

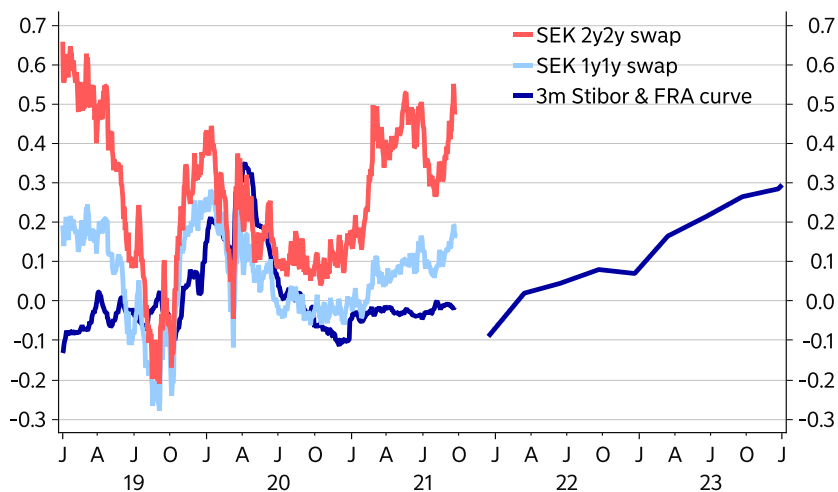
SEK rates: Asleep in Neverland

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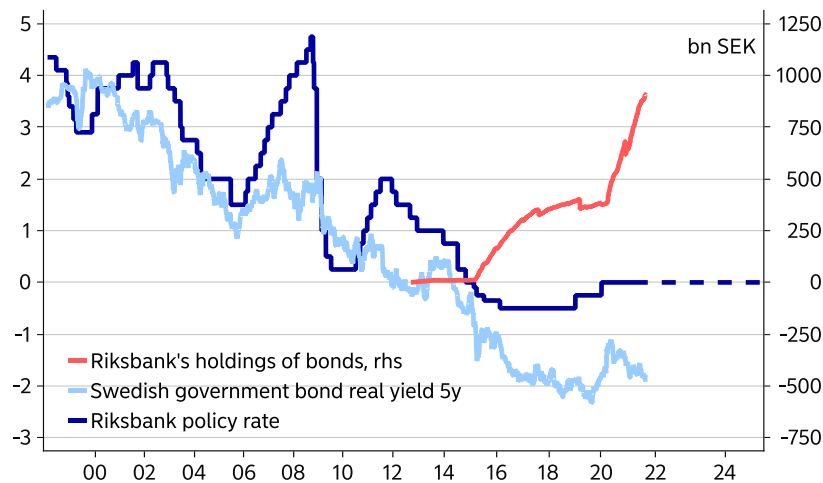
Completion timestamp: 23 September 2021 14:30 CET
Dissemination timestamp: 23 September 2021 15:00 CET

Riksbank: The policy rate is going nowhere. Sad.

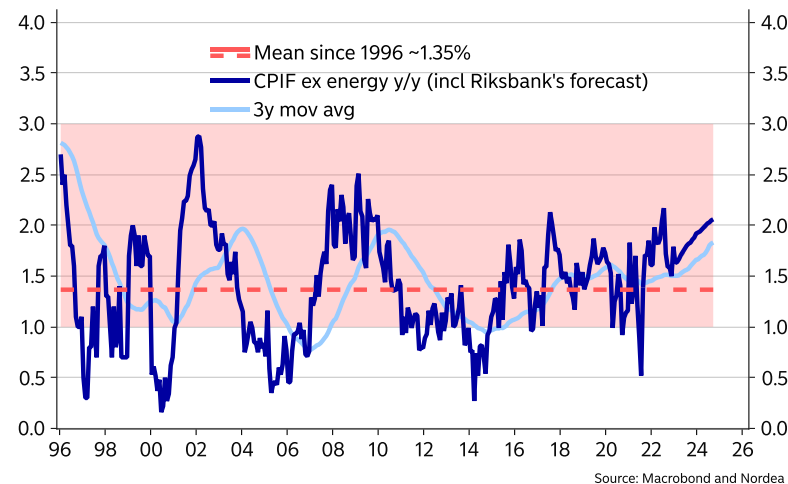
1. The Riksbank recommitted to the policy rate path (0 for 3 years). We believe the balance sheet will shrink before rate hikes are in play (but will take a long time!), meaning that receiving and curve flatteners in the front-end make sense.



3. Balance sheet and policy rate: two tools that must be seen as a whole. Decrease the balance sheet and real rates will likely rise, but instead nominal rates will remain nailed to zero.



2. Despite a massive upward revision of inflation, CPIF ex energy will hardly reach north of the target of 2 %. The long-term realized mean is markedly lower than 1.5%. Anything resembling an average inflation targeting (AIT) strategy will leave the policy in stimulus mode for many, many, many, many years...



4. No details were given on the purchases in Q1 2022, but a forecast for the size on the bond portfolio was published. By putting back redemptions, a quarterly purchase profile can be achieved. The table below assumes that maturing bonds will be reinvested in respective asset class: SGBs in SGBs, covered in covered etc. We had hoped for a smoother purchase profile with less focus on replicating the balance sheet as of 31Dec2021 down the billion. Maybe guidance will change in November policy announcement. Who knows?

Quarter	Holdings (bn SEK)						Redemptions			Purchases		
	CB	Bills	Corps	MUN	GOV	TOT	CB	MUN	GOV	CB	MUN	GOV
2021 Q1	280	10	7	68	351					70.0	23.5	13.5
2021 Q2	340	20	10	83	363					60.0	15.0	12.0
2021 Q3	386	20	12	93	373					50.0	13.0	10.0
2021 Q4	406	20	12	105	383	927				45.0	12.5	10.0
2022 Q1	422	20	12	107	402	963	0.0	0.0	0.0	16.5	2.0	18.5
2022 Q2	408	20	12	102	346	886	31.0	7.9	74.5	16.5	2.0	18.5
2022 Q3	407	20	12	104	364	906	17.5	0.0	0.0	16.5	2.0	18.5
2022 Q4	406	20	12	106	383	927	17.5	0.0	0.0	16.5	2.0	18.5

Blue numbers from Riksbank's Sep MPR

Red numbers Nordea's scenario

CB: covered

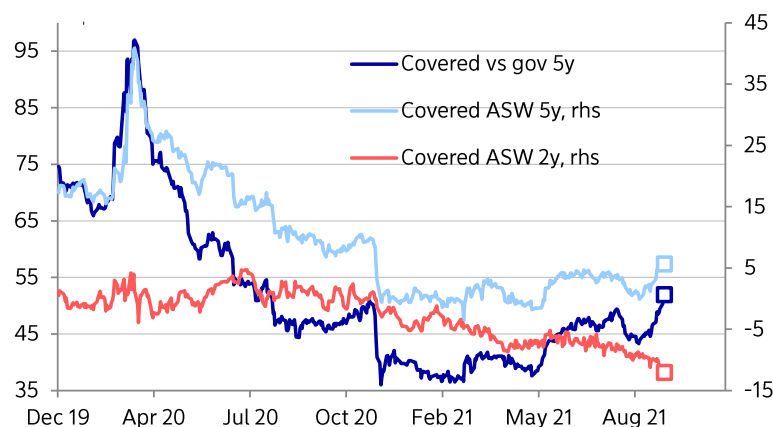
GOV: SGB & SGBI

MUN: KI & indep munis

Source: Nordea, Riksbank

Duration & covereds: Not a hammer blow to covereds

1. The collateral rules for covereds that is used when monetary counterparts borrow from the Riksbank will be normalized at the start of the new year. And the purchased amounts of covereds will be reduced. But given the massive excess liquidity, no meaningful borrowing is taking place, so impact on covereds from changed collateral rules should be limited, at least in the long-end. For short-term covereds, changed collateral rules could make covereds less "inter-changeable" for cash, so potentially it could mean that front-end covereds should trade closer to the repo rate than the deposit rate, but it is hard to draw any conclusions at this point in time. And for QE purchases, at least 66bn covereds will be bought in 2022 (15-20% of issuance), still a decent amount.

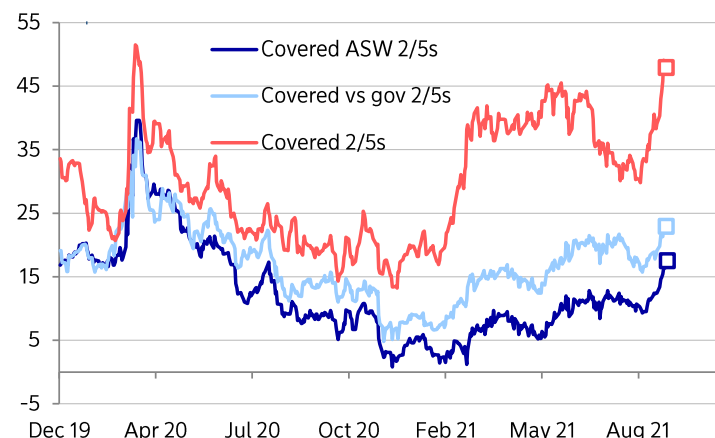


Source: Nordea

The normalization of collateral rules @ Riksbank

- The maximum share of total collateral that is allowed to be covered: 60% (pandemic exception: 100%)
- The maximum share of covereds that is allowed to be from one issuer: 50% (pandemic exception: 100%)
- Is covereds issued by the own entity allowed as collateral: No (pandemic exception: yes)

2. Yet, the weekly purchases will likely be reduced significantly in Q1 unless the Riksbank abandons its fundamentalistic approach to reinvestments (bond for bond, asset class for asset class, down to the billion). And lending is picking up as households are chased into higher indebtedness by the Riksbank's three year policy rate plan and bond buying. So surely the demand/supply balance is slowly shifting to the disadvantage for covereds: but how many basis points is it worth today? Spreads versus swaps have only marginally widened, but the spread curve has steepened significantly. Duration extensions on the covered curve make sense from a value perspective, but we are indecisive on spread levels in the long-end as arguments are amassing on both sides of the bull/baisse divide.



Source: Nordea

4. Bias on duration and covereds.

Duration

(short/long)



Covereds

(underweight/overweight)



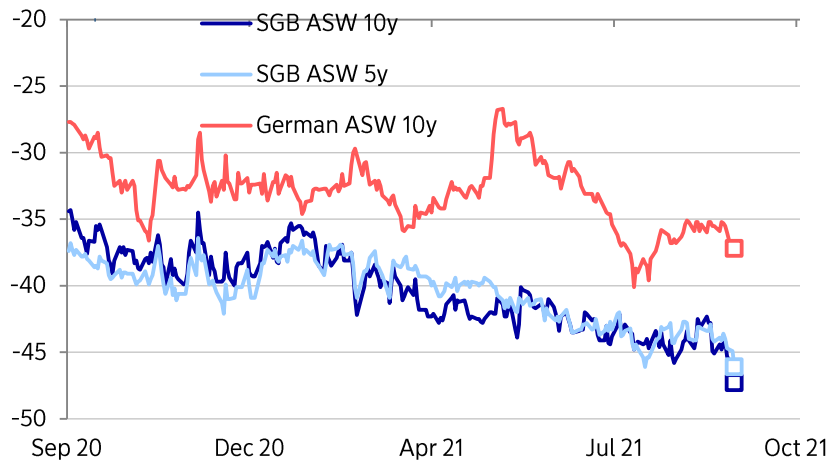
Change this week

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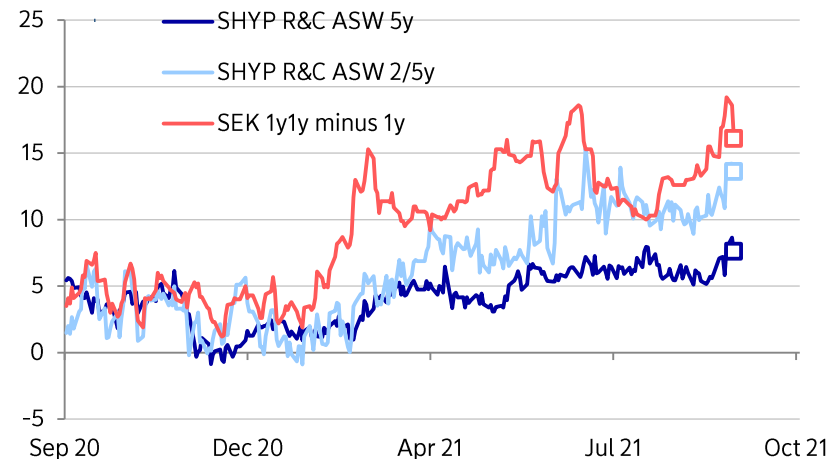
Trade Ideas: SGBs are scary, receivers in the front-end are beautiful

1. ASW We have argued that SGB ASWs have been much wider than the “fair-value” implied by Stibor and repo spreads. We also believed that the new 10y SGB benchmark bond (1056) was looking rich on the curve and that the richness was connected to the bond future roll. SGB ASW also lagged the tightening in German ASW and there were reasons to believe in a more expansionary Swedish government budget than expected. Now, the bond roll is over, the budget is out (no surprises) and German ASW are marginally widening on back of risk-aversion. The underlying case for betting for tighter SGB 1056 ASW is not around anymore and we remove the trade from our trade idea list with a loss (-2 bps).



Source: Nordea

2. Roll&carry The rolldown and carry (R&C) in 5y covered ASWs is still looking meagre. But the rich front-end of the covered curve improve R&C in the 2/5y ASW box markedly. Indeed, the average of the R&C in 5y ASW since 2015 is around 15 bps, so the 2/5y box is starting look interesting. However, we fail to grasp the driver of the richening of 0-2y covereds: could year-end related or have something to do with risk-aversion or migration from the long-end of the yield curve to the shorter on as expectations on inflation and higher bond yields seems to be getting more entrenched. But the easy way to gain R&C on the Swedish curves is still just to receive outright or flatten the money-market curve.



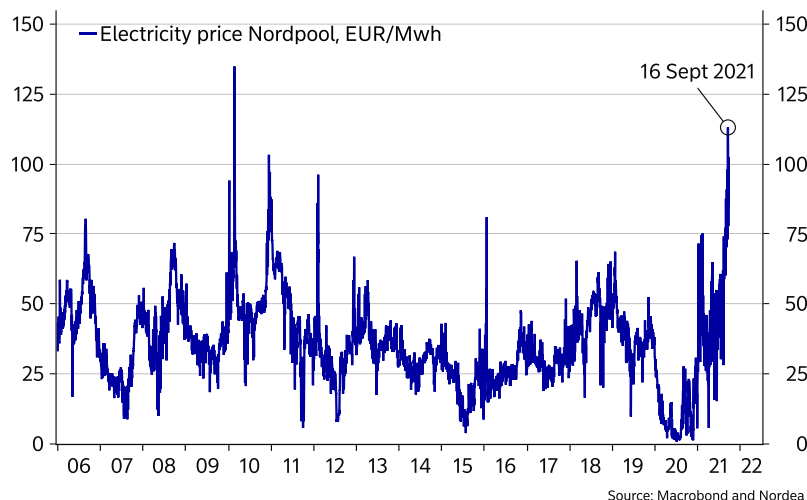
Source: Nordea

3. Relative value trade ideas

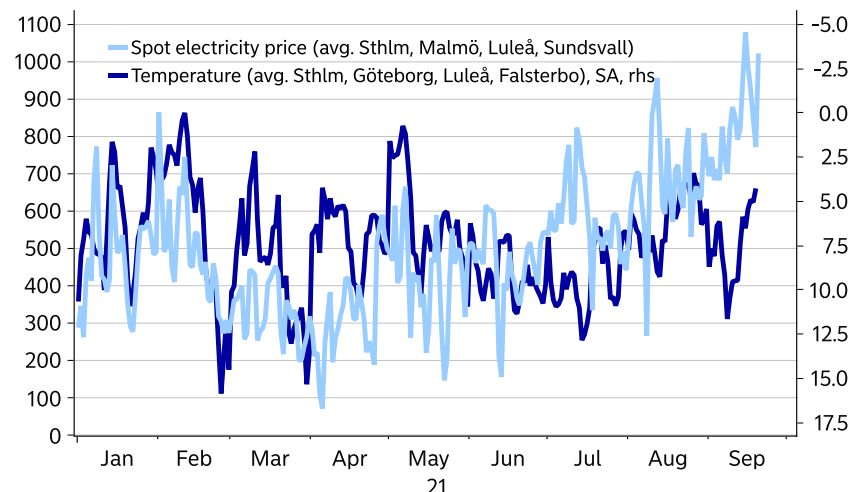
Action	Date	Trade	Comment
New	23-Sep-2021	Receive FRA Sep-22	Riksbank is very far from hiking
	26-Aug-2021	Buy SCBC 153, Sell SGB 1056	Long end covereds still relatively cheap, govies expensive. Positive roll and carry trade.
	26-Aug-2021	Steepen SEK 2y1y/2y5y vs EUR	Rolls positively, and why should 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
Remove	19-Aug-2021	Sell SGB 1056 vs swaps	See above. Case is dead. Exit with a loss (-2 bps).
	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

SEK linkers: A few selected charts on energy prices

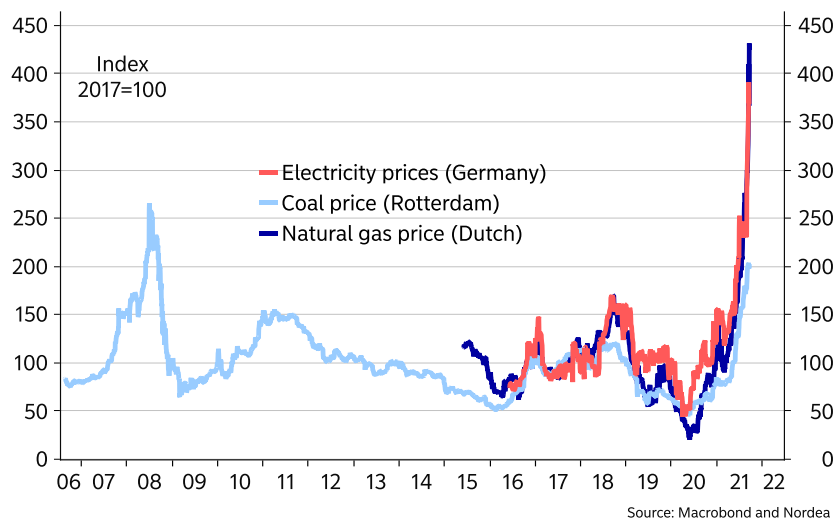
1. Nordic and Swedish spot electricity prices surge



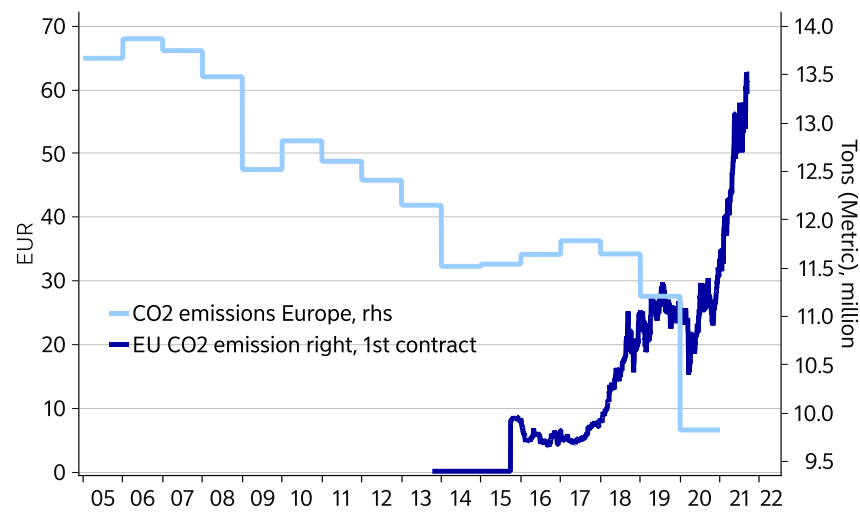
2. Seasonally cold periods seems to leave an imprint on prices. Changed supply dynamics?



3. European energy related prices going vertical as well



4. As is the price on CO2 emission rights. If supply dynamics is an underlying driver for energy prices, then it will put restrictions on economic activity as well. Eventually. And meanwhile benefitting linkers.



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 9-Sep-2021 [THURSDAY1500: Tapering morphs seamlessly into reinvestments](#)
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 26-Aug-2021 [THURSDAY1500: Positive carry & roll that should work on higher rates](#)
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