

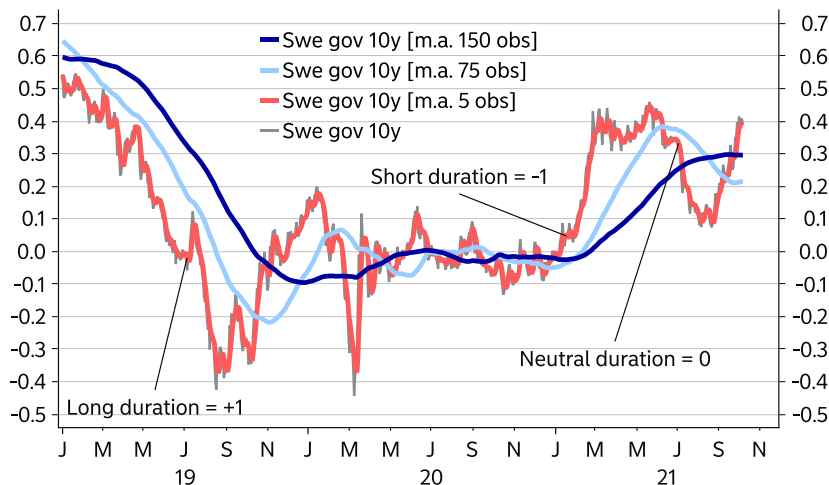
SEK rates: SGB ASWs are satellites without a planet

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Duration: Eager bond yields front-run macro and central banks

1. Momentum on the upside in yields is strong in all developed markets. But little support is given by macro or central banks

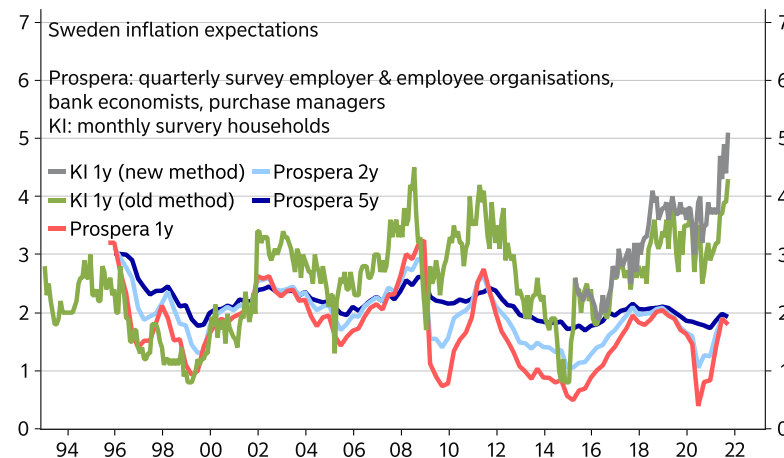


Source: Macrobond and Nordea

Bias on duration and covers. The trend-input in our duration bias process now gives a clear short contribution both from the domestic and foreign markets. At the same time the steepening of the yield curve is improving horizon return and our macro indicators are still some distance from adding short contributions. All-in-all, the process has taken a small step away from neutral with a long flavour to neutral with a neutral flavour (boring!).

In covers the steep curve and rich govies still speak in favour of covers, but the uncertainty on Riksbank's 2022 plan regarding purchases weighs in on the other side. Also lending can be expected to increase further and what will happen to deposits in an reopened economy? (read more on the medium-term drivers of covers [here](#)). Most of the covered spread curve slope comes from the rich front-end, and when than segment cheapens again, long-end spreads may have to widen to reflect a sufficient risk-premium. We remain neutral but lean towards under-weight.

2. Input prices inflation on everybody's lips, and energy prices scare households more than corporate forecasters. But high temporary inflation (and inflation expectations) will dampen private consumption in 2022. So no obvious conclusion regarding monetary policy.



Source: Nordea Markets and Macrobond

Duration

(short/long)



UNCH

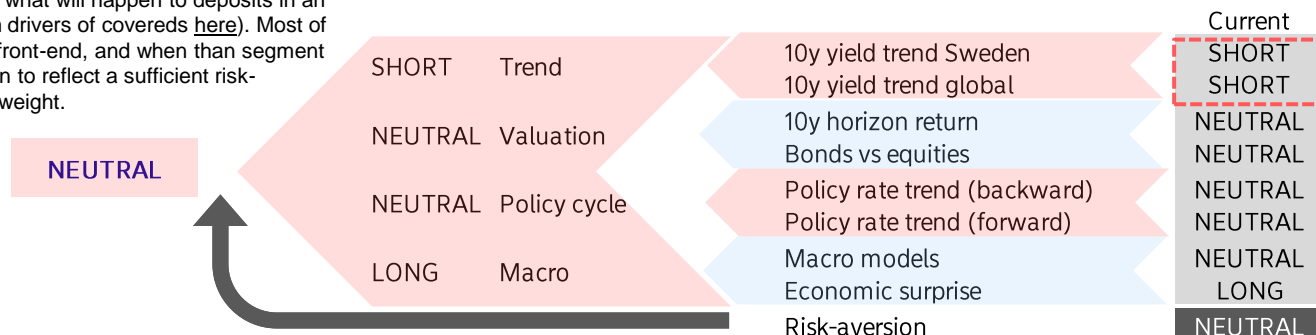
Covers

(underweight/overweight)



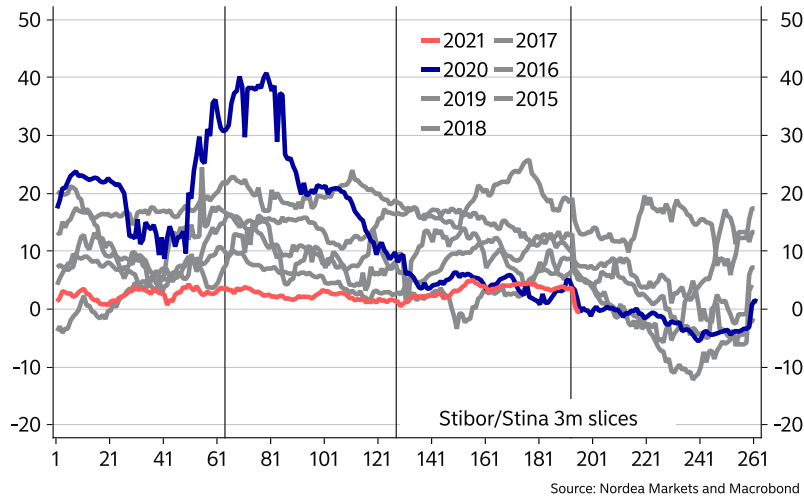
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Change this week

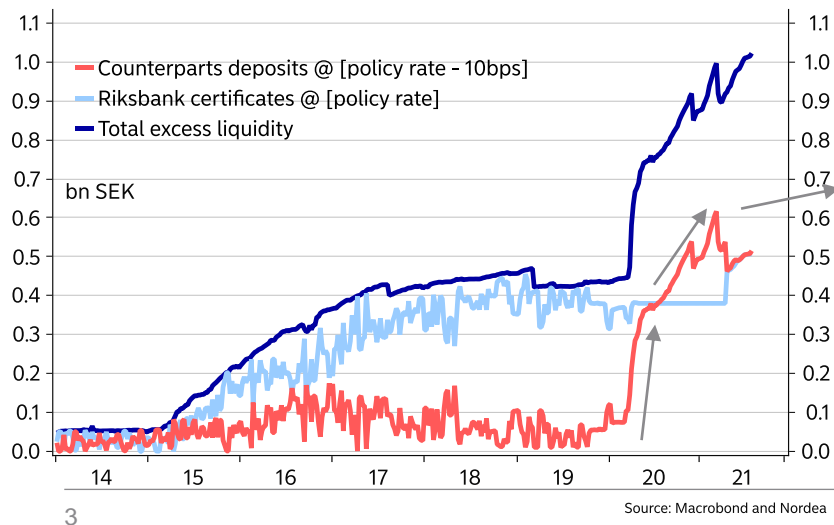


Stibor: Another turn on the carousel, but watch out for the super-liquidized money-market

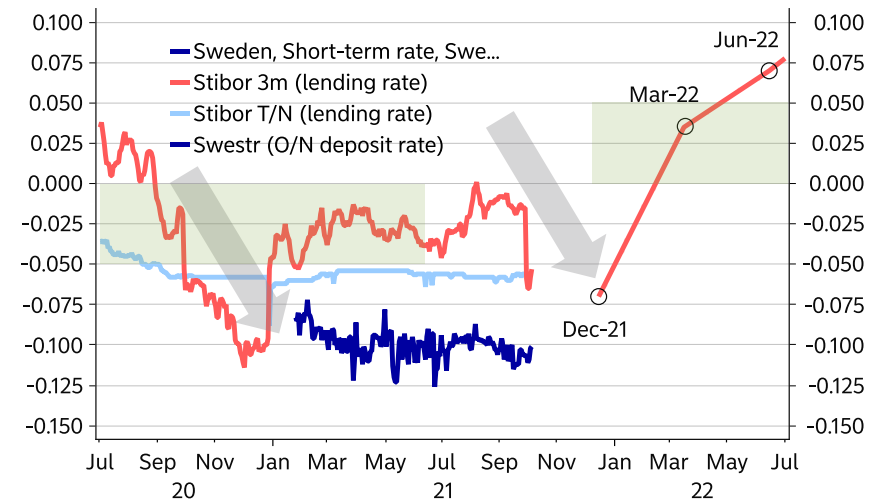
1. 3m Stibor seems to follow the same path as most year going into the year-end. As predictable as forecasting a particular horse on a carousel?



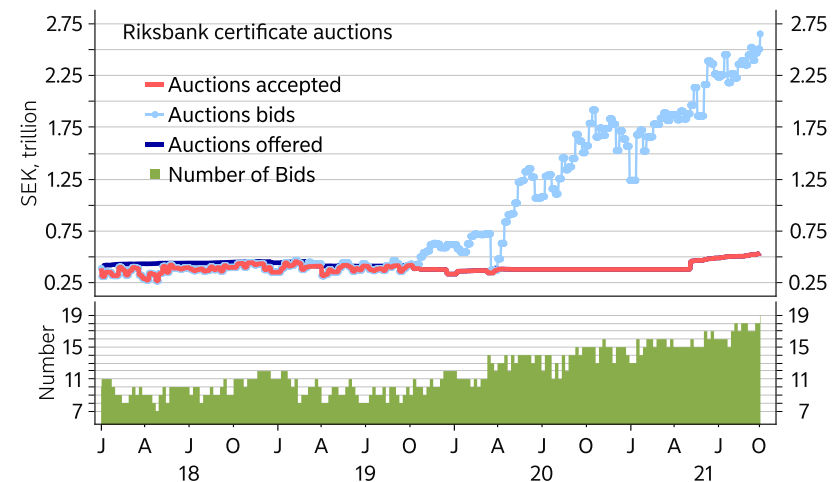
3. The argument for a new equilibrium in Stibor can be found in the Riksbank's certificate policy and the change from 100% of new liquidity being deposited ON until April, and since then 50%. This policy can be changed at any time by the Riksbank, not necessarily at a policy meeting. Indeed, the money-market shows clear signs of being over-liquidized. Demand for short-term papers is high as seen in front-end covered and...



2. Still, this year one can argue that Stibor will search for a new equilibrium around or above zero in 2022, making the year-end low higher than last year.

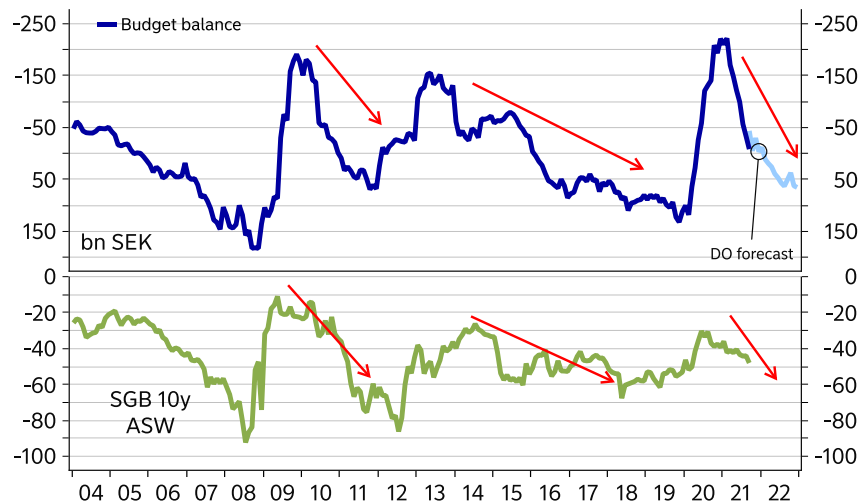


4. ... and bills. Bids in the certificate auctions are at all time as is the number of bidders. The over-liquidized m-mkt also make swapping from EUR to SEK more accessible and adds fuel to the Swedish commercial real estate market, as that sector can access cheap funding from ECB. Could the Riksbank decide to increase the certificate cap to smooth the seemingly distorted supply/demand situation in the money-market? If so, that would be an "upside event" for Stibor.



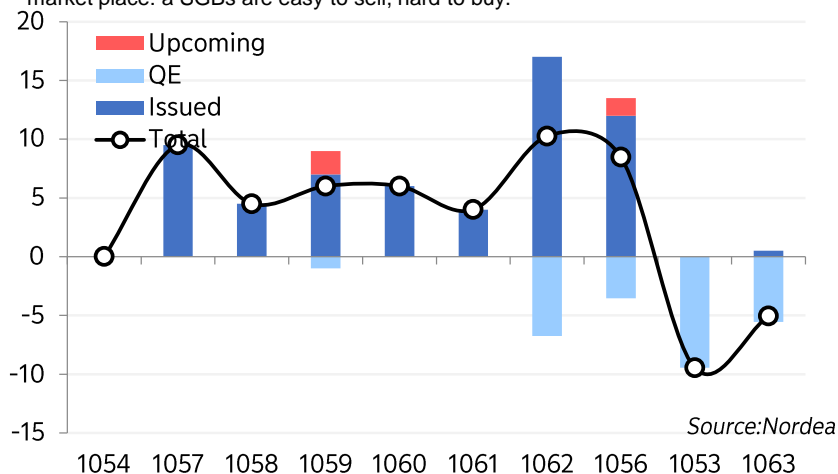
SGB ASWs: Too wide, but no trigger

1. At the current stage in the business cycle the governments budget balance is normally improving and often more than expected leading to less bond issuance and wider ASWs.



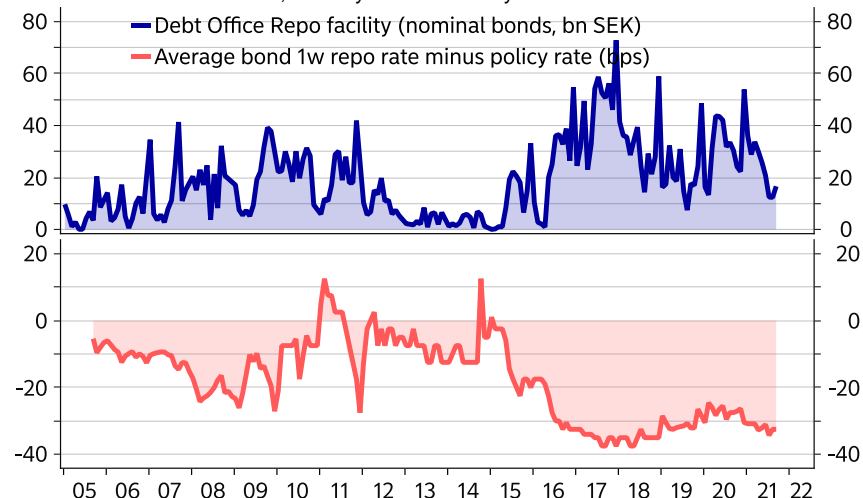
Source: Macrobond and Nordea

3. This year, the Debt Office has issued in most bonds shorter than 10y, while the Riksbank has only bought in 10y+. This could explain the fading bond scarcity. The remaining wedge between repo rates and scarcity may reflect the current thinness of the market place: a SGBs are easy to sell, hard to buy.



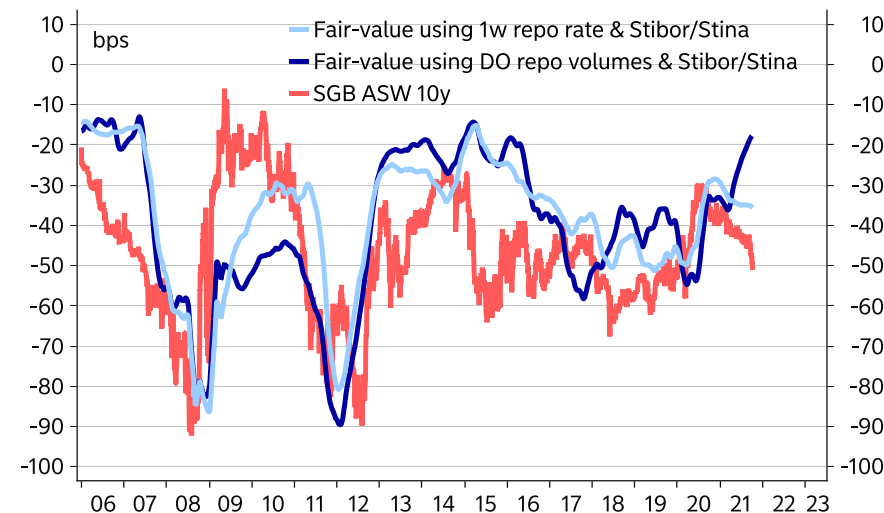
Source: Nordea

2. But this time around, less issuance has oddly coincided with less bond scarcity while the market repo rates have not moved much. If bond scarcity remains low, over time repo rates should start to wander north, but why should scarcity be low?



Source: Nordea Markets and Macrobond

4. No matter if one uses bond scarcity or repo rates to estimate "fair-value" levels of SGB ASWs, the result is the same: spreads are too wide. But given that the Debt office's upcoming borrowing report may announce reduced issuance, what is the trigger for tightening?

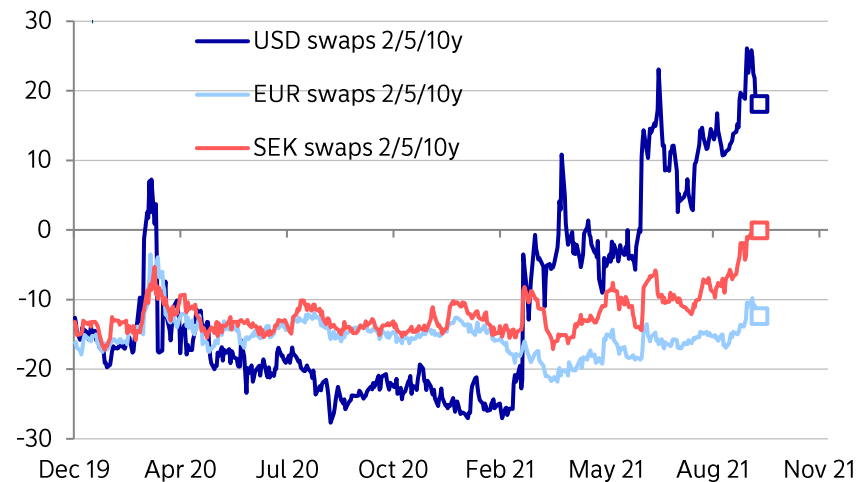


Source: Macrobond and Nordea

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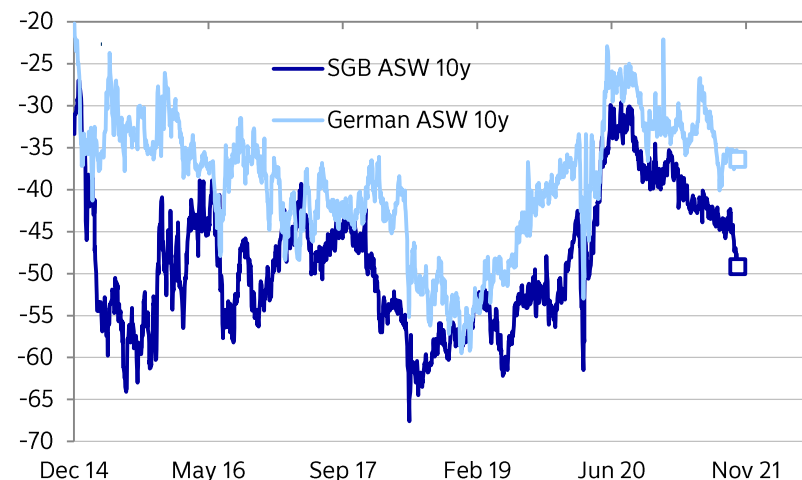
Trade Ideas: SGB ASWs are satellites without a planet

1. Curvature SEK 0-5y segment of the curve has out-steepened EUR by a lot recently. The Swedish yield curve is replicating its decade old pattern of over-reacting to foreign rate moves. The slope is searching for a good place somewhere in between the EUR and the USD curve slope: totally reasonable. Surely, SEK belly (5y segment) could experience some mean-reversion if European natural gas prices calm down, but it has little to do with domestic conditions. And it is very hard to argue that the SEK 5y swap rate is the most extravagant financial market repricing in the recent weeks. We see value in receiving in the segments 0-5y, for example through forward starting steepeners such as 3y2y/3y10y but are unsure on the timing. Riksbank needs to signal that it will stay behind the inflation curve for the fwd curve to steepen on its own merits and no policy signals until late November.



Source: Nordea

2. SGB ASW The SGB ASWs continue to drill themselves towards the core of the earth. There used to be a connection between volumes in the Debt Office repo facility, market repo rates and ASWs. But over the recent months, repo volumes have decreased while repo rates have hardly moved and ASWs have widened. The reduced repo volumes is likely an indication of less leveraged short positions. The low repo rates likely reflects the "fact" that if a market-maker becomes short in a SGB bond, that short position takes a long time to cover. So with leverage money out of the market and liquidity at historically low levels, what can stop a continued widening if the government continues to remove bonds from the market by reducing issuance (Debt Office new report out 27 Oct) and increasing purchases (Riksbank lack of transparency in how to manage its balance sheet in 2022)?



Source: Nordea

3. Relative value trade ideas

Action	Date	Trade	Comment
	23-Sep-2021	Receive FRA Sep-22	Riksbank is very far from hiking. Read more here .
Remove	26-Aug-2021	Buy SCBC 153, Sell SGB 1056	A carry trade that's been shot down by higher rates, richening SGBs and weak covereds. Stop-loss. (-9 bps)
Remove	26-Aug-2021	Steepen SEK 2y1y/2y5y vs EUR	A roll trade with "protection" for higher rates. But roll trades make no sense in bear mkt. (+4 bps)
Remove	19-Aug-2021	Buy SGBi 3112, Sell SGB 1059	Could have more to go. Period of high m/m numbers not over, but early delivery begs early exit (+43 bps)
Remove	18-Mar-2021	Buy Shyp 1594 ASW, sell Shyp 1587 ASW	Total miss on short covereds. Some carry over the period, but still bad. Stop-loss (-12 bps)

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References: Publications year-to-date

Swedish interest strategy publications year-to-date:

6-Oct-2021 [SEK covereds: A deep dive into medium term drivers](#)
 6-Oct-2021 [SEK covereds: Supply update September *** special edition ***](#)
 30-Sep-2021 [THURSDAY1500: The symphony of slope, covereds and volatility](#)
 23-Sep-2021 [THURSDAY1500: Asleep in Neverland](#)
 16-Sep-2021 [THURSDAY1500: Riksbank preview](#)
 9-Sep-2021 [THURSDAY1500: Tapering morphs seamlessly into reinvestments](#)
 2-Sep-2021 [SEK covereds: Supply update August](#)
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 3-Jun-2021 [THURSDAY1500: 5 bps widening may be the new 50 bps](#)
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 8-Apr-2021 [THURSDAY1500: Government index-extension at the gate](#)
 8-Apr-2021 [SEK covereds: Supply update March](#)

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 21-Jan-2021 [THURSDAY1500: At the center of the policy maze there is still a dove](#)
 14-Jan-2021 [THURSDAY1500: All a spread needs is love](#)
 11-Jan-2021 [SEK covereds: Supply update December](#)
 7-Jan-2021 [THURSDAY1500: Bearish noise, stiff SGBs](#)

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