

## SEK rates: A monetary policy plumber uses two tools

Mats Hydén  
Chief Analyst  
+46 8 407 91 04  
mats.hyden@nordea.com

*Completion timestamp: 25 November 2021 14:30 CET  
Dissemination timestamp: 25 November 2021 15:00 CET*

# Duration & covereds: Rate hike now at least a distant dust cloud on the horizon

## Take-aways from today's policy announcement by the Riksbank:

- Explicit statement of the sequencing between balance sheet (BS) reduction and rate hikes: BS reduces in 2023 & rate hiked in 2024.
- Only one quarter guidance of QE details points at positive probability for reduced BS already in 2022
- Riksbank turns on both policy instruments simultaneously at this meeting (through guidance) and any reduction in BS should be combined with further upward revision of the rate path
- The policy announcement displayed a shift in the policy cycle (although a small one). This revision may be followed by further revisions given the current economic and inflation environment.
- A sharp reduction covered bonds will likely push covered spreads wider, especially in Q1. The Riksbank seems to join the SFSA (Finansinspektionen) in the call for a return of risk-premium.
- A small increase in buying of SGBs may have unproportionally large and unfortunate impact on liquidity and functioning of the SGB market. At the same time, one should remember that the Riksbank indicates that it will not reinvest all its holdings of SGBs. This could reflect a perception at the Riksbank of being close to the "upper limit" of government bond purchases.
- The purchase programme for corporate certificates was ended.

**3. Bias on duration** The Riksbank did change its guidance of policy towards less stimulus. Surely this must be worth something. Perhaps not in itself, but in combination with other driving factors it will be easier to believe in higher rates if the central bank has started to revise its policy towards tightening than if it is in a pure neutral stance.

And the information from the Riksbank was covered bond negative and SGB positive. Surely the spread has widened a lot. But we have argued previously that we believe 5y covereds are rich given outlook for QE. So let's switch to an "underweight" bias for a while.

### Duration

(short/long)



Change this week

UNCH

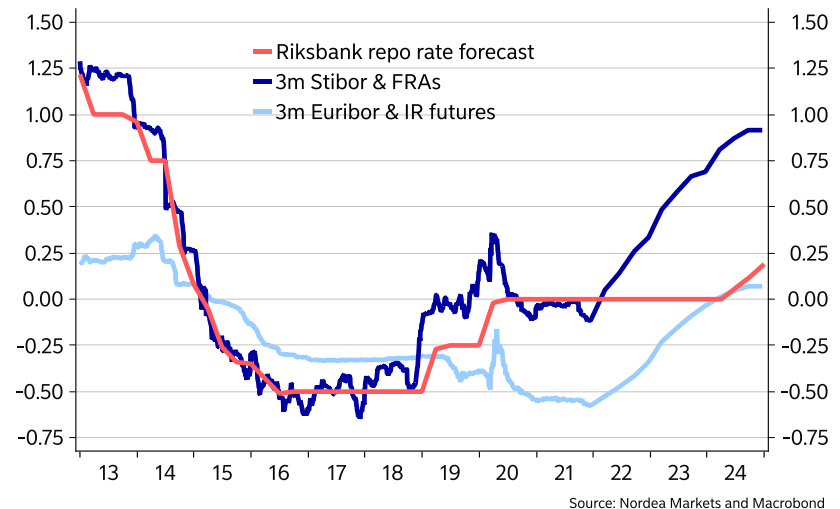
### Covereds

(underweight/overweight)



-1

1. Riksbank's new rate path and the FRA curve. The start of the rate hikes was moved two quarters closer in time compared to the previous rate path.



2. The QE details for the first quarter and our estimate prior to the policy announcement. All numbers in bn SEK.

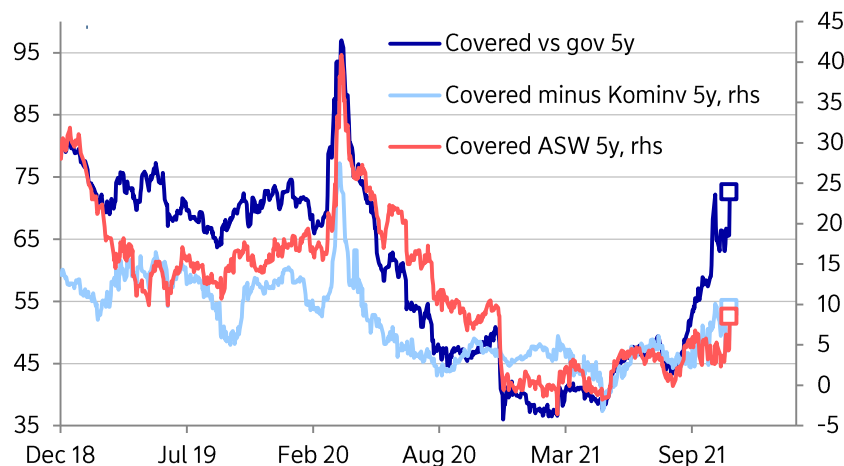
	2021				2021	YTD	2022	Redemp
	Q1	Q2	Q3	Q4			Q1*	
SGB + SGBi	13.5	12.0	10.0	10.0	45.5	48.1	12 (10)	74.5
SGB						32.8		
SGBi						15.3		
Local gov	23.5	15.0	13.0	12.5	64.0	59.0	12 (5)	7.9
KI						56.5		
Other						2.4		
Covereds	70.0	60.0	50.0	45.0	225.0	208.7	12 (20)	66.9
SWTB (stock)	10.0	20.0	20.0	20.0			20.0	
Corp cert (stock max)	32.0	32.0	32.0	32.0			0 (32)	
Corp bonds	2.5	2.5	2.0	1.0			1 (0)	
<b>Total</b>	<b>119.5</b>	<b>99.5</b>	<b>75.0</b>	<b>68.5</b>			<b>37 (35)</b>	<b>149.2</b>

\* Riksbank announcement (our estimate in brackets)

Source: Nordea

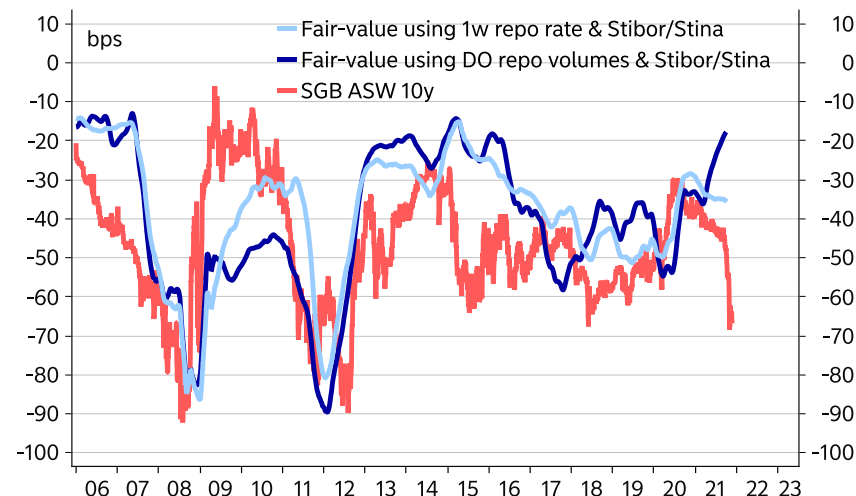
# Trade Ideas: Covereds vulnerable, but have some support this year

**1. Covereds** Covered spreads widened after the policy announcement. Both the Riksbank and the SFSA (Finansinspektionen) seems to be ok with a return of risk-premium. We think this will be a theme for Q1 2022, but one should remember that the Riksbank continues to buy covereds in good size for the remainder of this year, and there is a decent index-extension in early December that will give some support. The huge demand for high-quality liquid assets into year-end will not go away from one day to another either, and the FX forward market is no adding a significant yield pickup on SEK assets compared to other markets...



Source: Nordea

**2. SGBs** Poor little SGB market. SGB ASWs widened on the screens after policy meeting, totally reasonably. But there are some tentative signs of hope for the future: the Riksbank seems to be reinvesting less than what is redeemed in 2022, so an awareness of the existence of an upper cap on SGB purchases may be growing. This could remove some tail risks for a much increase SGB buying. And remember that purchases will continue to be focused on the long-end (10y+). Purchases of the 50y bond SGB 1064 is explicitly not excluded. And index-linked bonds will likely also receive more love from the Riksbank in 2022, relieving some of the scarcity pressure from SGBs. ASWs are more than 20 bps wider than our estimation of fair-value. Time for tighteners?



Source: Macrobond and Nordea

### 3. Relative value trade ideas

Action	Date	Trade	Comment
	18-Nov-2021	Receive SEK 2y1y vs EUR	<u>Too hawkish pricing on the Riksbank</u>
	4-Nov-2021	Receive SEK 1y1y, sell Shyp 1587	<u>Fade blow-out in front-end swaps by anchoring short leg in rich covereds</u>
	4-Nov-2021	Sell 1m5y SEK swaption straddle	<u>Fade wash-out</u>
	28-Oct-2021	Sell SEK swaption payer 3m2y atmf	<u>A lot is priced and vol has spiked.</u>
	14-Oct-2021	Sell SHYP 1589, receive in m-matched swap	<u>Year-end richness must come to an end</u>
	23-Sep-2021	Receive FRA Sep-22	Riksbank is very far from hiking. Read more <u>here</u> .

# SEK rates: Swestr vs Stibor ... the current situation and the future

## Swestr (Swedish krona Short Term Rate)

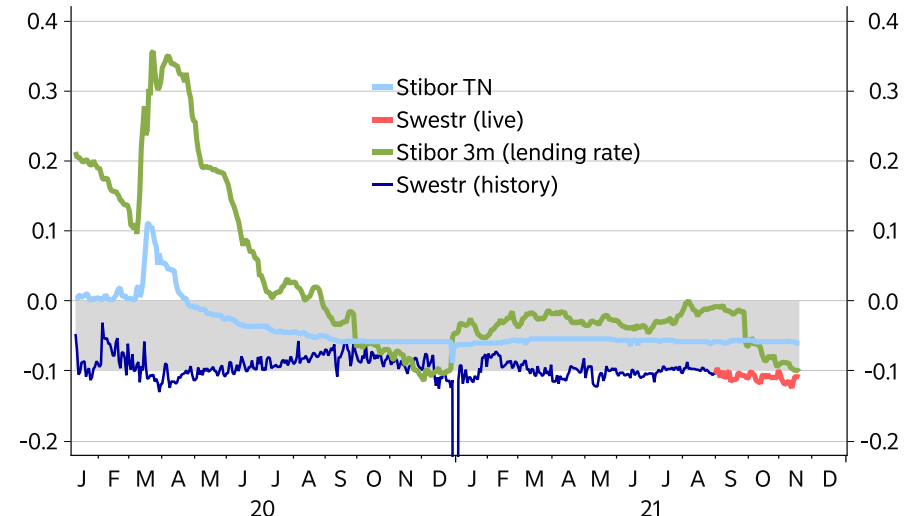
- Swestr is an over-night, transaction-based reference rate that is calculated and published by the Riksbank
- The basis for calculations is actual transactions between reporting banks and financial institutes, the Debt Office and non-financial corporations
- Swestr reflects a bank deposit rate (Stibor reflects a bank lending rate)
- The median number of transactions for a Swestr fixing is ~40. The median transaction volume is ~30bn SEK.
- The spread Swestr minus Stibor TN has a historical median value of -7.4 bps. The median value of Swestr minus the policy rate is -9.6 bps (data 2016-2021)
- You can find more info on Swestr [here](#) (in Swedish [here](#))

## Stibor (Stockholm Interbank Offered Rate)

- Stibor is an interbank offered rate on several tenors that is calculated and published by Swedish Financial Benchmark Facility (SFBF)
- Stibor has been classified as a critical interest rate benchmark and SFBF is in the process for seeking authorisation from the Swedish FSA (Finansinspektionen) to operate as administrator under the EUR benchmark regulation
- Stibor reflects a panel bank's uncollateralized lending rate to another panel bank
- The framework for calculating Stibor started to change 15 November 2021. Our comment from April on the new framework can be found [here](#) and information from SFBF can be found [here](#).
- The new calculation framework will have a direct link to actual depo transactions (adding an assumed lending rate spread) and a larger dependence on transactions in foreign currency. The historical difference between the old and the new framework is less than 0.5 bps according to SFBF
- You can find more info on Stibor [here](#)

## Comments on Swestr and Stibor

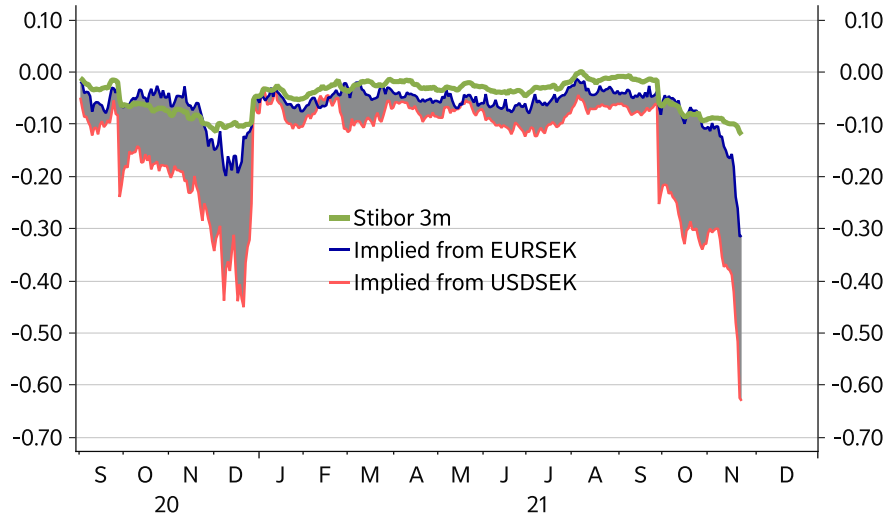
- Swestr only exists for ON, while Stibor exists for TN, 1W, 1M, 2M, 3M & 6M
- Swestr is a depo rate while Stibor is a lending rate ... Swestr will thus always average lower than Stibor
- Swestr will be less responsive on the upside to risk-aversion than Stibor
- Our view is that Stibor will be approved as a benchmark rate and that Stibor will continue to be the main money-market and derivatives reference rate
- Over-night index swaps based on Swestr may start to compete with Stina swaps. The main use would be for banks to discount present value in derivatives with collateral swap agreements (CSA).
- The usefulness of Swestr relative Stibor swaps is less obvious. Depending on the type of clearing (CCP or bilateral), the type of collateral agreement and the preference of exposure to risk-aversion, the Swestr swaps may start to be traded or not. Our view is that since the Stibor swaps market is liquid, deep and well-functioning, the need for Swestr swaps is limited.
- Swestr has been developed during a time period with large excess liquidity in the money market. Its behaviour in other environments is unclear.



Source: Macrobond and Nordea

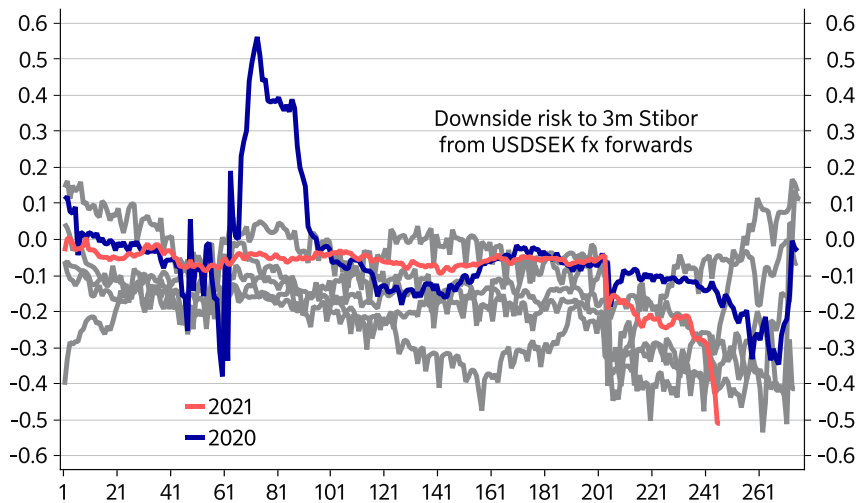
# Stibor: Business as unusual

1. Turbulence in front-end xccy basis markets also visible in SEK crosses. Implied 3m Stibor from USD and EUR have plunged.



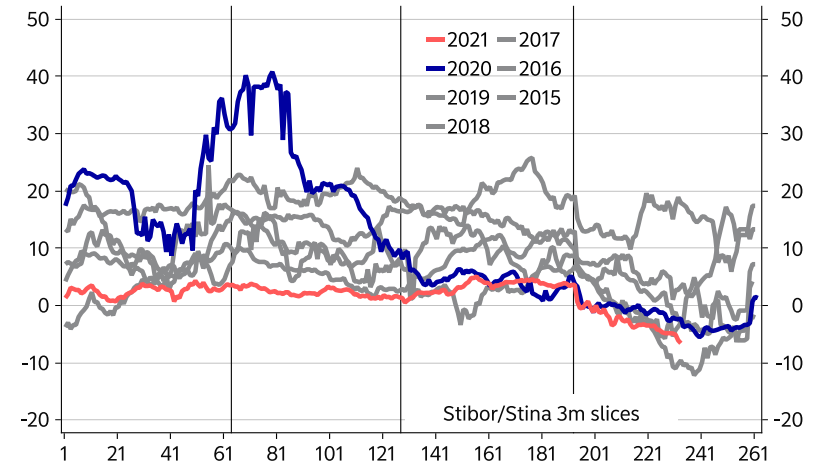
Source: Nordea Markets and Macrobond

3. The downside potential from USDSEK (implied Stibor minus actual Stibor) as at record lows AND there more than a month to year-end (!).



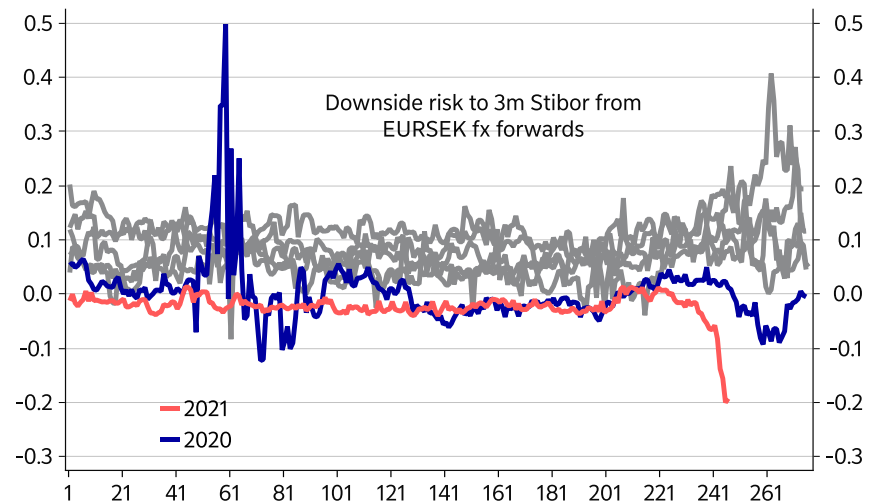
Source: Macrobond and Nordea

2. Already, 3m Stibor are at or below previous year's lows and close to all time low as seen in spreads to Stina swaps. But there could be more to go....



Source: Nordea Markets and Macrobond

4. Even more disturbing is that the downside potential from EURSEK is even bigger compared to historical averages AND with the opposite sign. The downside risks suggested by the FX forwards is usually exaggerated, but still unusually large.



Source: Macrobond and Nordea

# References: Publications year-to-date

## Swedish interest strategy publications year-to-date:

22-Nov-2021 [SEK linkers: Inflation x-factor cannot be checked yet](#)  
 18-Nov-2021 [THURSDAY1500: Riksbank's not turning yet](#)  
 11-Nov-2021 [THURSDAY1500: Lower Swedish inflation-risks than in other markets](#)  
 4-Nov-2021 [THURSDAY1500: The business cycle never sleeps](#)  
 3-Nov-2021 [SEK covereds: Supply update October](#)  
 28-Oct-2021 [THURSDAY1500: The Riksbank's SEKret weapon](#)  
 21-Oct-2021 [THURSDAY1500: Borrowing report preview](#)  
 14-Oct-2021 [THURSDAY1500: Policy information deficit](#)  
 7-Oct-2021 [THURSDAY1500: SGB ASWs are satellites without a planet](#)  
 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](#)  
 2-Sep-2021 [THURSDAY1500: The Long March of inflation pressure](#)  
 26-Aug-2021 [THURSDAY1500: Positive carry & roll that should work on higher rates](#)  
 19-Aug-2021 [THURSDAY1500: Speed limits and roll games](#)  
 16-Aug-2021 [SEK linkers: Supportive environment for BEI as new 18y bond...](#)  
 12-Aug-2021 [THURSDAY1500: Policy slow-motion](#)  
 9-Aug-2021 [SEK covereds: Supply update July](#)  
 5-Aug-2021 [THURSDAY1500: Washed out](#)  
 6-Jul-2021 [SEK covereds: Supply update June](#)  
 23-Jun-2021 [SEK rates: Riksbank preview](#)  
 17-Jun-2021 [THURSDAY: The sphinx-like curve slope](#)  
 10-Jun-2021 [THURSDAY1500: No news is good news for bonds](#)  
 4-Jun-2021 [SEK covereds: Supply update May](#)  
 3-Jun-2021 [THURSDAY1500: 5 bps widening may be the new 50 bps](#)  
 1-Jun-2021 [SEK rates: Calculations on the new 50y SGB bond](#)  
 27-May-2021 [THURSDAY1500: Despite less issuance, 50y SGB adds duration](#)  
 20-May-2021 [THURSDAY1500: Borrowing report preview](#)  
 20-May-2021 [SEK rates: Extensions ahead of extension](#)  
 6-May-2021 [THURSDAY1500: Low inflation supports relative receiving](#)  
 5-May-2021 [SEK covereds: Supply update April](#)  
 22-Apr-2021 [THURSDAY1500: Riksbank preview](#)  
 15-Apr-2021 [THURSDAY1500: Fiscal spending vs business cycle](#)  
 8-Apr-2021 [THURSDAY1500: Government index-extension at the gate](#)  
 8-Apr-2021 [SEK covereds: Supply update March](#)

...

...

25-Mar-2021 [THURSDAY1500: After shortness comes longness, but not now](#)  
 18-Mar-2021 [THURSDAY1500: Fear the swap market, not covereds](#)  
 17-Mar-2021 [SEK linkers: BEI curve flatteners and a look at 3108 ahead of switches](#)  
 11-May-2021 [THURSDAY: Monetary policy mid-cycle](#)  
 4-Mar-2021 [THURSDAY1500: Value in receiving front-end SEK](#)  
 3-Mar-2021 [SEK covereds: Supply update February](#)  
 25-Feb-2021 [THURSDAY1500: Bonds lose wrestling stocks](#)  
 24-Feb-2021 [SEK rates: Comment on the Debt Office's borrowing report](#)  
 18-Feb-2021 [THURSDAY1500: Borrowing report preview](#)  
 11-Feb-2021 [THURSDAY1500: It's the Governor's bonds, especially the long-end](#)  
 4-Feb-2021 [THURSDAY1500: Riksbank preview](#)  
 4-Feb-2021 [SEK covereds: Supply update January](#)  
 28-Jan-2021 [THURSDAY1500: Bump on the road to higher yields](#)  
 28-Jan-2021 [SEK linkers: BEIs overwhelmed by energy, but short-end lags](#)  
 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](#)

# Disclaimer and legal disclosures

## Origin of the publication or report

This publication or report originates from: Nordea Bank Abp, including its branches Nordea Danmark, Filial af Nordea Bank Abp, Finland, Nordea Bank Abp, filial i Norge and Nordea Bank Abp, filial i Sverige (together "Nordea") acting through their unit Nordea Markets.

Nordea Bank Abp is supervised by the European Central Bank and the Finnish Financial Supervisory Authority and the branches are supervised by the European Central Bank and the Finnish Financial Supervisory Authority and the Financial Supervisory Authorities in their respective countries.

## Content of the publication or report

This publication or report has been prepared solely by Nordea Markets.

Opinions or suggestions from Nordea Markets may deviate from recommendations or opinions presented by other departments in Nordea. The reason may typically be the result of differing time horizons, methodologies, contexts or other factors.

Opinions and price targets are based on one or more methods of valuation, for instance cash flow analysis, use of multiples, behavioural technical analyses of underlying market movements in combination with considerations of the market situation and the time horizon. Key assumptions of forecasts, price targets and projections in research cited or reproduced appear in the research material from the named sources. The date of publication appears from the research material cited or reproduced. Opinions and estimates may be updated in subsequent versions of the publication or report, provided that the relevant company/issuer is treated anew in such later versions of the publication or report.

## Validity of the publication or report

All opinions and estimates in this publication or report are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report and are subject to change without notice.

## No individual investment or tax advice

The publication or report is intended only to provide general and preliminary information to investors and shall not be construed as the basis for any investment decision. This publication or report has been prepared by Nordea Markets as general information for private use of investors to whom the publication or report has been distributed, but it is not intended as a personal recommendation of particular financial instruments or strategies and thus it does not provide individually tailored investment advice, and does not take into account the individual investor's particular financial situation, existing holdings or liabilities, investment knowledge and experience, investment objective and horizon or risk profile and preferences. The investor must particularly ensure the suitability of an investment as regards his/her financial and fiscal situation and investment objectives. The investor bears the risk of losses in connection with an investment.

Before acting on any information in this publication or report, it is recommendable to consult one's financial advisor.

The information contained in this publication or report does not constitute advice on the tax consequences of making any particular investment decision. Each investor shall make his/her own appraisal of the tax and other financial merits of his/her investment.

## Sources

This publication or report may be based on or contain information, such as opinions, recommendations, estimates, price targets and valuations which emanate from:

Nordea Markets' analysts or representatives,  
Publicly available information,  
Information from other units of Nordea, or  
Other named sources.

To the extent this publication or report is based on or contain information emanating from other sources ("Other Sources") than Nordea Markets ("External Information"), Nordea Markets has deemed the Other Sources to be reliable but neither Nordea, others associated or affiliated with Nordea nor any other person, do guarantee the accuracy, adequacy or completeness of the External Information.

The perception of opinions or recommendations such as Buy or Sell or similar expressions may vary and the definition is therefore shown in the research material or on the website of each named source.

## Limitation of liability

Nordea or other associated and affiliated companies assume no liability as regards to any investment, divestment or retention decision taken by the investor on the basis of this publication or report. In no event will Nordea or other associated and affiliated companies be liable for direct, indirect or incidental, special or consequential damages resulting from the information in this publication or report.

## Risk information

The risk of investing in certain financial instruments, including those mentioned in this document, is generally high, as the market value is exposed to a lot of different factors such as the operational and financial conditions of the relevant company, growth prospects, change in interest rates, the economic and political environment, foreign exchange rates, shifts in market sentiments etc. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. Past performance is not a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. When investing in individual shares, the investor may lose all or part of the investments.

## Conflicts of interest

Nordea, affiliates or staff in Nordea, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

To limit possible conflicts of interest and counter the abuse of inside knowledge, the analysts of Nordea Markets are subject to internal rules on sound ethical conduct, the management of inside information, handling of unpublished research material, contact with other units of Nordea and personal account dealing. The internal rules have been prepared in accordance with applicable legislation and relevant industry standards. The object of the internal rules is for example to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Nordea Markets that no direct link exists between revenues from capital markets activities and individual analyst remuneration. Research analysts are remunerated in part based on the overall profitability of Nordea Bank, which includes Markets revenues, but do not receive bonuses or other remuneration linked to specific capital markets transactions. Nordea and the branches are members of national stockbrokers' associations in each of the countries in which Nordea has head offices. Internal rules have been developed in accordance with recommendations issued by the stockbrokers associations. This material has been prepared following the Nordea Conflict of Interest Policy, which may be viewed at [www.nordea.com/mifid](http://www.nordea.com/mifid)

Important disclosures of interests regarding this research material as well as recommendation changes in the past 12 months are available at: <https://research.nordea.com/FICC>

## Distribution restrictions

The securities referred to in this publication or report may not be eligible for sale in some jurisdictions. This research report is not intended for, and must not be distributed to private customers in Great Britain or the United States.

In the United States, to the extent that this publication or report includes an analysis of the price or market for any derivative and is not otherwise exempt from the applicable U.S. Commodity Futures Trading Commission (CFTC) regulations, it is approved for distribution in the United States to US persons that are eligible contract participants from a CFTC perspective. Nordea Bank Abp is a provisionally registered swap dealer with the CFTC. Any derivatives transactions with US persons must be effected in accordance with the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In Singapore, this research report is intended only for, and may be distributed only to, accredited investors, expert investors or institutional investors who may contact Nordea Bank Singapore Branch of 138 Market Street, #09-01 CapitaGreen, Singapore 048946.

This publication or report may be distributed by Nordea Bank Luxembourg S.A., 562 rue de Neudorf, L-2015 Luxembourg which is subject to the supervision of the Commission de Surveillance du Secteur Financier.

This publication or report may be distributed by Nordea Bank Abp Singapore Branch, which is subject to the supervision of the European Central Bank, the Finnish Financial Supervisory Authority and the Monetary Authority of Singapore.

This publication or report may be distributed in the UK to institutional investors by Nordea Bank Abp London Branch of 6th Floor, 5 Aldermanbury Square, London, EC2V 7AZ, which is under supervision of the European Central Bank, Finanssivalvonta (Financial Supervisory Authority) in Finland and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority in the United Kingdom. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request.

This publication or report may not be mechanically duplicated, photocopied or otherwise reproduced, in full or in part, under applicable copyright laws.

Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

Further information on Nordea available on [www.nordea.com](http://www.nordea.com)