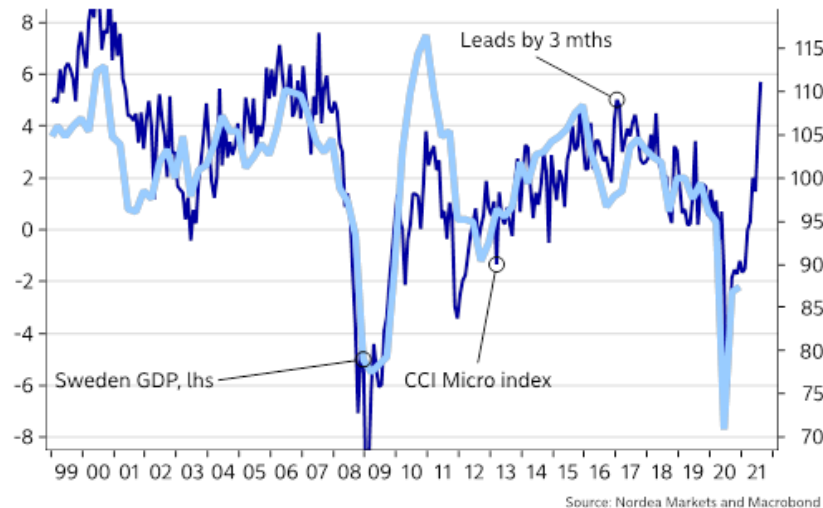


Duration: Oh, la la, what a NIER survey!

1. A super-momentum in Swedish macro manifested itself in last week's NIER survey, consistent with growth number in the range 4 to 6 % (!)



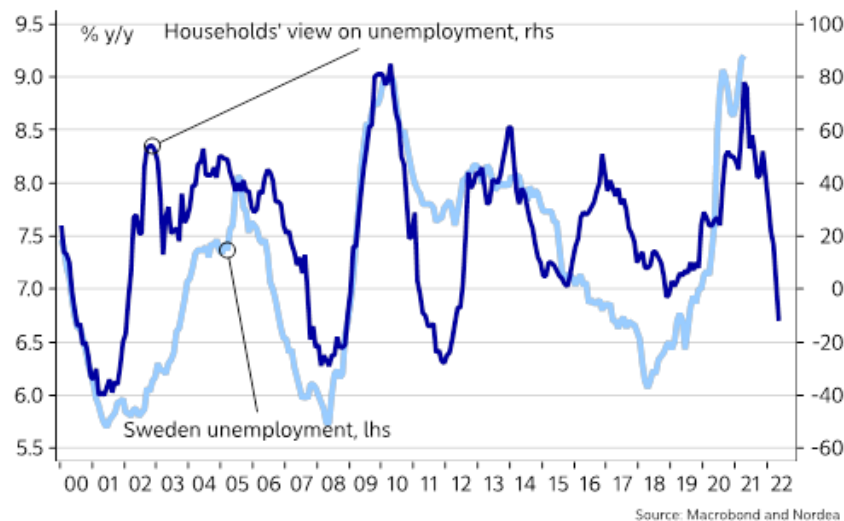
2. And the households are on fire...



2. ...as is also visible in increasing demand in services...

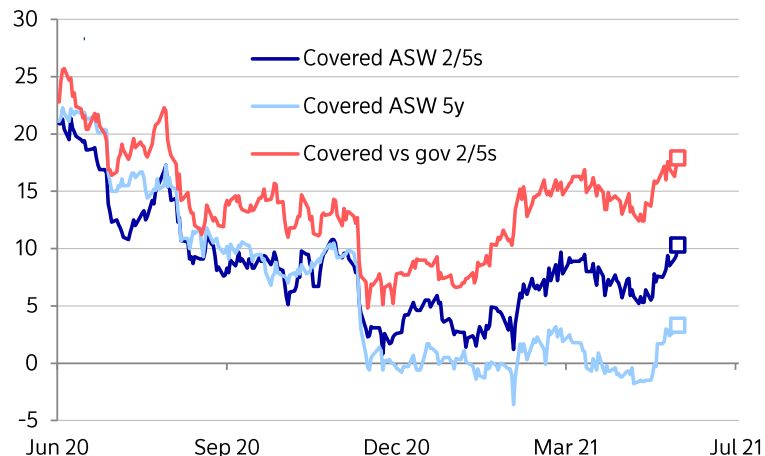


4. ...as in expectations on a super-labour market. Do not underestimate the wisdom of crowds!



Duration & covereds: Is 5 bps the new 50 bps?

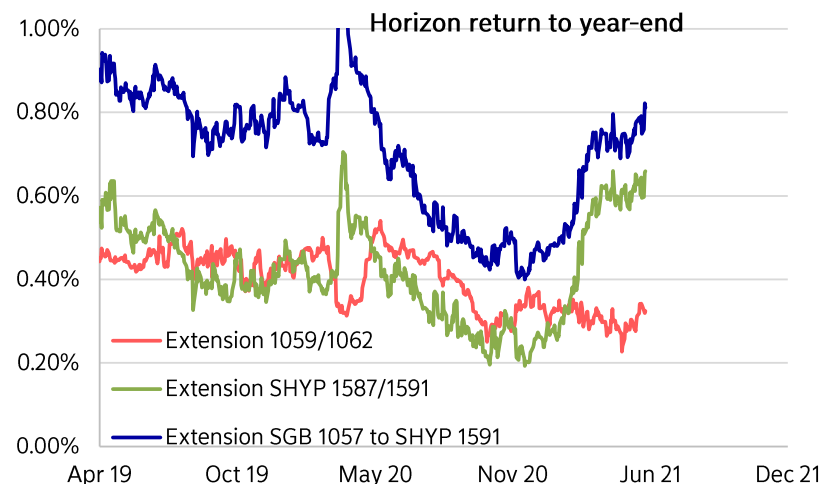
1. A tiny spread widening, but still a decently steep spread curve. Perhaps a 5 bps widening 2021 correspond to a 50 bps widening 2015 when there was no weekly Riksbank buying in the market?



Source: Nordea

4. Bias on duration and covereds Covered bonds spreads have widened recently. Although the widening looks smallish compared to historical widenings, one should remember that today's market has little to do with the markets in the past. A few bps widen may all there may be with a +400bn covered bond buyer active according to a weekly schedule. The front-end of the covered curve also looks rich and extension on the covered curve looks attractive relative the government curve. We have argued that the heated housing market and strong economy is starting build pressure on the Riksbank to adjust policy, and potentially scale back purchases of covereds. But, this will however take time and most likely the QE program for 2021 will be fully implemented, meaning that the Riksbank will continue to be a large buyer of covereds for many months. Also issuance in H1 has been higher than expected and many new bonds have been launched: should mean that issuers are flexible in their issuance over the summer. In 2020, the Riksbank bought covereds at seven dates between the midsummer holiday and the end of August. Although a bit slower purchase in July is likely, but still QE will be a present force over the summer. The covered index-extension in June will be 0.24 years. We turn our covered bias from neutral to bullish, hoping for a consolidation in covereds after the recent rout.

2. Decent extension value in covereds relative govies.



Duration

(short/long)



Covereds

(underweight/overweight)



This week

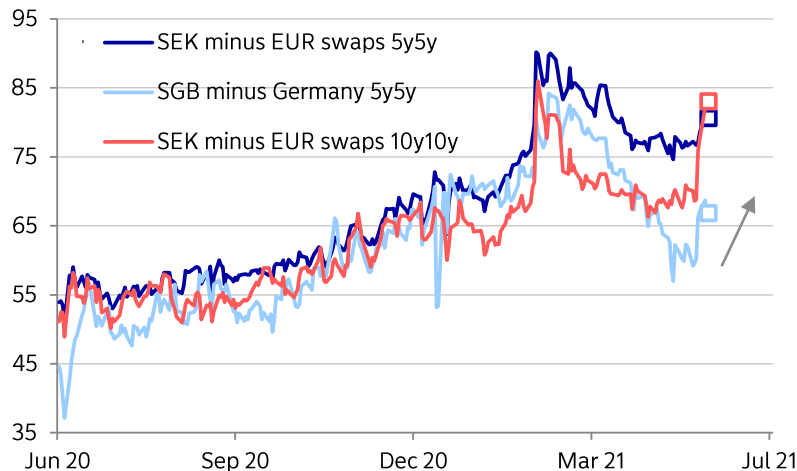
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+1

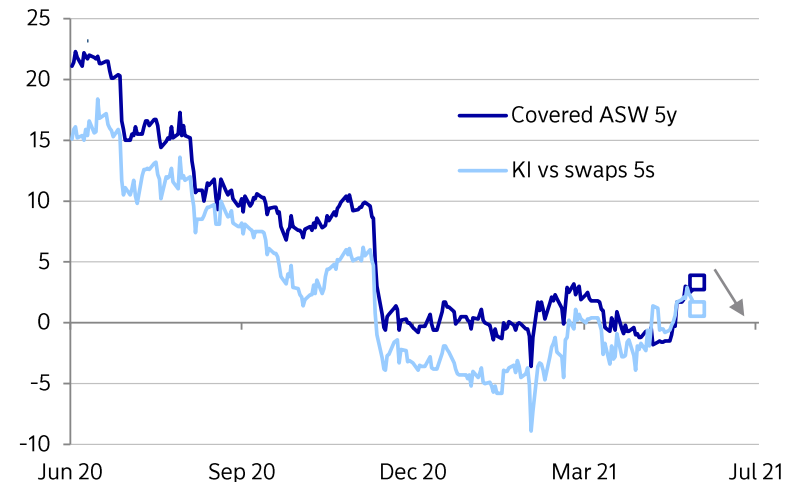
Trade Ideas: Steepening from new 50y, end game of the micro-route in coveredds?

1. Long-end The surprise new SGB 50y (target volume 10bn adding more than 9% in dv01 to the stock of outstanding SGBs, read more [here](#)) has put a steepening pressure on the SEK rate yield curves, especially on tenors longer than 10y. This has pulled forward spreads to EUR up but only marginally steepened the govie curve on more "regular tenors" such as 5/10s. We believe that there could be continued spill-over effects from the 10y+ steepening to also shorter maturities and adjust our list of trade ideas accordingly.

2. Coveredds In a longer historic perspective, the covered recent covered spread widening looks tiny. But one should remember that the pre-QE world may have little to do with the post-QE world. Remember the 50 bps ASW spread widening in 2015 and try to imagine the worth in basis points of a 400+ bn covered buyer at during than point in time. What is a 50 bps spread widening in a 2015-world worth in a 2021 QE-dominated world? Perhaps a 5 bps widening is all there can be? What if the spread tightens back around zero, how long will one have to wait for another 5 bps performance?



Source: Nordea



Source: Nordea

3. Relative value trade ideas

Action	Date	Trade	Comment
	27-May-2021	Buy SGB 1059/Sell 1062	<u>Surprise announcement of new 50y bond should steepen curve.</u>
	20-May-2021	Steepen 1057/1059 vs schatz/bobls	<u>Bounce in SGB yields as extension and borrowing report events rolls off</u>
Remove	6-May-2021	Receive SEK swap 5y5y, pay in USD	Case of lower Swedish inflation than in US still valid, but new SGB 50y near-term risk for trade. Let's revisit later (0 bps)
	6-May-2021	Sell 2y Shyp bond future, buy 2y SGB bond future	<u>Cheap option for market turbulence</u>
	18-Mar-2021	Buy Shyp 1594 ASW, sell Shyp 1587 ASW	Covereds should be more resilient than swaps on higher rates

References: Publications year-to-date

Swedish interest strategy publications year-to-date:

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 27-May-2021 [THURSDAY1500: Despite less issuance, 50y SGB adds duration](#)
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 8-Apr-2021 [THURSDAY1500: Government index-extension at the gate](#)
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 18-Mar-2021 [THURSDAY1500: Fear the swap market, not covered](#)
 17-Mar-2021 [SEK linkers: BEI curve flatteners and a look at 3108 ahead of switches](#)
 11-May-2021 [THURSDAY: Monetary policy mid-cycle](#)
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 17-Dec-2020 [THURSDAY1500: It's beginning to look a lot like 2021](#)
 10-Dec-2020 [THURSDAY1500: Stibor flooded with hot SEK liquidity](#)
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 10-Nov-2020 [SEK linkers: No love from policy makers](#)
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 21-Oct-2020 [Stibor: Certainly uncertain going into year-end](#)
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 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 covered: Supply update May](#)

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