

## SEK rates weekly: Stibor flies north

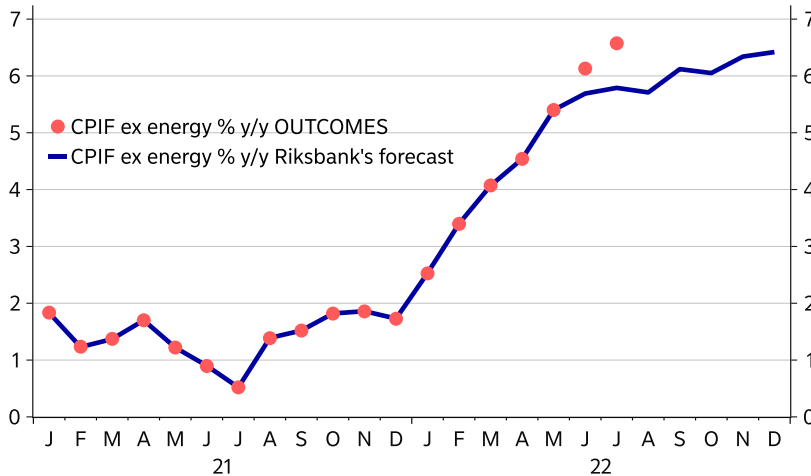
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Completion timestamp: 19 August 2022 06:00 CET  
Dissemination timestamp: 19 August 2022 07:40 CET

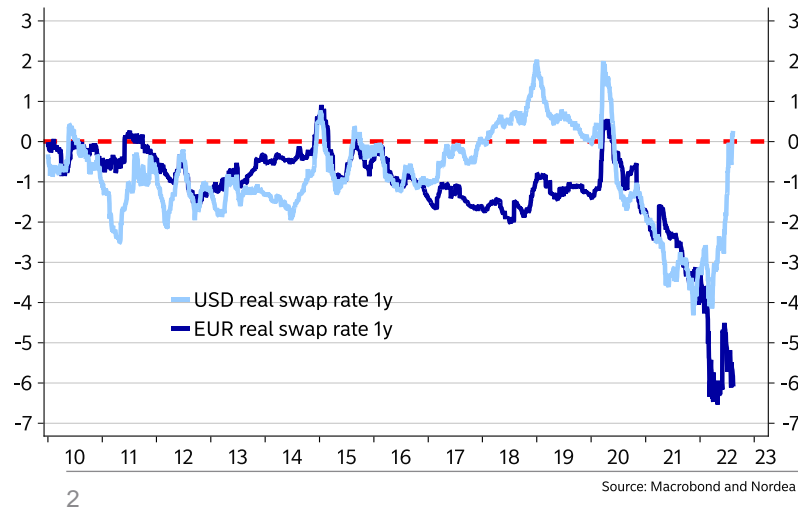
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# Riksbank: Under pressure

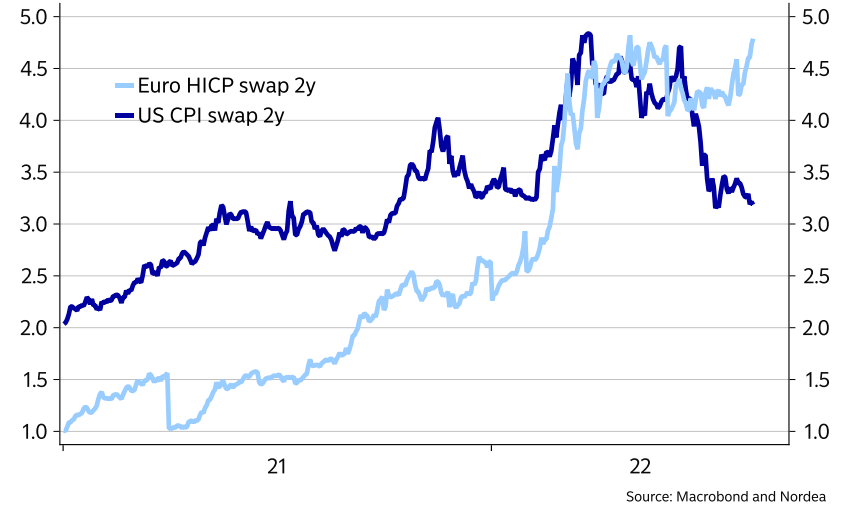
1. Some Swedish inflation numbers for July came out lower than market expectations. The breadth of price increases was a tad lower, but core inflation continued to accelerate away from Riksbank's forecast.



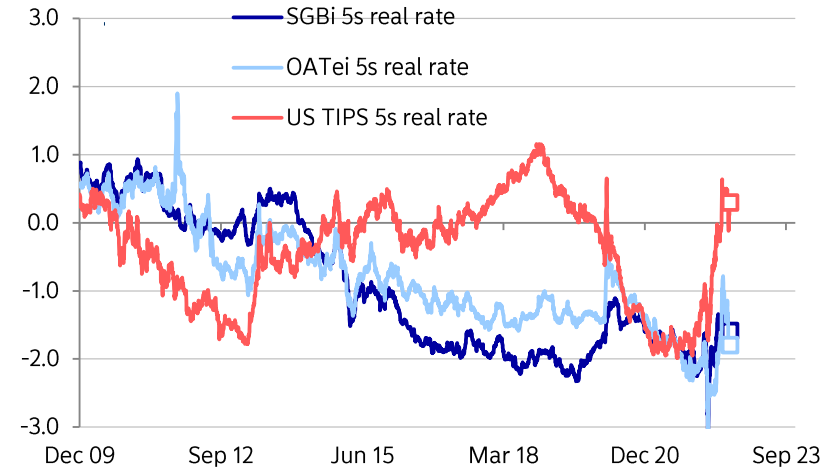
3. Despite inflation closing in on 10 % by year-end, Euro short-term real rates have not even started to rise, in stark contrast to the US.



2. Near-term market inflation expectations in the Eurozone is on the rise markedly. Swedish inflation is highly correlated to Euro inflation... I have a bad feeling about this!



4. Swedish real rates mimic Euro real rates. The Riksbank's tightening cycle is extreme, but is still lagging the inflation cycle.

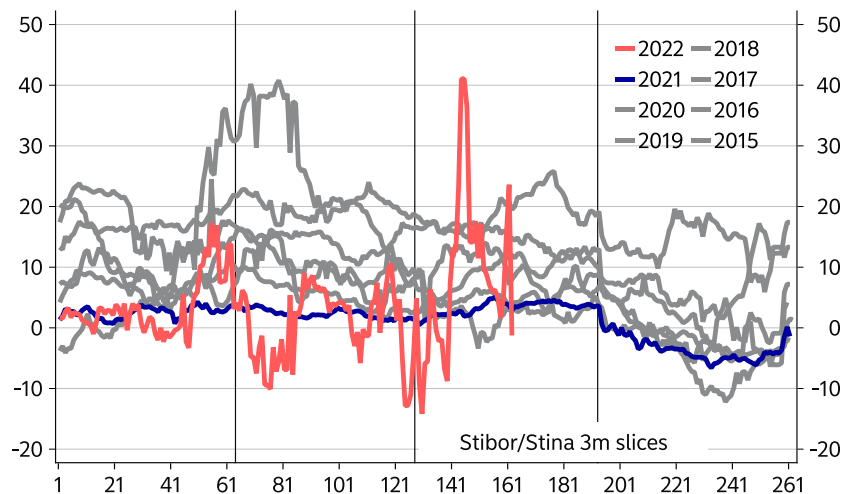


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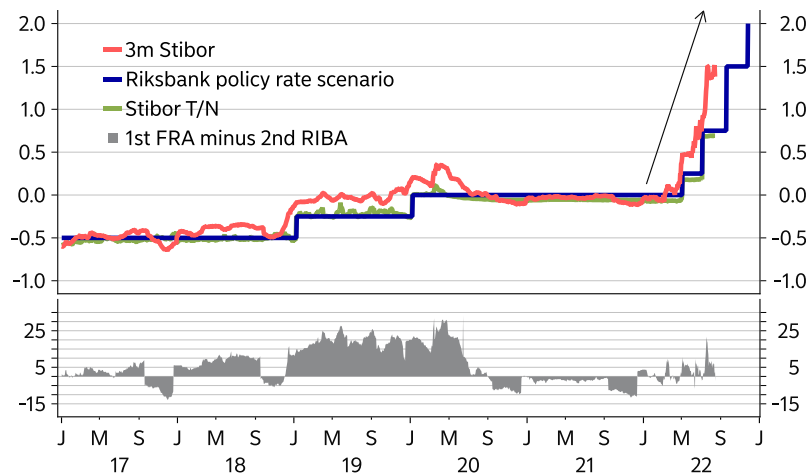
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# Stibor: Do not underestimate the dark side of rapid rate hikes

1. Stibor's erratic behaviour consequence of troublesome new calculation method. We still expect a downward contribution from year-end effect.

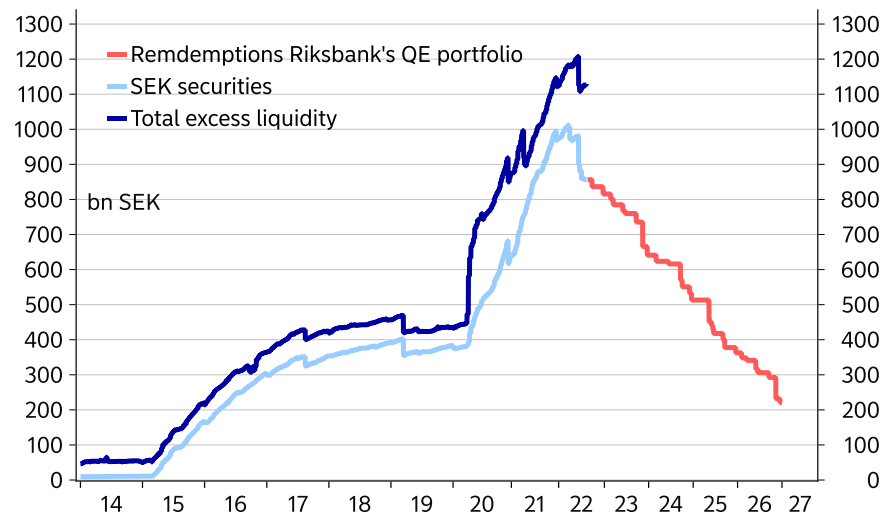


3. In rate hike cycles, Stibor often ends up above levels implied by rate hike expectations. The sudden shift of policy this time may add to bank hedging needs and corporate lending may increase as well.

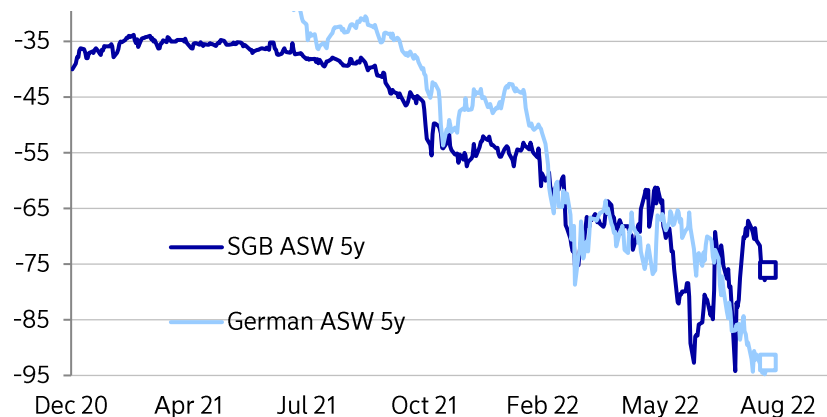


Source: Macrobond and Nordea

2. Apart from the year-end, we see most other drivers lined up for **higher** Stibor. The Riksbank's balance sheet runs off and the new Riksbank law further obstacle to QE.



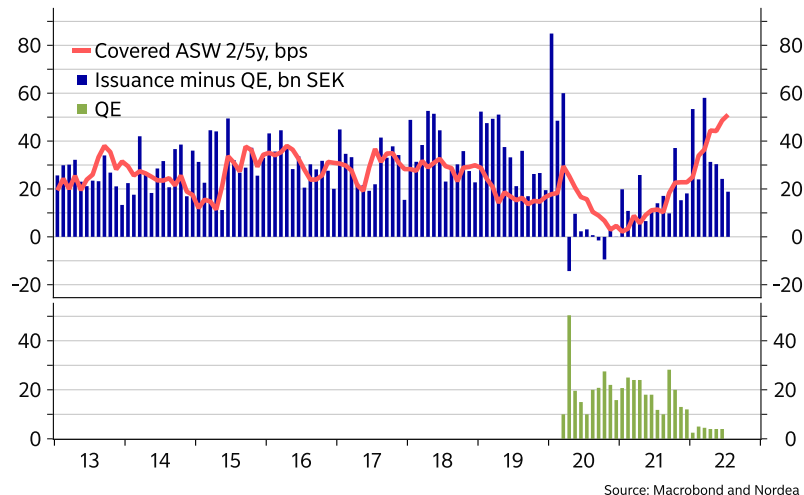
4. Policy rate hikes also often coincide with wider government swap spreads. Policy is tightening because economy is strong and the budget balance positive. More bond issuance comes later. Buy front-end SGB ASWs?



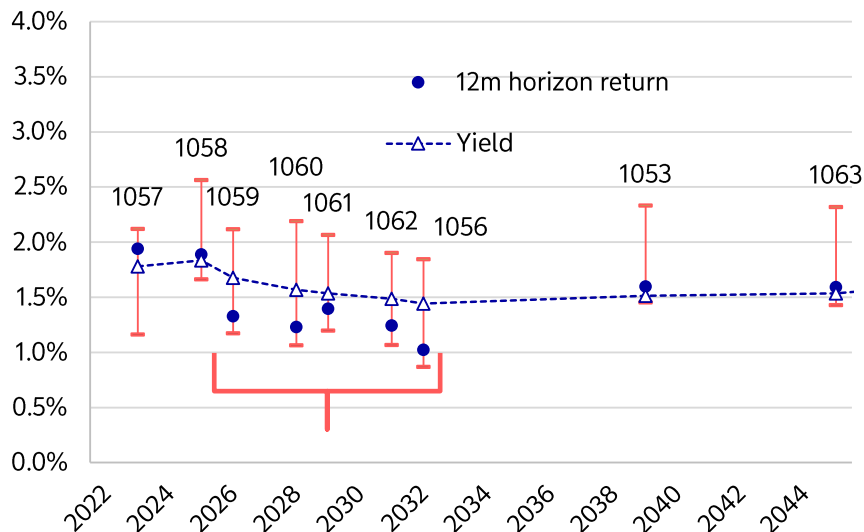
Source: Nordea

# Duration & covereds: Conventional 5y covereds and a SGB oddity

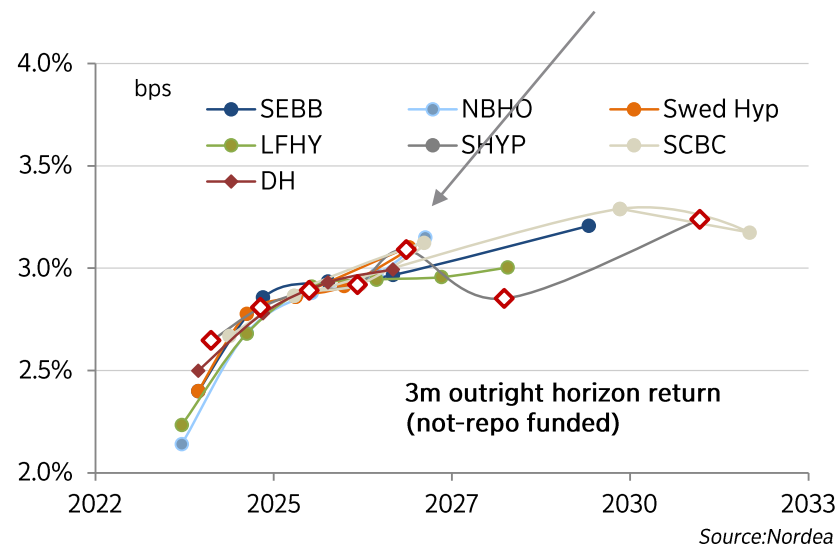
1. Little issuance during the summer motivates a flatter covered spread curve near-term.



3. The SGB offers negative return pickup for most duration extensions. Not a winning sales pitch for long-end SGBs.



2. Cheapest point on the covered curve is ... ze five year!



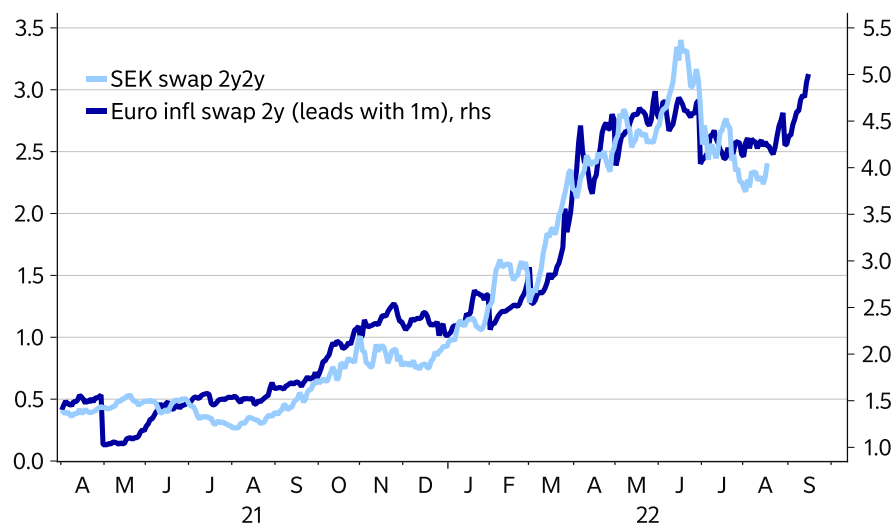
4. **Bias on duration & covereds** The balance of neutrality for the duration bias remains unchanged from last week: policy tightening and low/negative excess return on duration extensions speak for being short. The outlook and momentum for economic activity together with downside risk to equities speak for being long.

We believe that the sentiment in covereds will remain decently strong in the near-term. Issuance has not pickup much (although a stretch of new soft-bullet bonds is in the pipeline) and lending growth has collapsed.

Duration		★	★	★	☆	☆	UNCH
(short/long)							
Covereds		★	★	★	★	☆	UNCH
(sentiment: weak/strong)							

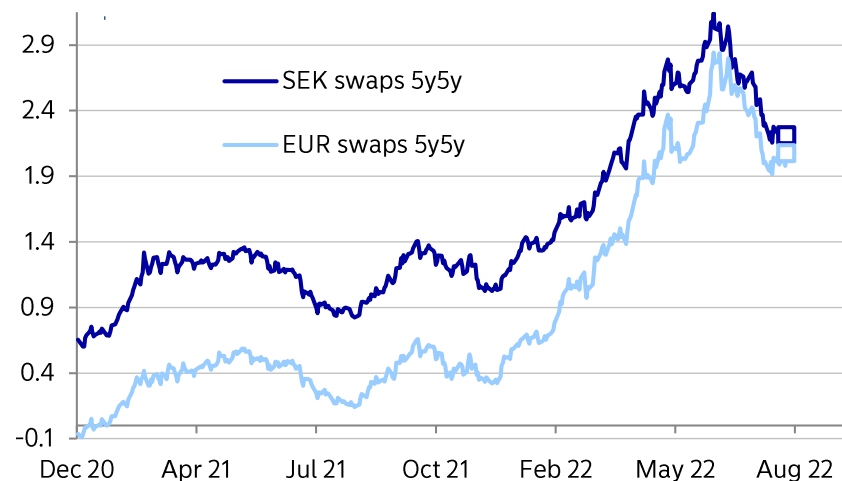
# Trade Ideas: Pay, but be careful about relative value in long-end SEK swaps

**1. Outright** We do not believe that the bear market in bonds is over. Central banks are far from through with policy tightening and historical lead/lag-patterns between inflation and the business cycle cannot be applied without judgmental adjustments. One policy pivot in the brewing is the increasing pressure on ECB as near-term inflation expectations rise and energy prices derail. Obviously, higher Euro rates will make SEK rates go up as well. The mid segment of the yield curve should be good point to pay in swaps and forwards should be better than spot, as curve initially should steepen up to 5y as bear market resumes.



Source: Macrobond and Nordea

**2. Outright** In the long-end, the SEK and EUR yield curves have had different experiences. In EUR, rising long-end rates have led to ALM related paying as the pension sector's liability side became over-hedged. ECB has lagged other central banks in the tightening cycle, also adding steepening pressure. In SEK, the Riksbank has been more activist on the policy side, adding flattening pressure. The Swedish pension sector is less impacted by ultra-long swap rates for discounting liabilities as the last liquid point by the regulator is set to 10y. The net effect of solvency, downside stress-test for rates and liability hedge ratio is far from clear. Nevertheless, the flatness of the SEK 5y+ curve may have institutional underpinnings. Better to pay 5y5y outright than to bet on the spread to EUR.



Source: Nordea

## 3. Relative value trade ideas

Action	Date	Trade	Comment
New	17-Aug-2022	Pay 2y2y SEK swaps, receive Dec-22 FRA	You know it's a bear market
Remove	5-Aug-2022	Buy SBAB 147 vs swaps	Case for less lending and tighter spread still valid, but early delivery. (+9 bps)

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# References: Publications year-to-date

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

12-Aug-2022 SEK rates weekly: Monster extension coming  
 5-Aug-2022 SEK covered: Supply update July  
 5-Aug-2022 SEK rates weekly: Tightening hyperdrive  
 17-Jun-2022 SEK rates weekly: Time to end QE and recirculate holdings  
 10-Jun-2022 SEK rates weekly: Stibor ascending  
 3-Jun-2022 SEK covered: Supply update May  
 3-Jun-2022 SEK rates weekly: When risk-free rate jumps, risk-off is king  
 20-May-2022 SEK rates weekly: A descent into the Maelstrom of lower house prices  
 13-May-2022 SEK rates weekly: The Riksbank is all over the place  
 6-May-2022 SEK rates weekly: Deep policy impact  
 5-May-2022 SEK covered: Supply update April  
 29-Apr-2022 SEK rates weekly: Uncertain policy outlook  
 29-Apr-2022 SEK rates: Preview on new government 10y (SGB 1065)  
 22-Apr-2022 SEK rates weekly: Can the Riksbank be both forceful and gentle  
 8-Apr-2022 SEK rates weekly: Temporary long-end steepening  
 5-Apr-2022 SEK covered: Supply update March  
 1-Apr-2022 SEK rates weekly: The clock is ticking for 2/5s  
 25-Mar-2022 SEK rates weekly: When facts change, Riskbank changes its mind  
 18-Mar-2022 SEK rates weekly: Surprises...doubts... inflation exceptionalism  
 11-Mar-2022 SEK rates weekly: New world disorder... case for inverted yield curve  
 4-Mar-2022 SEK rates weekly: Through the fog of risk, towards higher rates  
 2-Mar-2022 SEK covered: Supply update February  
 25-Feb-2022 SEK rates weekly: Flare in risk-aversion, uncertain outcome for bonds  
 18-Feb-2022 SEK rates weekly: Stibor is dead, long live Stibor  
 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 covered: 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 covered: 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 covered: Supply update November  
 2-Dec-2021 THURSDAY1500: A lower bound on rate hike discounting  
 1-Dec-2021 SEK covered: EU harmonized law updated, soft-bullets are BACK

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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 covered: 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 covered: A deep dive into medium term drivers  
 6-Oct-2021 SEK covered: Supply update September \*\*\* special edition \*\*\*

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