

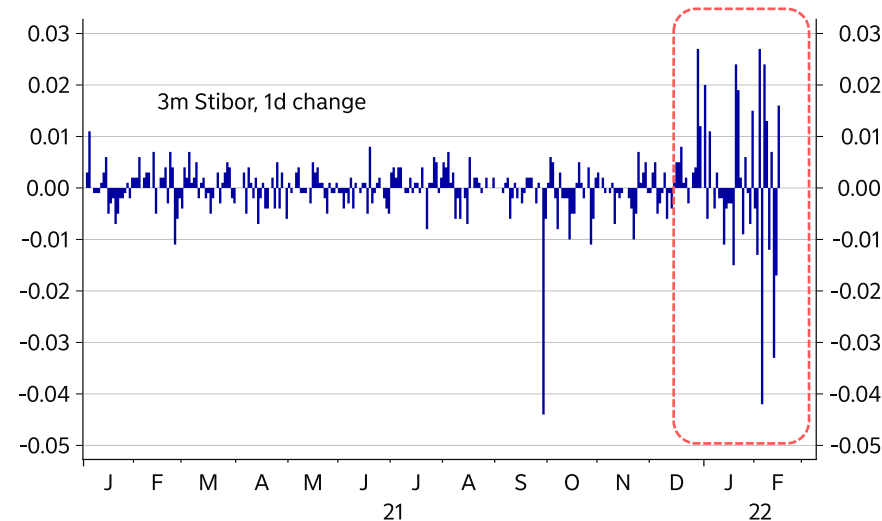
## SEK rates weekly: Stibor is dead, long live Stibor

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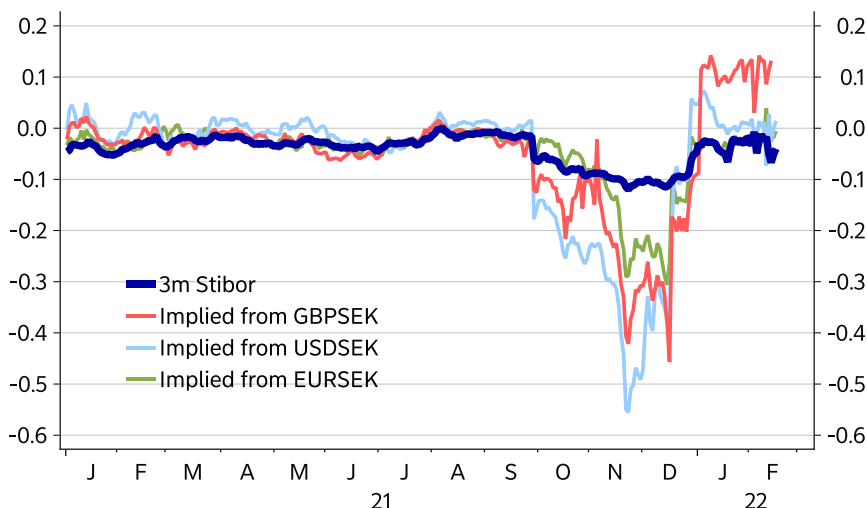
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# Stibor: The new calculation method likely reason for rise in volatility

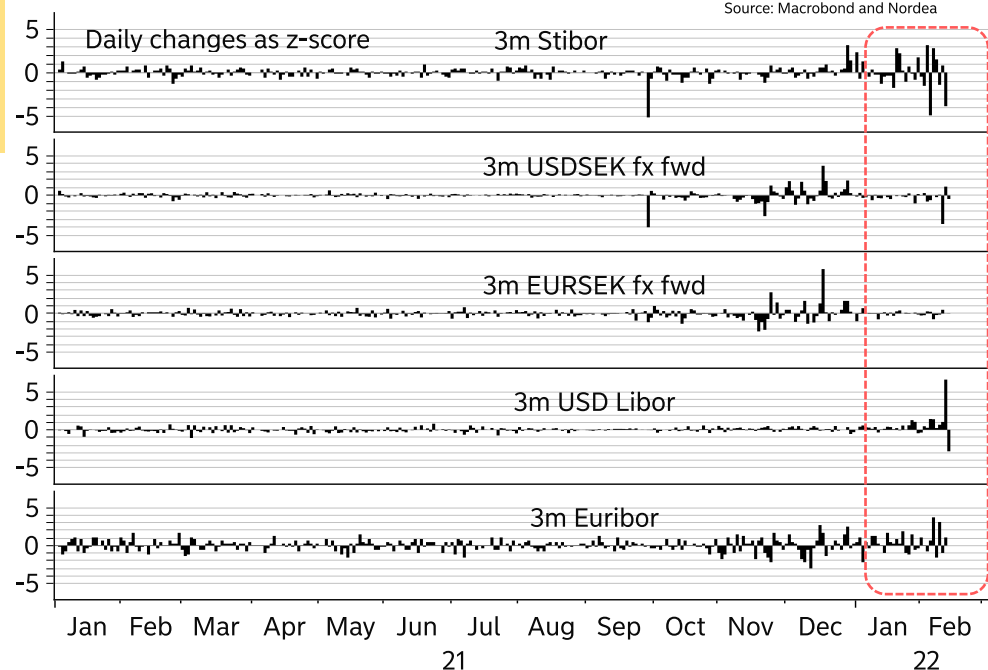
- The corporation that administer Stibor (Swedish Financial Benchmark Facility, SFBF) announced 1 February that the transition to a transaction based calculation method for Stibor was completed. For more info on the new framework see “[Swestr vs Stibor... the current situation and the future](#)“, 25 Nov 2021 or “[Stibor determination framework](#)”
- In our view, most transactions underlying Stibor will be in foreign currency. **The correlation to foreign currency funding and FX forwards will thus increase compared to the old framework.**
- But since the funding levels in different currencies will differ at any given moment and since the number of transactions on longer tenors (such as 3m or 6m) will be few, the calculated Stibor fixing may change a lot between different days as the eligible transactions underlying the calculation may have occurred in different currencies due random factors. The result of this should **be higher volatility in Stibor fixings day-to-day.**
- The change in correlation and the higher volatility may be especially marked around year-end when funding in different currencies diverge and move around a lot. **We see increased downside risk in Stibor in Q4.**
- The new Stibor may also turn out to have a different sensitivity to risk-aversion: risk-aversion linked to the Stibor banks pulls Stibor up, risk-aversion in general pulls Stibor down (flight-to-quality may increase demand for USD and driver Stibor down).
- The migration from IBOR-rates to reference rates in USD and GBP could mean that there is additional uncertainty as the money-market structure in USD and GBP is partly changed.



Source: Macrobond and Nordea



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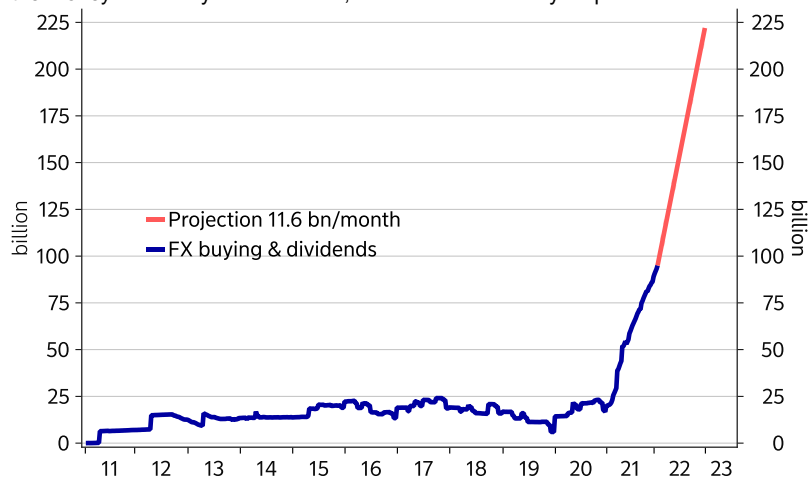


Source: Macrobond and Nordea

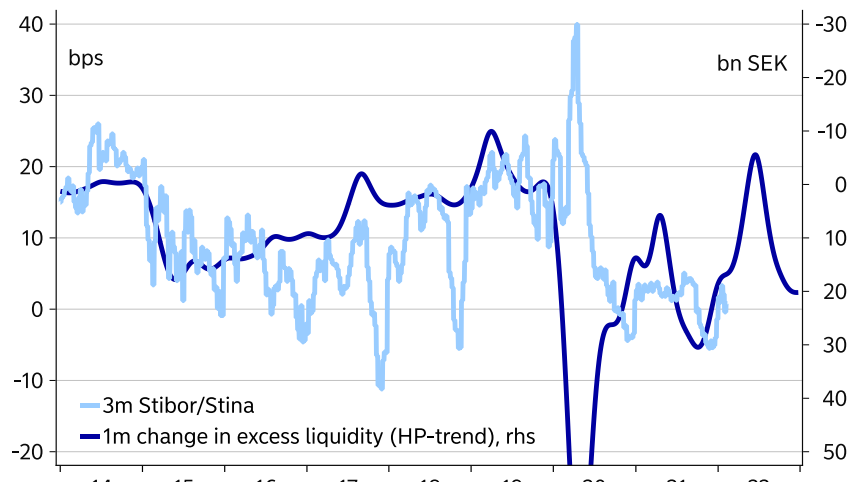
Nordea

# Riksbank: The printing press keeps working as foreign currencies are bought

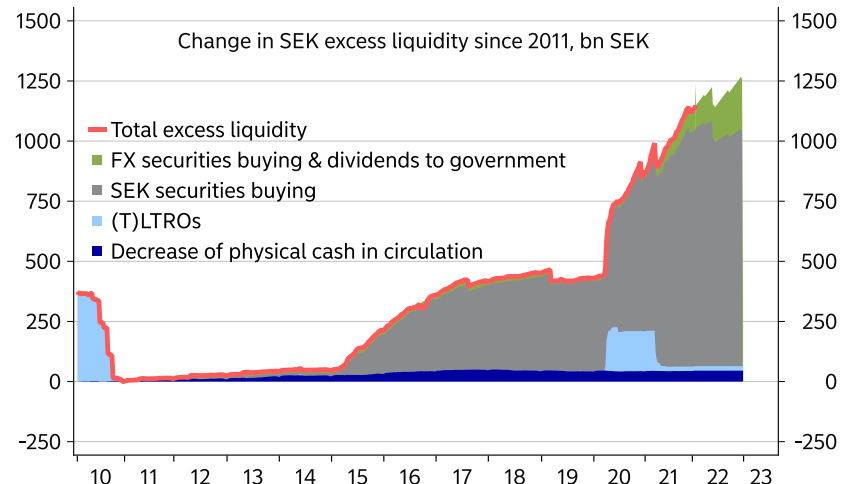
1. Early 2021, the Riksbank announced it would “re-finance” ~200bn SEK of the FX reserve by selling SEK. The consequence buying FX vs SEK is that the excess liquidity in the money-market system increase, i.e. “electronic money” is printed



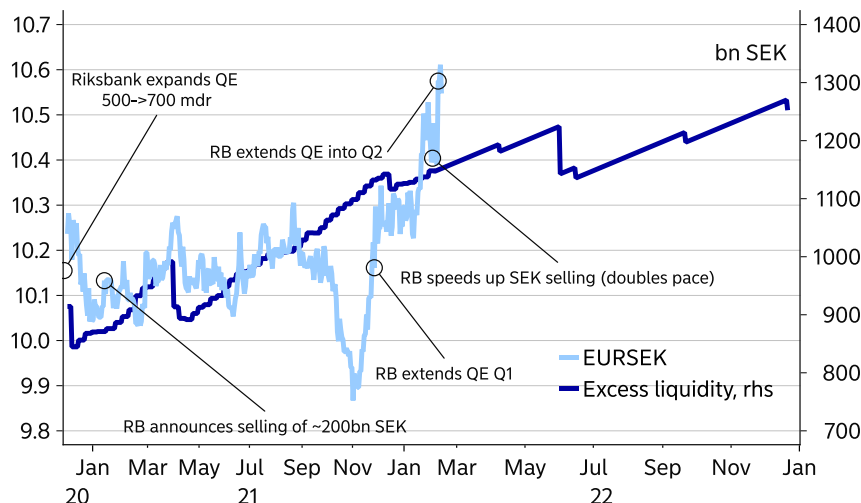
3. The relationship between excess liquidity and Stibor is sketchy. Slower growth of liquidity should mean less downward pressure on Stibor. The Riksbank's announcement to sell SEK faster neutralize the impact of less SEK bond buying on liquidity and Stibor.



2. 3 February, the Riksbank announced it would more than double the pace of SEK selling to finish the program by the end of 2022. Despite not increasing SEK liquidity through SEK asset purchases, liquidity is increasing through non-SEK asset buying.

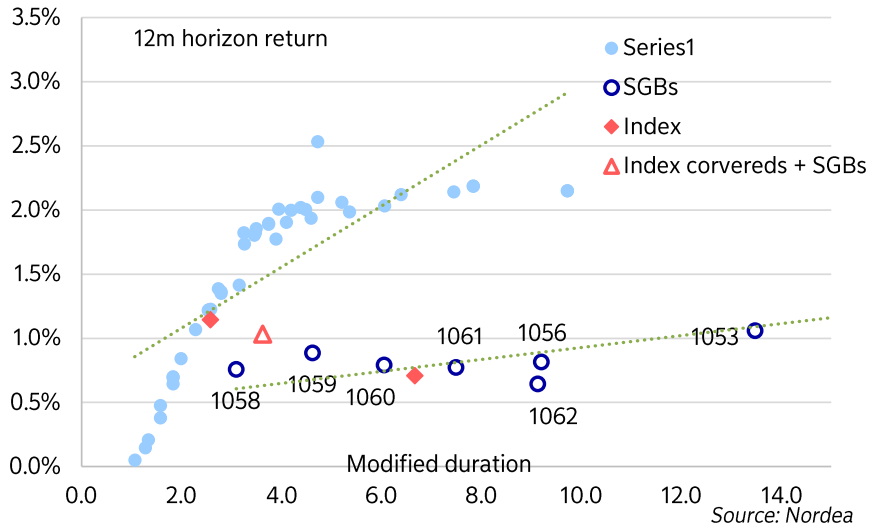


4. The link between the Swedish currency and SEK excess liquidity is even sketchier. More excess liquidity should work for a weaker SEK and perhaps the soft policy stance in combination with jacked up SEK selling may have helped push EURSEK to the upside.

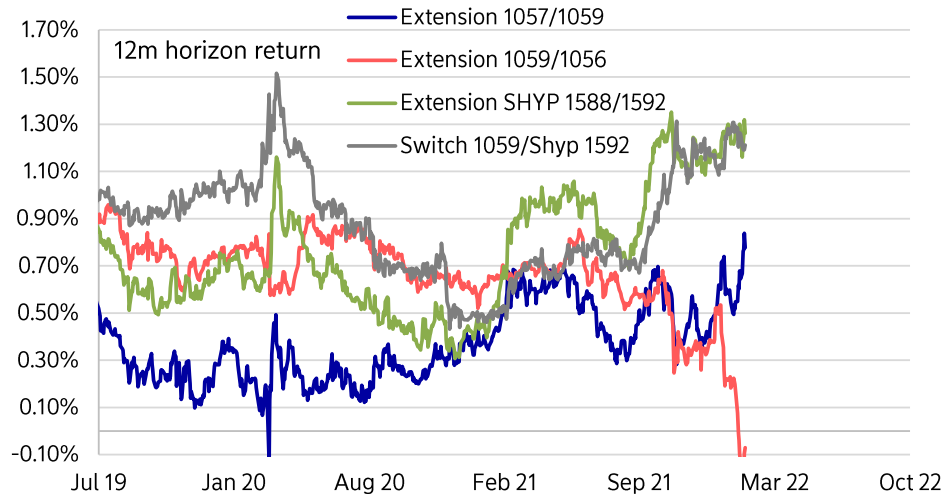


# Duration & covereds: The steep covereds, the flat SGBs and the wide spread

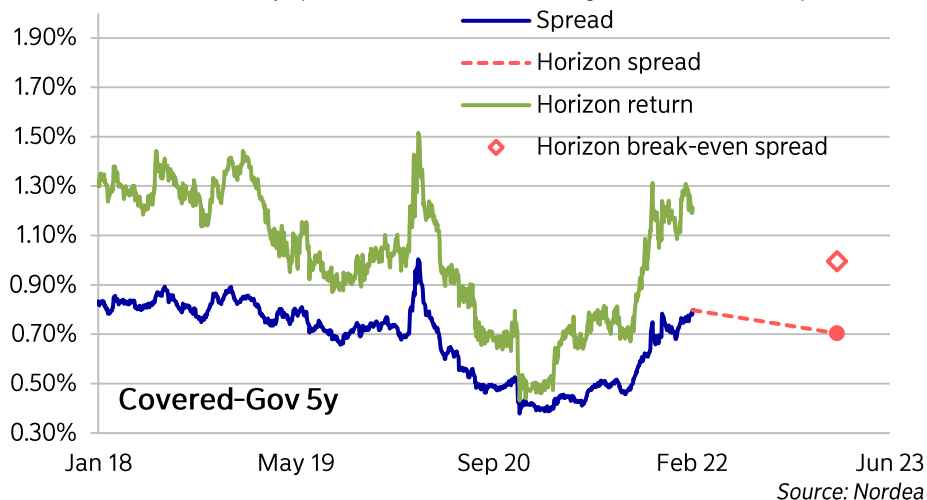
1. In the perspective of horizon return (outright rolldown & carry), the steepness of the covered curve and the flatness of the govie curve is spectacularly visible.



2. Duration extensions on the SGB curve 5y and outwards do not make sense and extensions on the covered curve out to 5y beat extension in govies by a lot. Switching from 2y and 10y govies to 5y covereds looks attractive.



3. The 12m break-even 5y spread between covereds and govies is around 100 bps.



4. **Bias on duration** The forward looking expectations on a policy tightening in Sweden have been started to approach trigger-points for adding contribution to a short duration bias. At the same time, a steeper 0-5y curve together with higher yield levels is starting to signal value in bonds, but volatility needs to calm down a bit. On the macro side, current upside price momentum on the inflation side stands against the downside outlook for economic activity. We keep the short duration bias.

**Duration**  
(short/long)

**Covereds**  
(sentiment: weak/strong)



Change this week

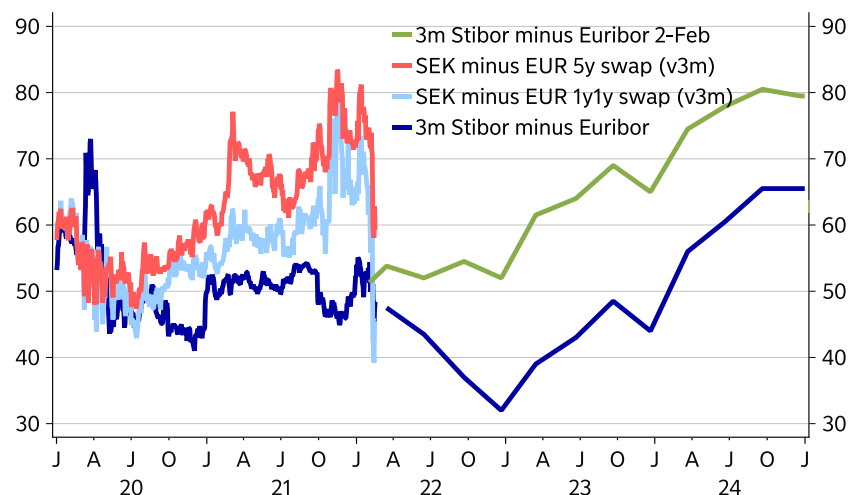
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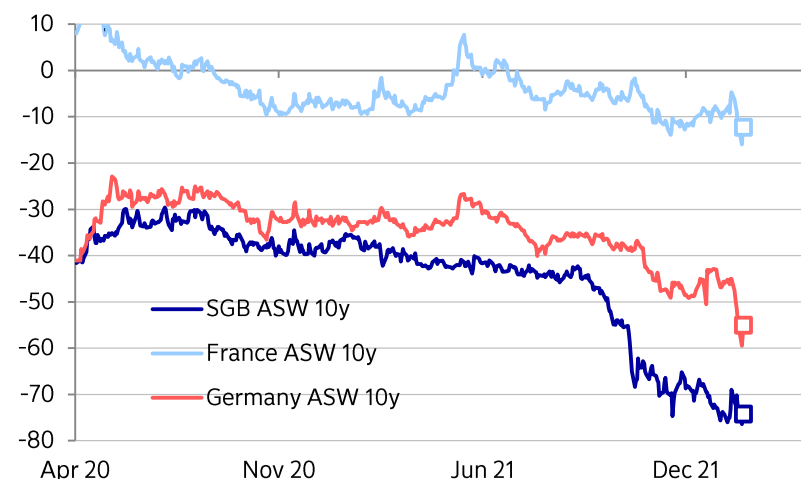
# Trade Ideas: Inflation surprises should keep upward pressure on front-end SEK rates

**1. Country spread** The market is pricing a first move in the policy rate from ECB earlier than the first move from the Riksbank. In 2024, the policy rate spread is once again expected to be higher than today. The hawkish policy message from ECB and the soft message from the Riksbank is behind the re-pricing and hard to argue against. Still, we see upward risks to Swedish core inflation in the months January to March, and our baseline forecast also indicates higher turnouts than the Riksbank's forecast. Thus, an upward revision of the rate path and a hawkish turn from the Riksbank at the meeting in late April seems reasonable to expect. This should mean that there is a potential for additional upward pressure on front-end SEK rates until April. What that means for the rate spread to EUR is totally unclear. Incoming information will show.

**2. ASW** SGB swap spreads have been wacko for months. Nothing new there. Euro ASWs have widened recently, most likely due to expectations of an ECB policy shift (bad for peripherals, good for core countries) and risk-aversion connected to the crises around Ukraine. Next week, the Swedish Debt Office (DO) publishes updated forecasts and updates issuance plans. The budget balance for 2022 will be significantly revised to the better since the DO's forecast in October. The reduction of issuance could be done mostly in bills but bond issuance may be reduced as well. Very hard to pinpoint a point in time when information should start to come in for tighter SGB ASWs. At the same time, hard to go much wider. Or? If anything, we would look at sell SGB 1062s or 1056s vs swaps around or after the borrowing report (24 February). Read more in "[Debt Office: Less borrowing need on repeat](#)", 11 February.



Source: Macrobond and Nordea



Source: Nordea

## 3. Relative value trade ideas

Action	Date	Trade	Comment
	14-Jan-2022	Receive SEK 1y2y, pay 1y5y	Catch up with the front-end steepening trend

# References: Publications year-to-date

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

11-Feb-2022 [SEK rates weekly: Policy pivot postponed](#)  
 4-Feb-2022 [SEK rates weekly: A shift in Riksbank's forward guidance](#)  
 3-Feb-2022 [SEK covereds: Supply update January](#)  
 28-Jan-2022 [SEK rates weekly: The balance... equity volatility and bond duration](#)  
 21-Jan-2022 [SEK rates weekly: Highway to the Divergence Zone](#)  
 14-Jan-2022 [SEK rates weekly: Short duration and another front steepener](#)  
 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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 21-Oct-2021 [THURSDAY1500: Borrowing report preview](#)  
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 7-Oct-2021 [THURSDAY1500: SGB ASWs are satellites without a planet](#)  
 6-Oct-2021 [SEK covereds: A deep dive into medium term drivers](#)  
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 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](#)  
 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](#)

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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](#)  
 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](#)  
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