

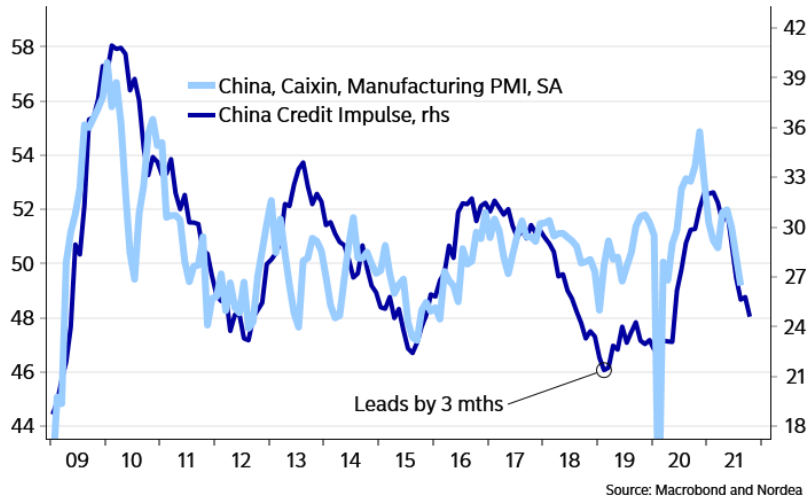
SEK rates: Tapering morphs seamlessly into reinvestments

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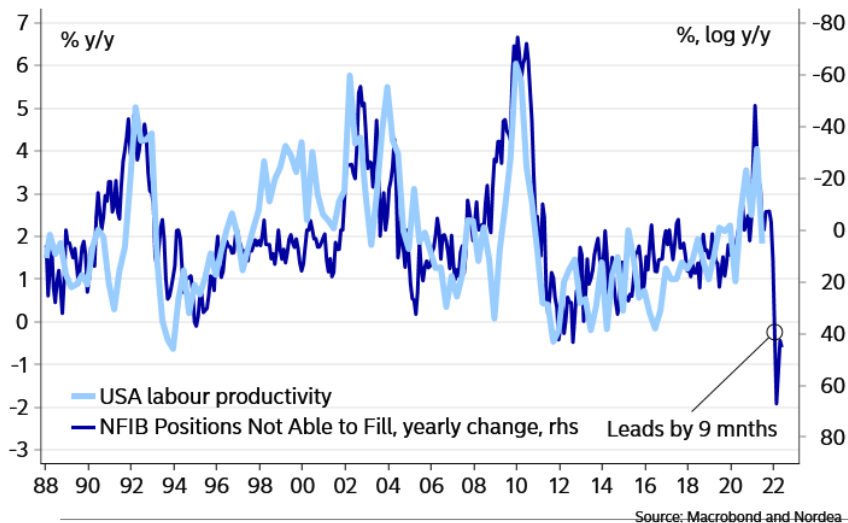
Completion timestamp: 9 September 2021 14:30 CET
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Duration: Waiting for an upslope wind for bond yields

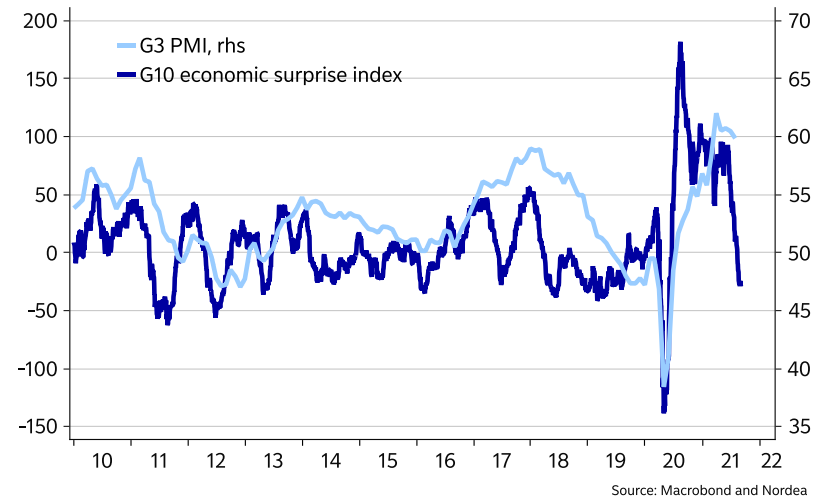
1. Loss of momentum in activity data may linger as the manufacturing cycle in China hampered by both Covid-related factors and an unfavourable credit impulse.



3. Supply disruptions can be found not only in trade and production, but also in the US labour market. If job positions never have been more difficult to fill, should not productivity be damaged with a lag? Not good news for equities into next year.



2. And the strong current reading of levels of activity has likely led to over-optimistic macro expectations as displayed through negative surprises. No quick fix for this, only time will balance expectations versus "reality".



4. **Bias on duration and covereds.** We remain neutral on duration. The Riksbank's upcoming policy announcement on 21 September should be a non-event. The policy of zero rate for the coming three years and continued tapering into year-end and an unchanged balance sheet in 2022 is the main scenario. There could be QE details announced for Q1 2022, but more likely that det details are presented at the November meeting. A gradual reduction of volumes is likely but that should be expected by the market. It could even be that the Q1 volumes will be surprisingly large as a part of the QE portfolio matures already this year and reinvesting that amount in Q1 would mean larger volumes than implied by "steady-state" reinvesting for an unchanged balance sheet.

Duration

(short/long)

Covereds

(underweight/overweight)



Change this week

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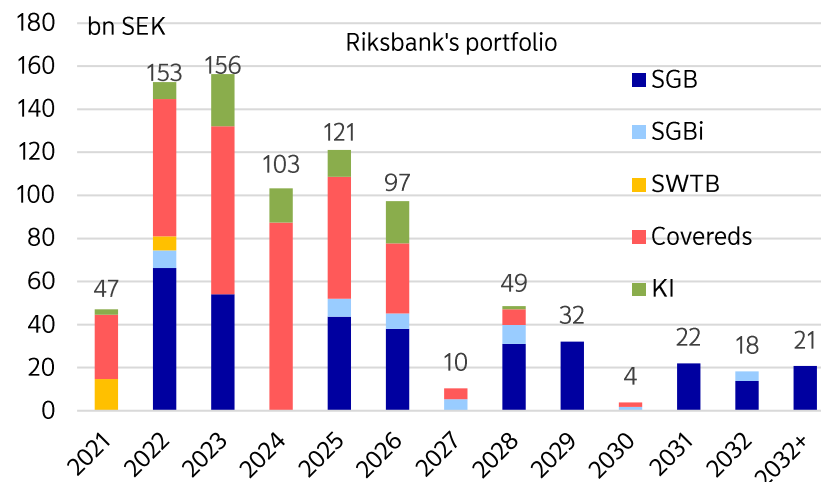
Riksbank: Time flies, bonds mature and a new year of QE approaches

1. The Riksbank balance sheet has not been larger since the year of our Lord 1777 as share of GDP and is now significantly larger than the government's debt. But don't worry, the bond portfolio will eventually mature. See below for the near-term redemptions:

Type	Bond	Maturity	Amount	Agg Amount
MUNI	KI 2109	15-Sep-2021	2.5	2.5
COVERED	LFHY 514	15-Sep-2021	4.0	6.5
T-BILL	SE TB 15Sep21	15-Sep-2021	6.3	12.8
T-BILL	SE TB 20Oct21	20-Oct-2021	1.5	14.3
T-BILL	SE TB 17Nov21	17-Nov-2021	0.5	14.8
COVERED	DH 2112	15-Dec-2021	4.0	18.8
T-BILL	SE TB 15Dec21	15-Dec-2021	6.5	25.3
COVERED	SEBB 574	15-Dec-2021	11.0	36.3
COVERED	SHYP 1585	15-Dec-2021	10.8	47.1
T-BILL	SE TB 16Mar22	16-Mar-2022	5.5	52.6
COVERED	NBHO 5531	08-Apr-2022	12.6	65.2
MUNI	KI 2206	01-Jun-2022	7.9	73.0
GOV BOND	SE 1054	01-Jun-2022	66.2	139.2
GOV BOND	SE IL 3108	01-Jun-2022	8.3	147.5
COVERED	SCBC 143	15-Jun-2022	5.6	153.1
T-BILL	SE TB 15Jun22	15-Jun-2022	1.0	154.1
COVERED	SWED 191	15-Jun-2022	12.8	166.9
COVERED	LFHY 515	21-Sep-2022	4.9	171.8
COVERED	SHYP 1586	21-Sep-2022	11.7	183.5
COVERED	DH 2212	21-Dec-2022	4.80	188.3
COVERED	SEBB 575	21-Dec-2022	11.40	199.7

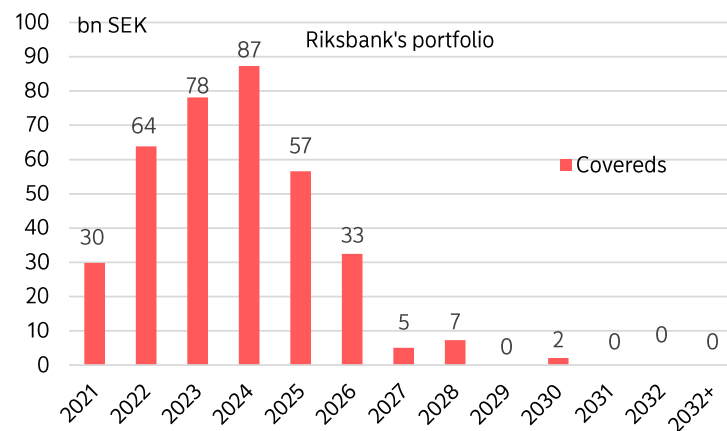
	GOV BOND	T-BILL	COVERED	MUNI
2021 Q3	-	6.3	4.0	2.5
2021 Q4	-	8.5	25.8	-
2022 Q1	-	5.5	-	-
2022 Q2	74.5	1.0	31.0	7.9
2022 Q3	-	-	16.6	-
2022 Q4	-	-	16.2	-
2021	-	14.8	29.8	2.5
2022	74.5	6.5	63.8	7.9

2. The total maturity profile looks like this, and note that already in H2 2021, 47bn bonds are redeemed, where of 30 bn are covered. Plenty of ammunition for the Riksbank to front-load buying at the start of 2022.



Source: Nordea

4. The maturity profile in covereds looks like this. Roughly a mirror image of the maturity profile of outstanding amounts. If the Riksbank wants to keep the profile below, reinvestments need to be done primarily in 4-5y segments.



Source: Nordea

Nordea

Riksbank: How the QE purchases could be distributed in H1 2022

1. A reasonable scenario for Riksbank's QE in H1 2022: If the quarterly amounts is further reduced in H2 2022, then the tapering will morph into quantitative tightening. A perfect timing?

Scenario for Riksbank's QE purchases in bn SEK

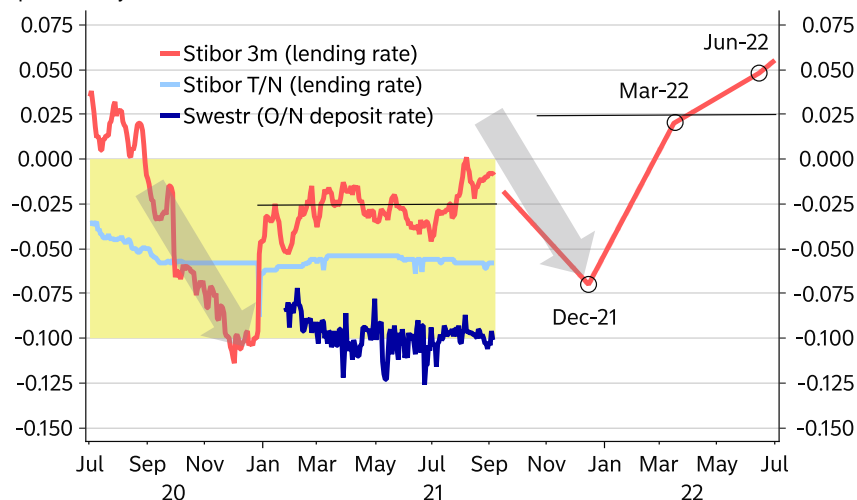
	Total	SGB+SGBi	Chg in bill holdings	Munis	Covereds	Corp
2021 Q1	120	13.5	10	23.5	70	3
2021 Q2	100	12	10	15	60	3
2021 Q3	75	10	0	13	50	2
2021 Q4	68.5	10	0	12.5	45	1
2022 Q1	55.5	10	0	10	35	0.5
2022 Q2	45.5	10	0	10	25	0.5

Comments:

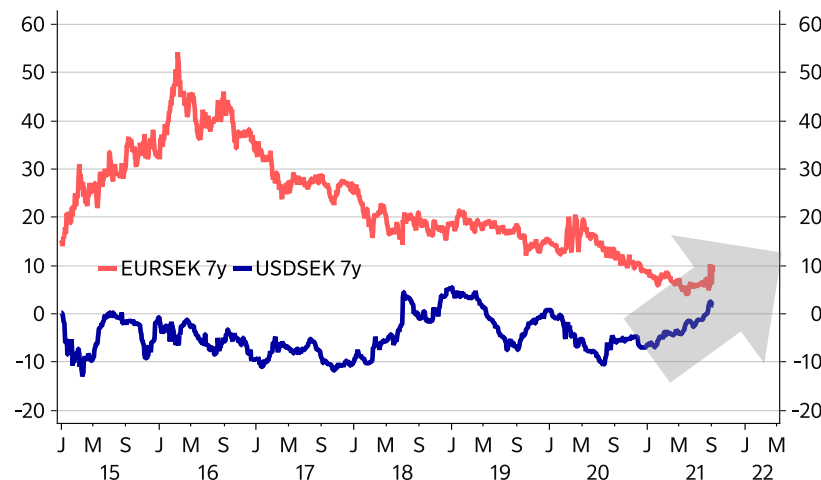
- The Riksbank will likely target an unchanged balance sheet for 2022
- A quarterly purchase amount for each type of instrument will likely be presented
- The Q1 numbers could be released at the September meeting or numbers for both Q1 & Q2 could be presented at the November meeting
- The “steady-state” at the end of 2022 is currently ~40 bn/quarter in total for keeping an unchanged balance sheet
- The purchases will likely be front-loaded with larger amount for Q1 than for Q2. The redemptions in 2021 could be used as a motivation for the front-loading but also policy smoothing
- If the redemptions in government bonds was to be fully reinvested in government bonds, the purchases would have to be increase from 10 to around 17bn/quarter. We do not think that this is likely. Instead we believe that the exposure to public debt will be kept constant, i.e. some of the redeemed amounts in government bonds will be reinvested in municipals instead. An alternative would to buy bills instead of increasing SGB buying. A natural way to get positioned for reducing the balance sheet?
- It is an open question if the Riksbank will start to reduce its balance sheet before it increases the policy rate. It is likely that the Riksbank too is undecided in this regard.
- We believe that the corporate bond holdings will be re-invested as well, meaning a few hundred million in purchases / quarter.

- The new Riksbank policy since April of offering 50% of excess liquidity to be deposited in certificates @ 0 bps instead of ON @ -10 bps may have jacked the 3m Stibor “fair-value” range from -5/0 bps to 0/+5 bps
- The year-end downward pull must surely be assumed to materialise this year too. A 10 bps drop from late September to year-end from the new “fair-value” central point of +2.5 bps means that the Dec-21 FRA is fairly priced around current levels.
- The proposed bank tax means that balance sheets will be taxed as of 31-Dec for an eternity, making year-end effect in Stibor perpetual. But the level of the tax as proposed is of similar magnitude as the old stability fee. No direct market impact.
- Neither Riksbank’s down-talking of Stibor as it is promoting its own ON reference rate Swestr nor the reformation of Stibor as will be applied in the future has any implications for the development of 3m Stibor levels in our view.
- Although the Riksbank’s QE will increase excess liquidity by more than 70 bn until year-end (Stibor down), it is worth remembering that 47bn is removed as bonds in the QE portfolio matures (Stibor up).
- Also worth noting is that Swedish issuers, like the government and a number of real estate companies, have programs for issuance in foreign currency and then swapping them to SEK. The part of FX funding that is hedged through FX forwards exerts a mild upward pressure on Stibor.

2. 3m Stibor has been drifting upwards toward new fair-value, but will soon start to feel the pull of the year-end on the downside.



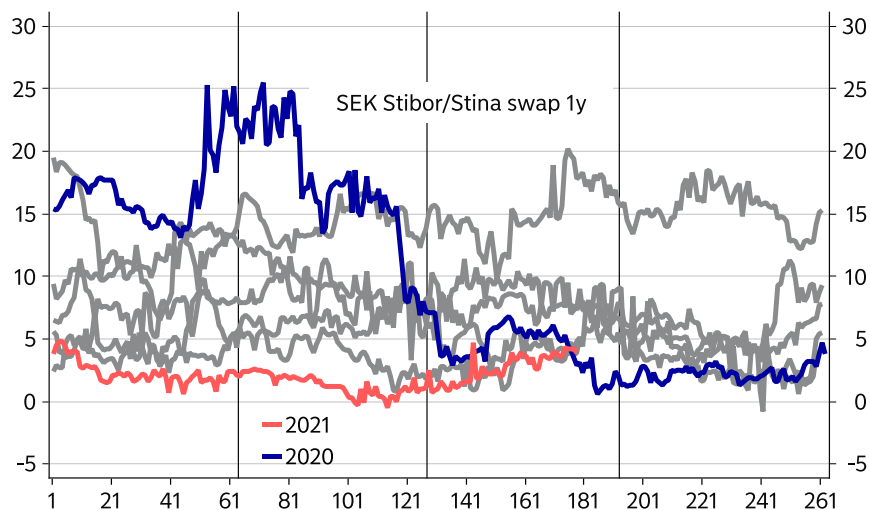
4. The Debt Office has restarted its program of issuance in foreign currencies and swapping to SEK. Real estate companies through their Euro subsidiaries issue EUR bonds directly to the ECB. The Euros can then be swapped to SEK. The impact on the basis curves is small currently, but could be a reflection of short-term FX swapping to SEK.



Source: Macrobond and Nordea

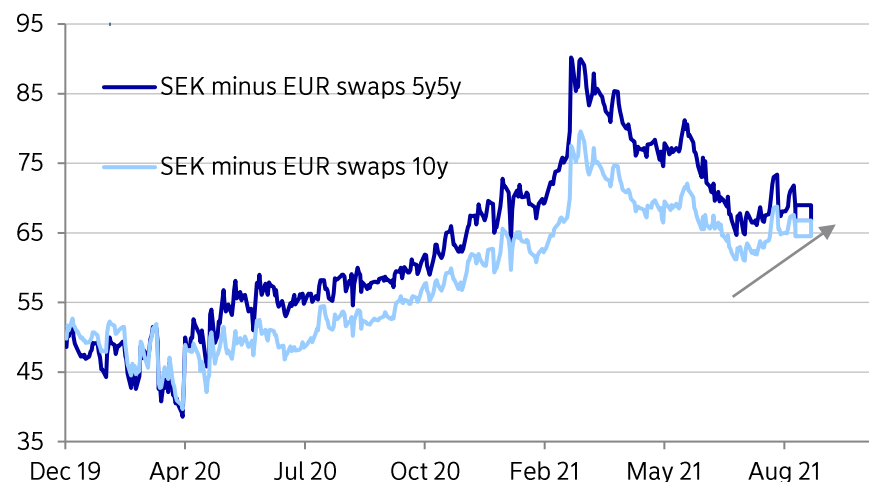
Trade Ideas: Dual risk around policy announcement, receive and pay

1. Front-end The year-end downward pull in Stibor is almost a given but how to play it? The Dec-2021 FRA is around fair levels and the downward pull in front-end bonds usually do not materialize until December. 1y swaps should be closely correlated to 3m Stibor, so the year-end pull should be visible also in that instrument. Chart below shows slices on 1y swap minus 1y Stina. The year-end effect is not as clear as in 3m Stibor (reasonable) but still a slight downward trend in Q4 seems to be there. Receiving a 1y SEK swap forward starting at Dec-21 IMM around +2 bps with spot around 0 bps has a potential for a 7 bps gain if 1y swap is pulled ~5 bps down from current levels (the magnitude of the year-end pull assumed by eye-balling the chart below). If +2.5 bps is the new fair-value of 3m Stibor and no rate hikes are delivered in 2022, the upside in the 1y swap should be limited.



Source: Nordea Markets and Macrobond

2. Country spread So there is a chance of inflation after all (see "[Sweden: Inflation moving higher](#)", 8 September), but governor Ingves does not seem concerned according to his most recent speech. Indeed, if the Riksbank at the upcoming policy announcement makes large revisions to the forecasts on the upside for growth and inflation but gives no indication of a policy shift, the policy announcement may be interpreted as dovish by the market. On the other hand, if the target inflation measure CPIF turns out 0.7% higher in August than the central bank had forecasted, can one really rule out a hawkish twist to the policy announcement? Perhaps the Riksbank is being influenced on the how other central banks are shifting their weight? Fed and ECB moving towards tapering, Norges Bank hiking etc. We find it hard to read what is discounted in the yield curve currently. Is the 5/10s spread curve flattening reflecting expectations on a dovish Riksbank (value in paying SEK 10y or 5y5y vs EUR) or is the steeper front-end curve reflecting hawkish expectations (flatten SEK 0-5y curve or receive outright)?



Source: Nordea

3. Relative value trade ideas

Action	Date	Trade	Comment
	26-Aug-2021	Buy SCBC 153, Sell SGB 1056	Long end covereds still relatively cheap, govies expensive. Positive roll and carry trade.
	26-Aug-2021	Steepen SEK 2y1y/2y5y vs EUR	Rolls positively, and why should pricing of policy rate divergence stop @ 3y?
	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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