

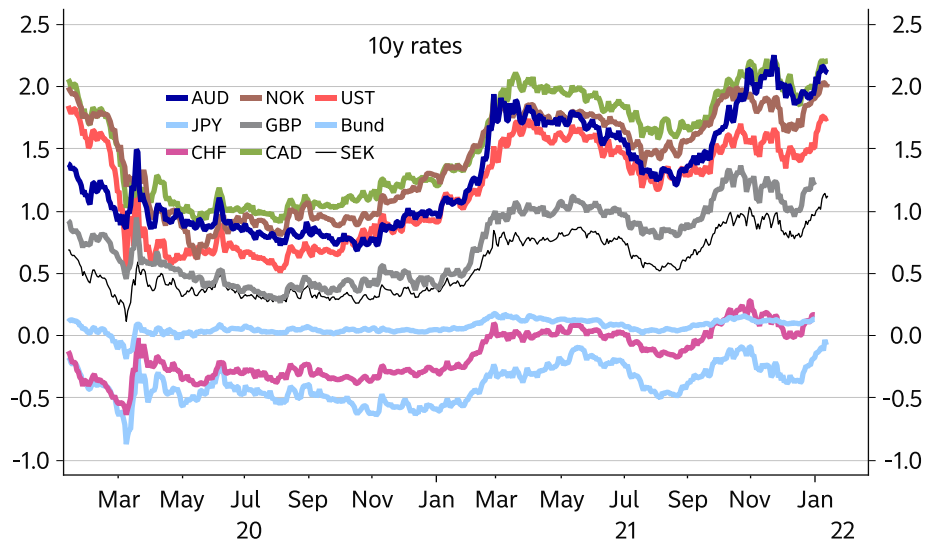
## SEK rates: Short duration and another front steepener

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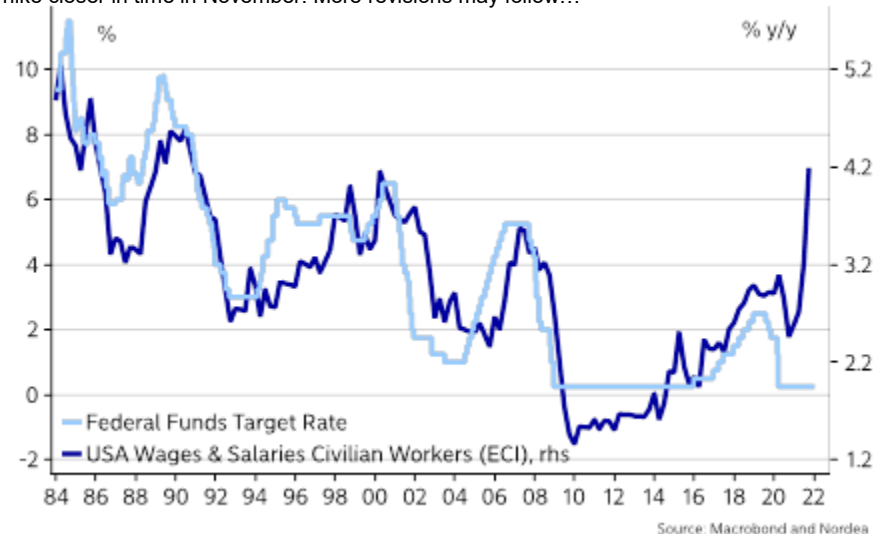
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# Duration: Short

1. Oh, the trend! The trend, it deafens me! Despite a pandemic going into its second year and increased probability of a nuclear war bond yields rise. Inflation seems to have brought at least the Fed to its knees and intrinsic bond momentum must surely be seen as weak...



2. Fed turned already in December and this has been confirmed at the start of the year. More central banks will likely follow. The cycle of policy revisions that started in Q4 2021 rolls on. Remember that the Riksbank guided for balance sheet reduction is 2023 and moved first rate hike closer in time in November. More revisions may follow...



3. **Bias on duration** Gyration in bond yields have turned contribution from the trend indicators from long to short, not much to say about that. With higher yields at a steeper 0-5y part of the yield curve, horizon return for bonds have improve and some value is starting to emerge in tenors up to around 5y. On the macro side, we note that data surprises seem more balanced while inflation momentum add to short bias while the economic outlook actually contributes on the long side as growth is expected to decline from high levels. The duration bias process turned from neutral to short already last week and remains with a short bias this week.

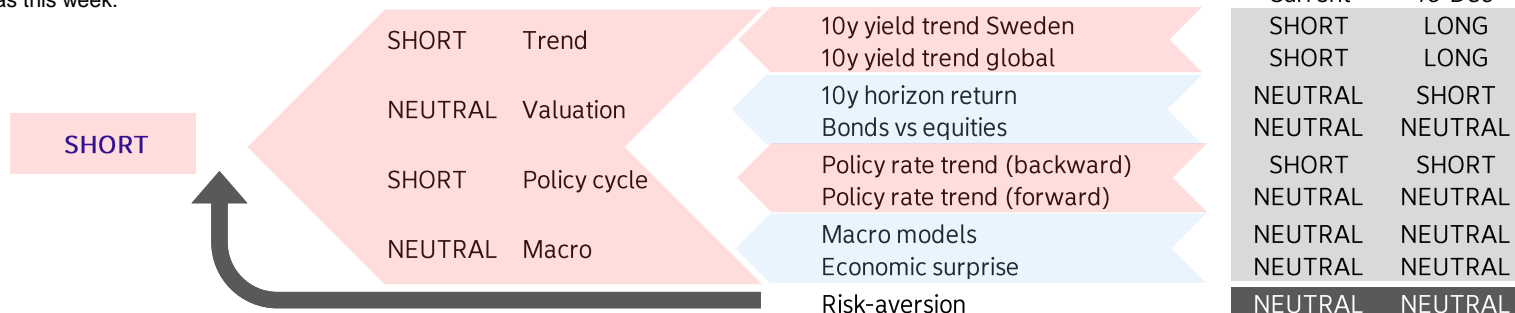
Change since 16-Dec-2021

Duration



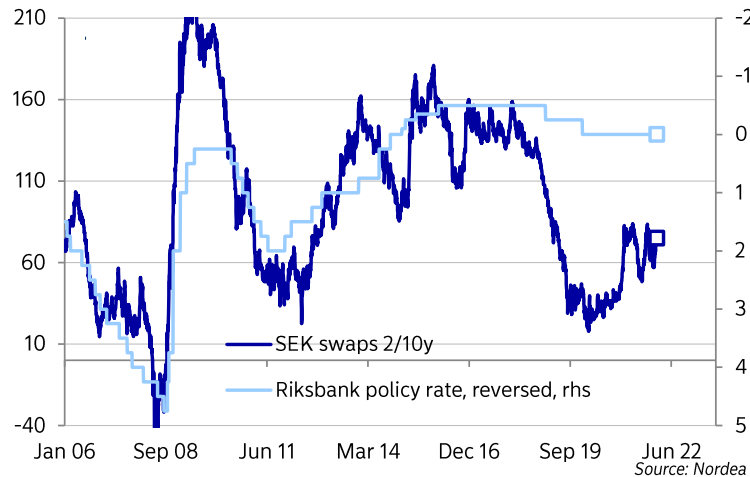
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(short/long)

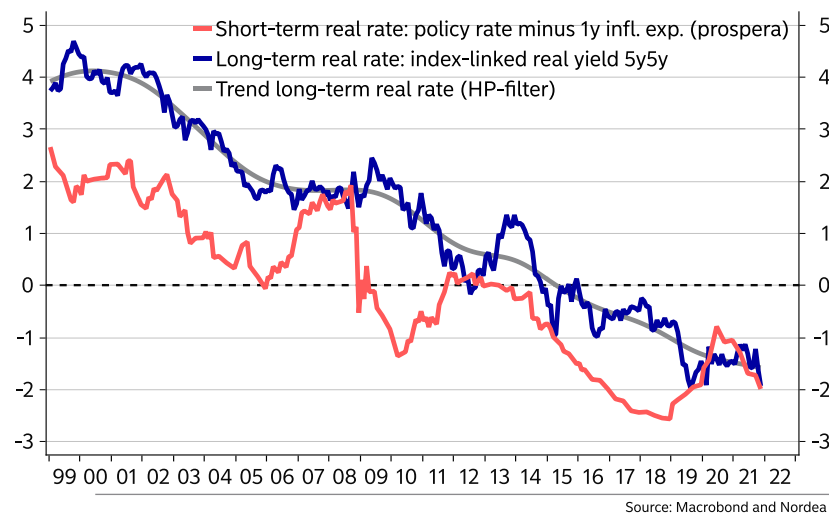


# SEK rates: Nominal curve slope through the lens of real rates

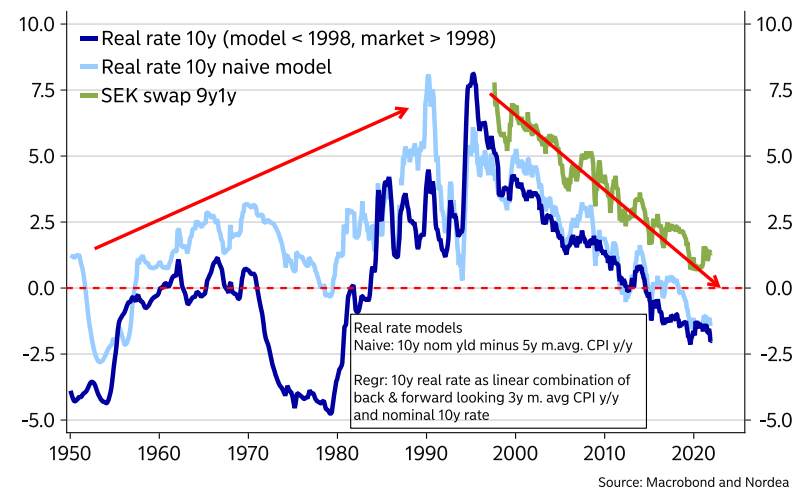
1. Yield curve slope co-trends with the short-term policy rate only when the perception of the long-term neutral policy rate is fixed (and thus the perception of the neutral real rate and trend inflation is fixed as well). The flattening of the yield curve over the recent years has been used...



3. The nominal yield curve can only steepen meaningful, if short-term policy rates is lower than long-term real rates. Short-term real rates change if short-term inflation expectations increase with unchanged policy rate or if the policy rate change with inflation expectations fixed. Long-term real rates change with the perception of structural factors...



2. ...as evidence of declining long-term real rates. This decline in real rates has in turn been used by central banks as an argument why policy rates may have to be low for a very long time (overshooting the inflation target less risky than undershooting).



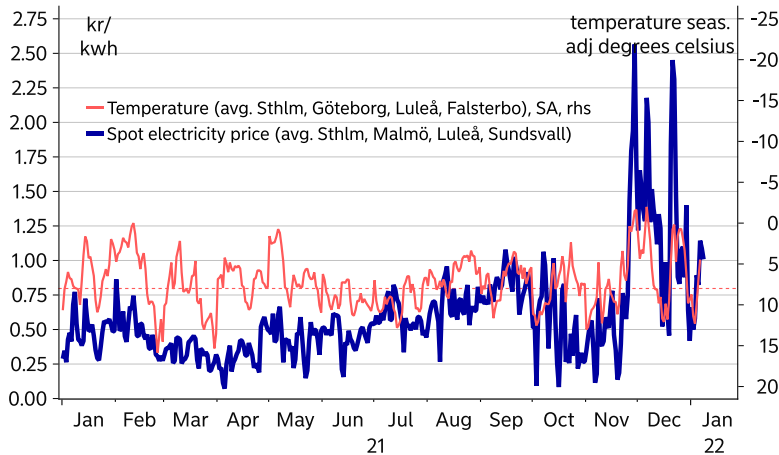
4. ... such as global propensity to investing relative saving or potential growth. Nominal curve steepening could from the perspective above and in the current environment be triggered by: higher inflation (expectations) but a passive Riksbank or re-evaluation by market regarding the character of the business cycle (projecting structural explanations on growth: green investment cycle, tech-revolution etc)



# SEK rates: Electric bogy boosts budget balance

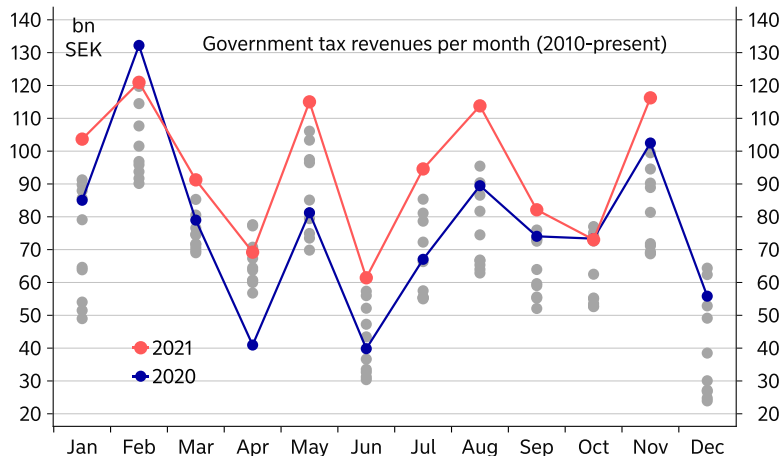
*Note: There are currently proposals in the Riksdag to redeem some of the government's windfall profits from the high electricity prices through retroactive grants or tax cuts. Calculations on this page ignores all such effects.*

1. Swedish electricity prices are wrecking havoc in household's budgets and consumer price indices. Unusually cold November & December in combination with a changed production mix (closure of nuclear plants, more wind power and higher dependence on imported electricity) are the drivers.



Source: Macrobond and Nordea

3. During most of 2021, tax revenues have been higher than expected. A strong business cycle, decreasing unemployment and less demand for pandemic support measures are some explaining factors in addition to the high electricity prices.



Source: Macrobond and Nordea

2. At the same time, high energy tax rates mean that a large part of price increases feed through into higher revenues for the government. Since the government owns more than 50% of electricity production as well, higher prices also means higher profits for government energy producing corporations (especially Vattenfall). We estimate a crude "rule-of-thumb" to be:

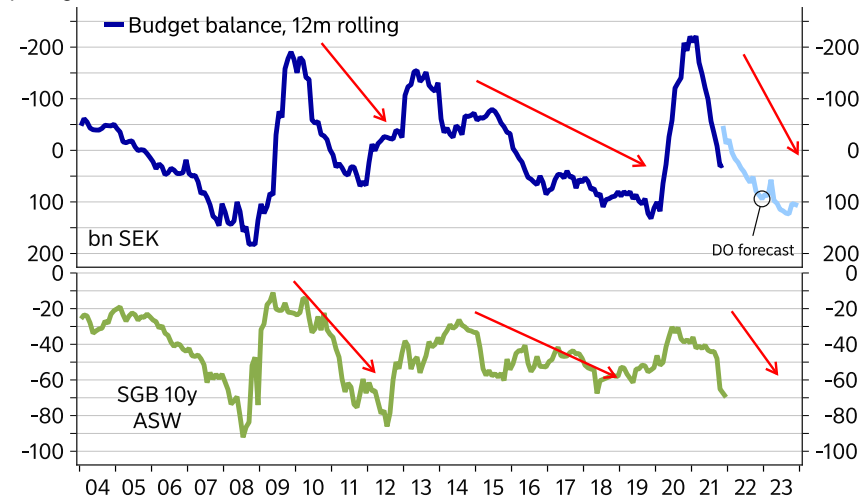
**1 kr/kwh higher electricity price during a winter month ~ 10 bn in higher government revenues.**

Hypotactically, if the electricity price linger 1 kr/kwh higher for a whole year, it would mean ~100bn in extra revenue for the government.

Change in electricity price kr/kwh	1
Energy consumption, annual, Twh	140
Taxes & fees, % of consumer electricity price	50%
The month's share of yearly electricity consumption	10%
Change in tax revenues, bn SEK	7
Electricity production gov. corps, annual, Twh	80
Dividend to government as share of profits	40%
Change in dividend in bn SEK	3.0
Change in governments revenues, bn SEK	10.0

Source: Nordea

4. A sequence of reduced bond issuance has been the consequence for the Debt Office, while the Riksbank has continued to buy bonds at a hefty pace. It is not only the households through the electricity market that are squeezed but the SGB market as well. Perhaps it is not so surprising that ASWs have drifted far off from fair-value.

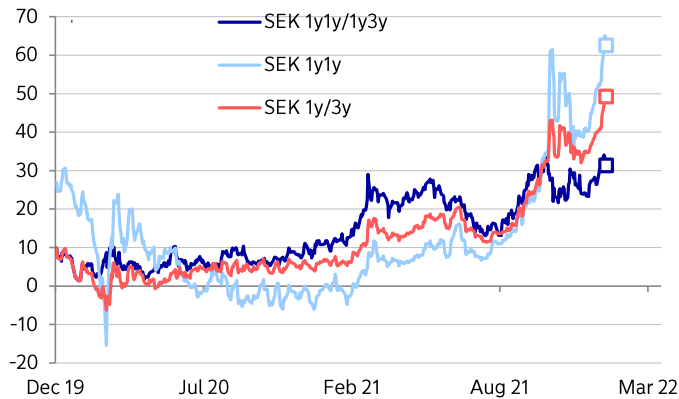


Source: Macrobond and Nordea

Nordea

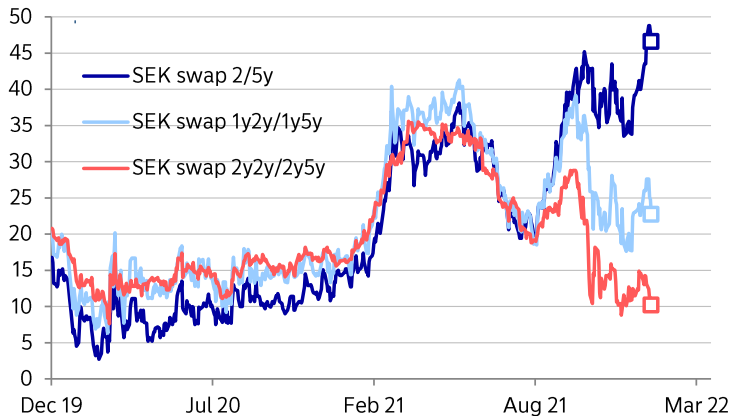
# Trade Ideas: Finding a way in the forward slope labyrinth

1. Yields are up and the curve steeper. At least at shorter tenors.



Source: Nordea

3. But if you believe in weak global bond markets in Q1, should not the 3-5y part of the have potential to catch up to some of the 1-3y steepening. Receiving 1y2y/1y5y is now in our view a stronger contender for steepening than 2y2y/2y5y that we have highlighted earlier.

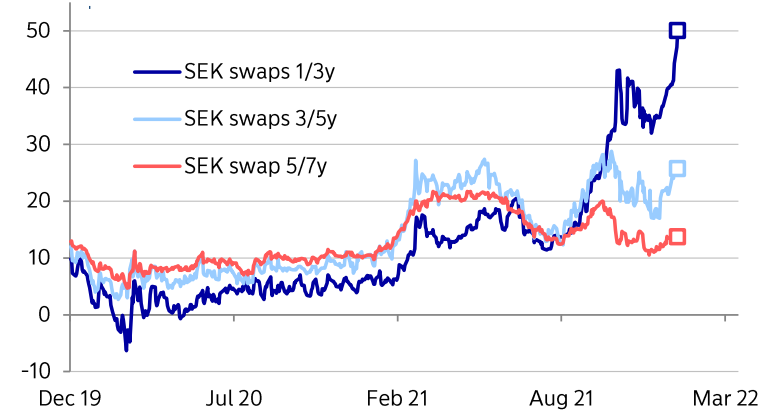


Source: Nordea

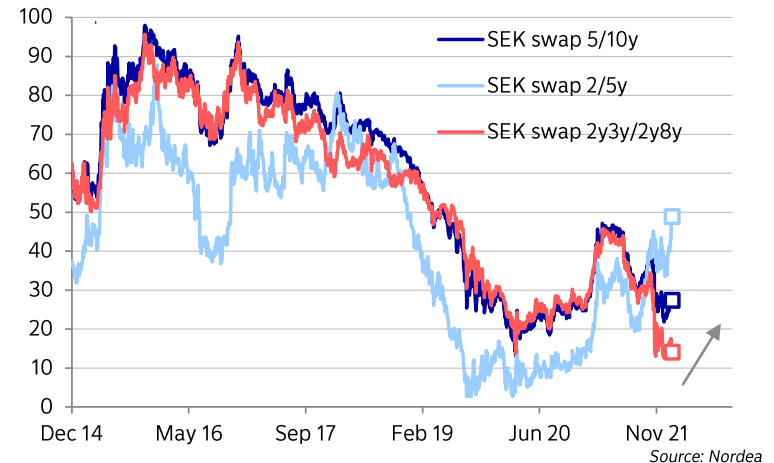
## 3. Relative value trade ideas

Action	Date	Trade	Comment
New	14-Jan-2022	Receive SEK 1y2y, pay 1y5y	Catch up with the front-end steepening trend
	16-Dec-2021	Receive SEK 1y1y, pay 1y3y	Front-end should stay steep., but not the most optimal trade after swift repricing
	14-Oct-2021	Sell SHYP 1589, receive in m-matched swap	<u>Year-end richness must come to an end</u>

2. Most of the yield curve steepening has been in 1y to 3y part of the curve (slow-starting Riksbank finally throws in the towel, delivers early hikes in 2023, kills the economy).



4. Talking about fwd curves, why not express 2/5/10s as a fwd steepener? 2y3y/2y8y correspond to receiving 5s vs 2/10s with 25% of the wing dv01 in 2y & 75% in 10y)



Source: Nordea

# References: Publications year-to-date

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

5-Jan-2022 [SEK covereds: Supply update December](#)  
 16-Dec-2021 [THURSDAY1500: Please insert risk-premium](#)  
 9-Dec-2021 [THURSDAY1500: All I want for Christmas is a steeper yield curve](#)  
 3-Dec-2021 [SEK covereds: Supply update November](#)  
 2-Dec-2021 [THURSDAY1500: A lower bound on rate hike discounting](#)  
 1-Dec-2021 [SEK covereds: EU harmonized law updated, soft-bullets are BACK](#)  
 25-Nov-2021 [THURSDAY1500: A monetary policy plumber uses two tools](#)  
 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](#)  
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 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](#)  
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 2-Sep-2021 [THURSDAY1500: The Long March of inflation pressure](#)  
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 12-Aug-2021 [THURSDAY1500: Policy slow-motion](#)  
 9-Aug-2021 [SEK covereds: Supply update July](#)  
 5-Aug-2021 [THURSDAY1500: Washed out](#)

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6-Jul-2021 [SEK covereds: Supply update June](#)  
 23-Jun-2021 [SEK rates: Riksbank preview](#)  
 17-Jun-2021 [THURSDAY: The sphinx-like curve slope](#)  
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 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](#)

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