

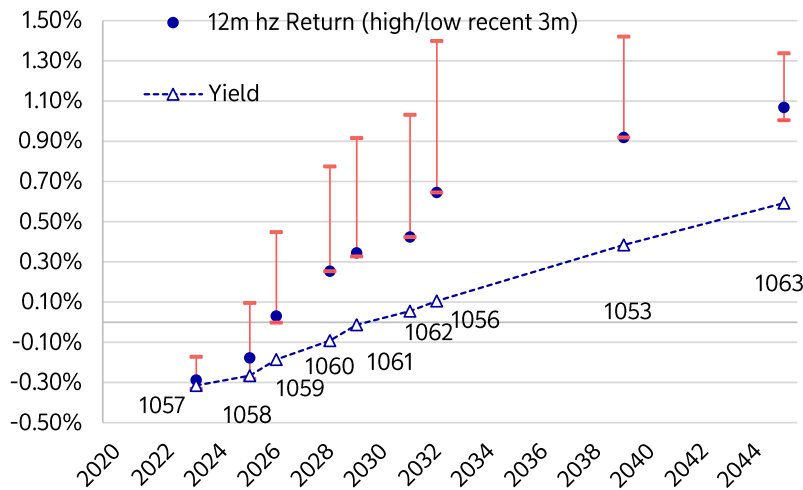
SEK rates: Positive carry & roll that should work on higher rates

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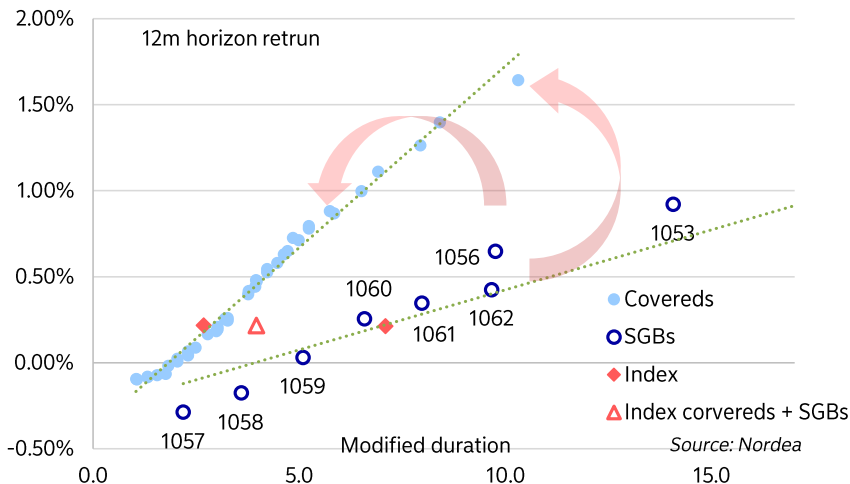
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Duration & covereds: After bull flattening, covereds a haven as SGBs look rich

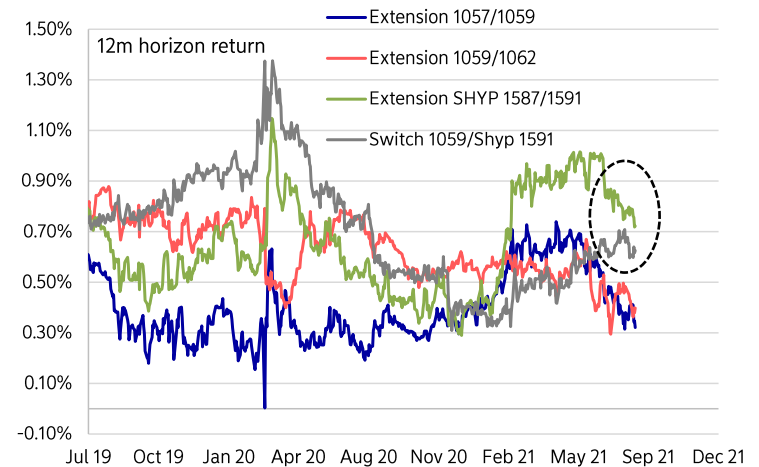
1. A majestic bull flattening during the summer has evaporated horizon return pickup from durations extensions on tenors longer than 5y.



3. Switching from SGB 1062s or 1056s into the longest covereds such as SBAB 153s make sense. If you look for a short duration bias (not us currently!), switching from 10y SGBs to 5y covereds should be of interest.



2. Value in terms of horizon return pickup can now be found not only in duration extensions in covereds but equally in under-weight in govies relative covereds on 5y tenors (and longer).



4. **Bias on duration and covereds.** We remain neutral on duration this week. We note that oil prices and the EURSEK both have taken a turn towards the upside (higher inflation) recently. The Riksbank should stay passive at the upcoming September meeting. The probability for a more expansionary government budget for 2022 has increased with the prime minister announcing his resignation and growing tensions among the political parties supporting the current left-green government. We estimate the consensus expectation for fiscal reforms in 2022 is in the range 50 to 75 bn SEK (1 to 1.5% of GDP).

Covereds have richened in the 5y segment and it is hard to claim covereds are cheap at these levels versus swaps. Still govies are looking even richer and covereds may gain some support from the September index-extension. So should we stick with a bias that say "over-weight covereds" if the actual bias is "under-weight govies"? Just focusing on the covered/govie spread the over-weight covered case holds, but more broadly versus other asset classes we are neutral on covereds at these levels.

Duration
(short/long)



UNCH

Covereds

(underweight/overweight)

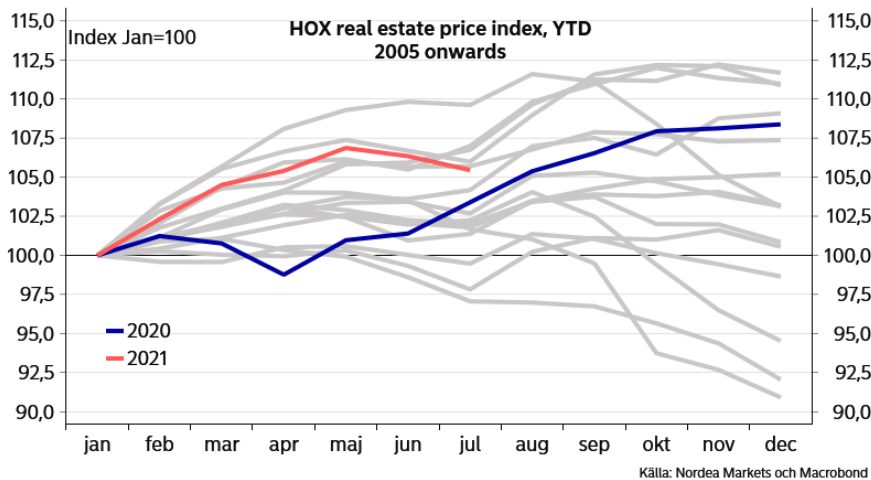


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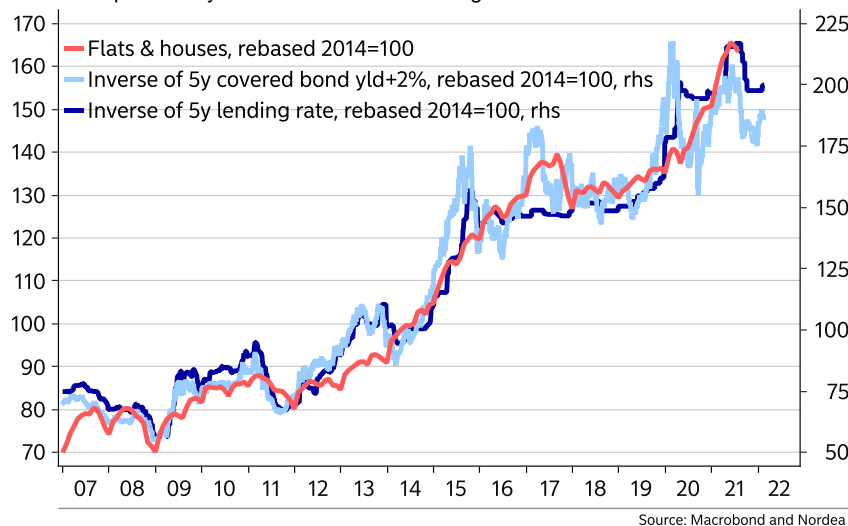
Change this week

SEK macro: Headwind to house prices

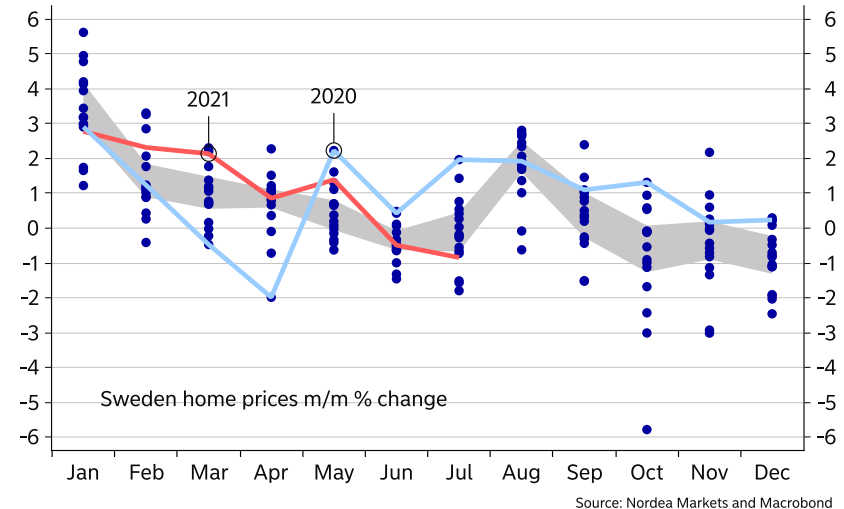
1. Swedish house prices have slowed recently and fell in July. Into the autumn there are some factors for further decreases that are aligned: re-activation of the mandatory amortization rules starting in September, households getting less...



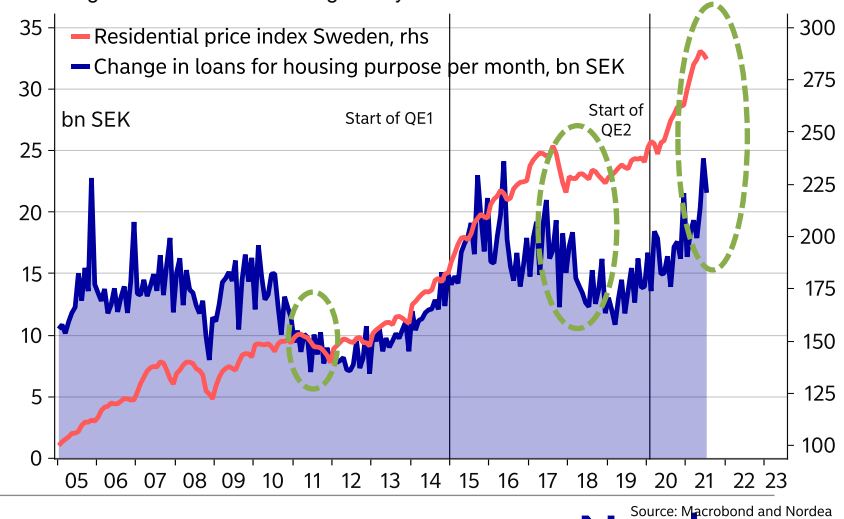
3. A large part of households have floating mortgage rates, but an increasing part has fixed their rates over the recent few years. Longer term mortgage rates have been on the decline, partly because of Riksbank intervention in the covered bond market, and this has likely contributed to rising house prices. But now longer mortgage rates is not decreasing anymore so house prices may find it hard to continue surge.



2. ...optimistic on house prices in surveys, affordability has decreased due to price increases, low wage growth continues and lending rates are not falling anymore.

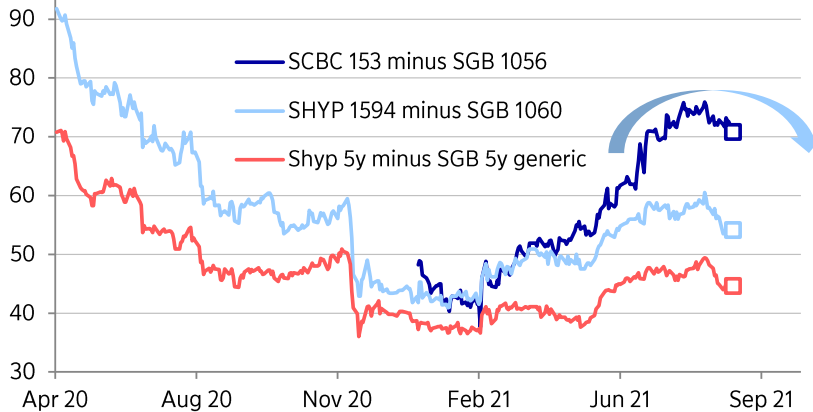


4. Indeed, with a fixed and low mortgage rate, a household could increase the loan size with equal interest payment and lower refinancing risk, perhaps stimulating more borrowing. With long mortgage rates reaching a floor (?) and house prices decreasing, perhaps lending to households will start to level off? Too early to say, but at least an interesting scenario for H2. Lending in July came down a bit but is still at elevated levels.



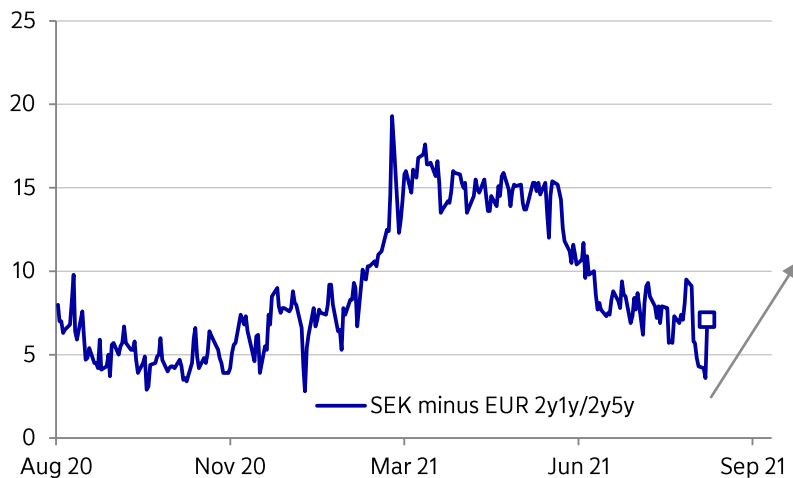
SEK rates: Hunting high and low (but mostly low) for roll & carry

1. The Riksbank has submerged beneath the news and information surface to reappear perhaps in late 2022. Macro is cooling but remain solid. Long-end rates may be in for a pause, but over the medium term the next step should still be upward for global yields. We look for trades that roll&carry positively and offer some protection for higher global yields.



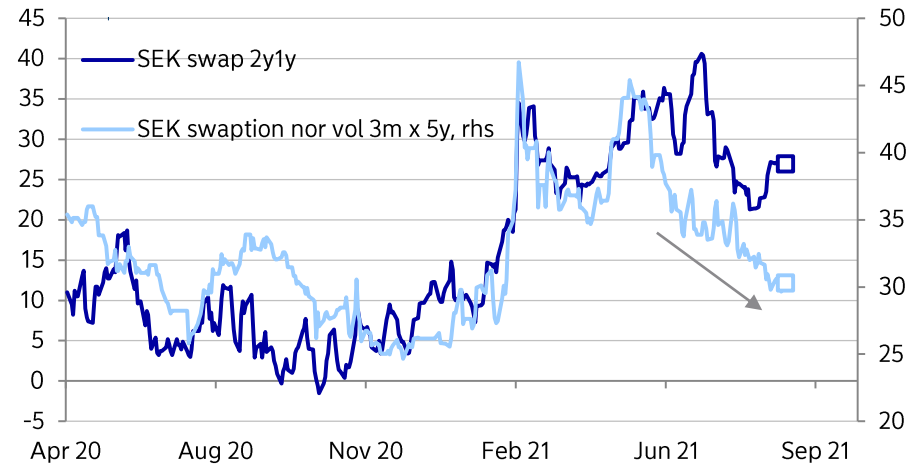
Source: Nordea

3. Steepeners on the SEK curve up to intermediate tenors in spread to EUR offer positive rolldown in for example 2y1y/2y5y. Strange that SEK 0-3y segment pencil in policy divergence Riksbank/ECB but 3y-7y much less so. Should work on higher rates as well.



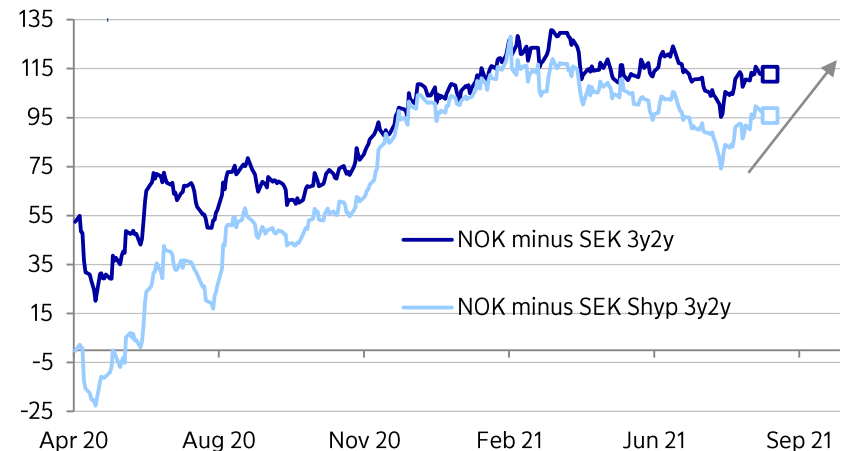
Source: Nordea

2. Selling vol or receiving outright in the front-end are obvious R&C trades, but levels are low and exposure for higher rates obvious. Scary.



Source: Nordea

4. Do not underestimate Norges bank's ability to change the policy rate. When it hikes, it hikes. We expect 25 bps in Sep and 25 bps in Dec. Pricing has been shaved recently, and the NOK curve has flattened. Receive NOK 3y2y vs SEK as a positive rolldown trade with extra rocket fuel potentially being added by Norges bank. For the brave: replace SEK 3y2y with 3y2y proxy using covers for additional carry.

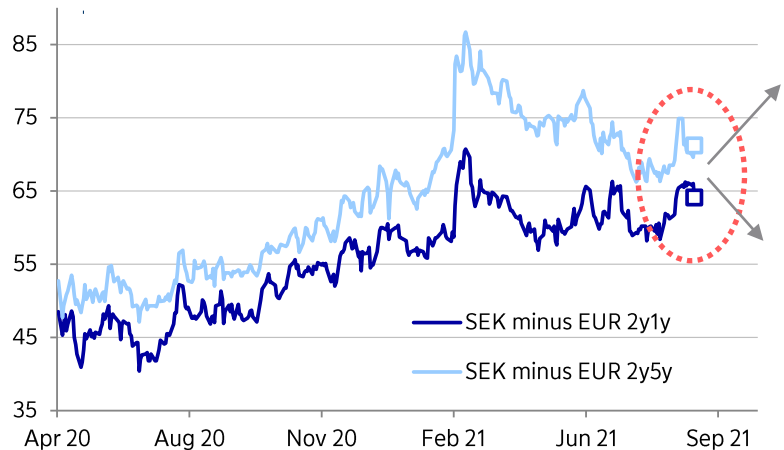


Source: Nordea

Nordea

Trade Ideas: Positive carry and roll that should work on higher rates

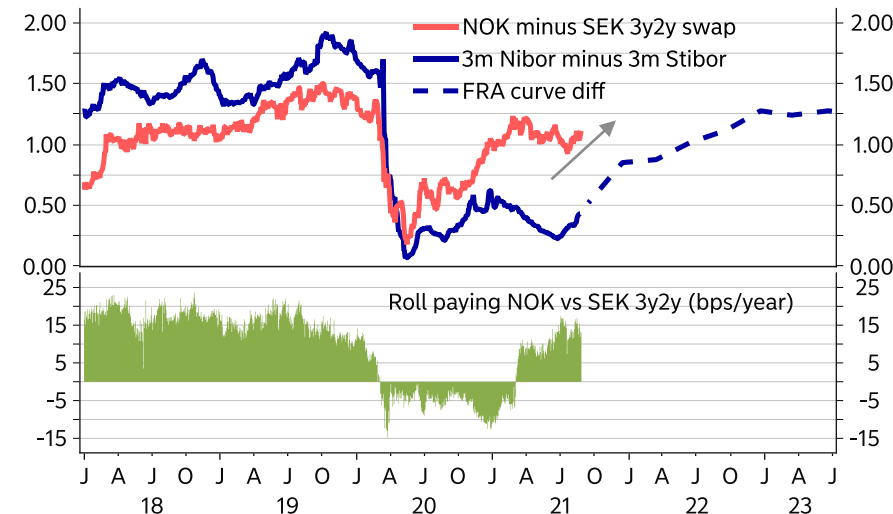
1. Curve If longer rates bounce back up, the yield curve should steepen, not the least on shorter maturities. At the same time, we do not have strong conviction near-term for higher rates based on our duration bias process. A modest rise in long-end rates or stable rates should be an environment that favours rolldown, and a passive Riksbank in September would add to this. SEK steepeners in spread to EUR offer positive rolldown (although not massively) and should be partially protected against higher global bond yields. Also, the SEK/EUR spread curve is in our view too flat from 3y and outward as the market price slower policy rate divergence between the Riksbank and ECB compared to shorter tenors. We thus see value in receiving SEK 2y1y vs EUR and paying SEK 2y5y vs EUR.



Source: Nordea

3. Relative value trade ideas

2. Country spread If the Bank of Norway would publish a rate path today it would likely be higher than the current one and indicate a high probability for two hikes this year (read more in “Norges Bank Right Now: September hike still firmly on track” and “Norges Bank Review: September hike is confirmed”). This is not fully priced by the market in our view. The weak NOK is the main driver behind the need to revise the path upward. At the same time, the NOK yield curve has flattened a lot over the summer. Paying NOK vs SEK in the shorter part of the curve offers positive rolldown while being exposed to the event of repricing of Norges Bank. Also, if global bond yields would increase a bit again, surely NOK rates would increase more than SEK rates. Shorter tenors obviously offers more exposure to the discounting of Norges bank, but less rolldown. If the trade is seen as a rolldown trade with some cushion against higher rates, then a bit longer tenor should be used, like 3y2y.



Source: Macrobond and Nordea

Action	Date	Trade	Comment
New	26-Aug-2021	Buy SCBC 153, Sell SGB 1056	Long end covereds still relatively cheap, govies expensive. Positive roll and carry trade.
New	26-Aug-2021	Steepen SEK 2y1y/2y5y vs EUR	Rolls positively, and why should pricing of policy rate divergence stop @ 3y?
New	26-Aug-2021	Pay NOK 3y2y, receive SEK 3y2y	A positive rolldown trade with potential extra fuel from NB and “protection” against higher global ylds
	19-Aug-2021	Sell SGB 1056 vs swaps	Temporary ASW tightening into 10y futures roll
	19-Aug-2021	Buy SGBi 3112, Sell SGB 1059	SGBi BEI lags global rise into stretch of high m/m headline number
	18-Mar-2021	Buy Shyp 1594 ASW, sell Shyp 1587 ASW	Covereds should be more resilient than swaps on higher rates

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