

## SEK rates weekly: Too rapid inversion of 2/5s

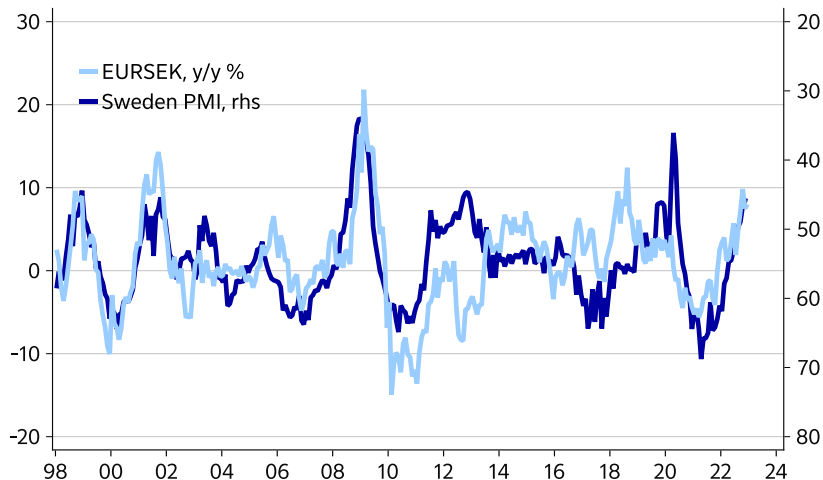
Mats Hydén  
Chief Analyst  
+46 8 407 91 04  
mats.hyden@nordea.com

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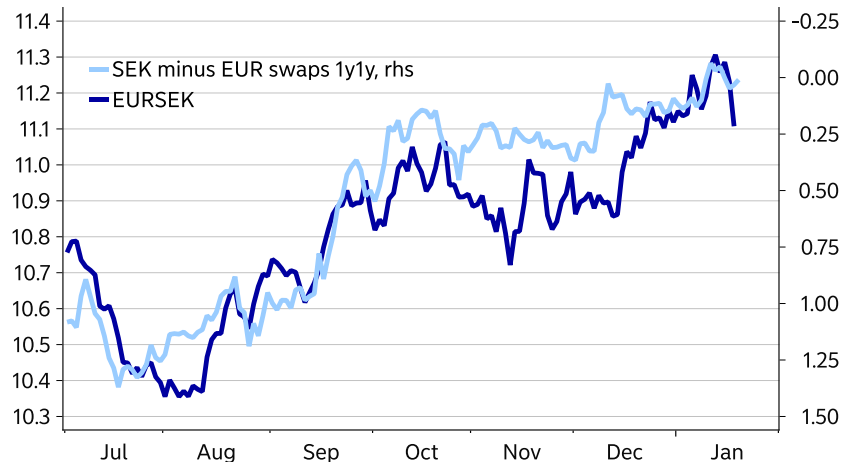
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# Riksbank: The heat is on, on Brunkebergstorg, on the SEK

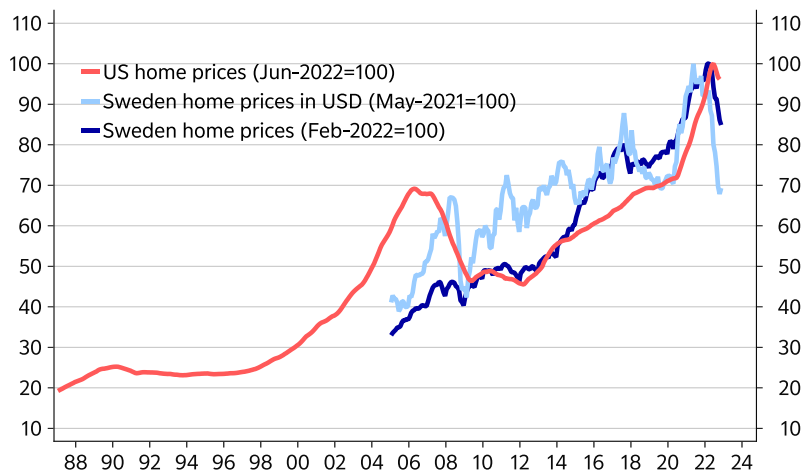
1. The SEK has cyclical drivers. Weaker global manufacturing is fully consistent with weaker SEK. But why has EURSEK risen when equity markets have rallied in the start of this year?



2. High risk-aversion (weak equity markets) in 2022 has been a major explanation for the weak SEK. But since ECB's hawkish pivot in December, potential policy divergence ECB/Riksbank may be in the driver's seat.

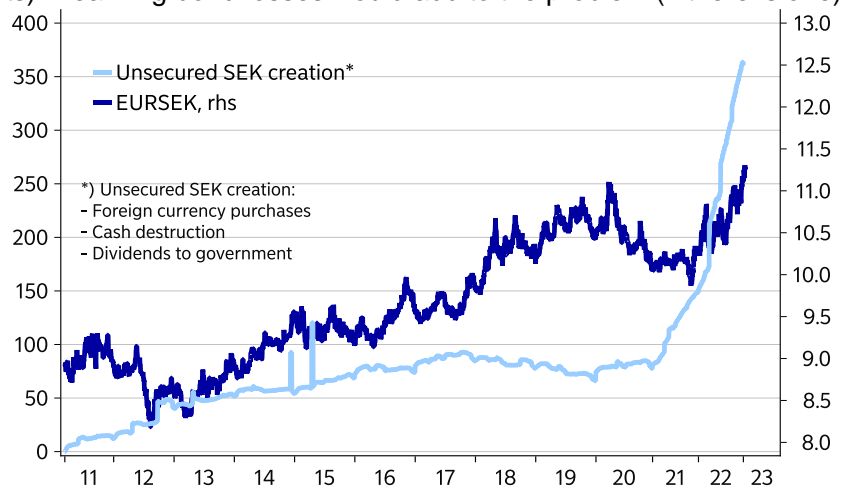


3. High inflation, weak currency, indebted private sector, falling house prices... the prospect of a "death spiral" between rate hikes and house prices cannot be put aside. Speaks for continued but cautious rate hikes.



Source: Macrobond and Nordea

4. There is always an "X-factor". What about the "unsecured SEK creation" (i.e. the money created without absorption of SEK high-quality liquid assets). Realizing bond losses would add to the problem (if there is one).

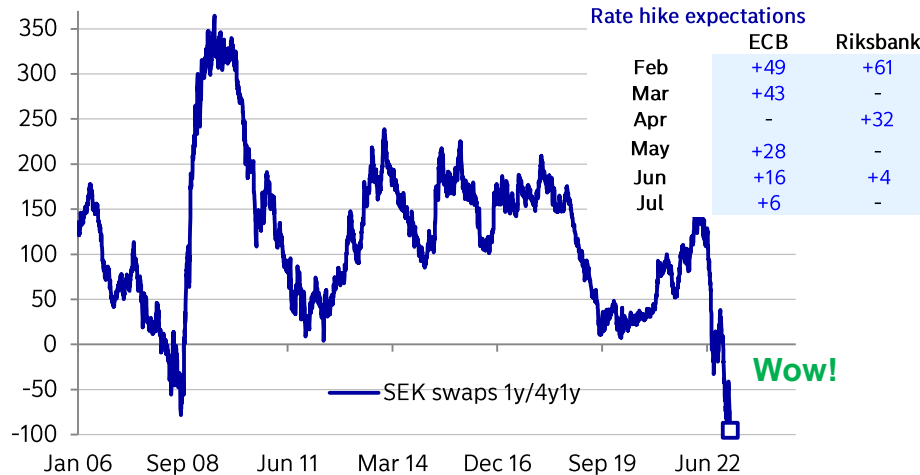


Source: Macrobond and Nordea

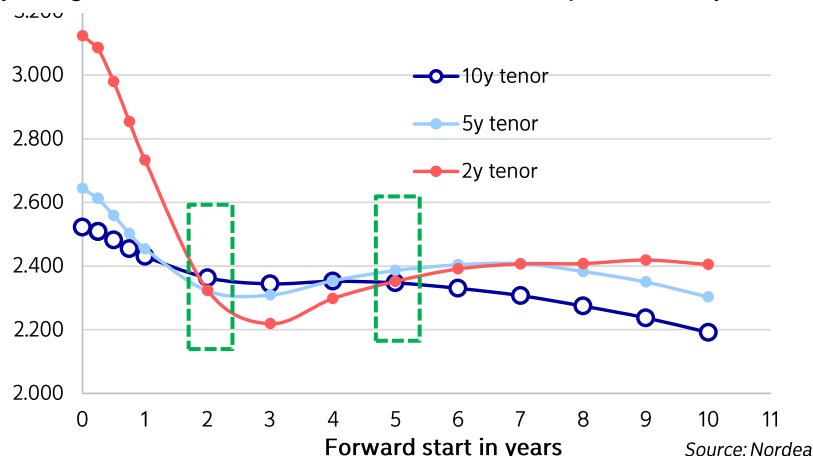
Nordea

# SEK rates: A study in curve slope

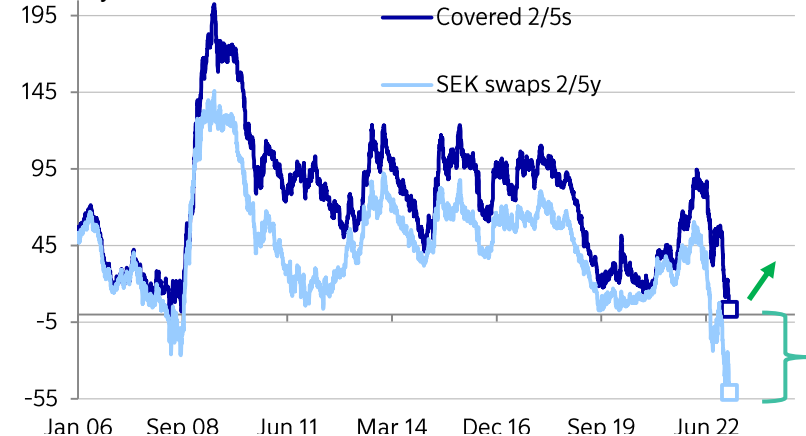
1. The Riksbank will end policy tightening pre-maturely (the SEK may crash!). Steepening of the policy rate path should contribute to steepening of 0-5y of the yield curve.



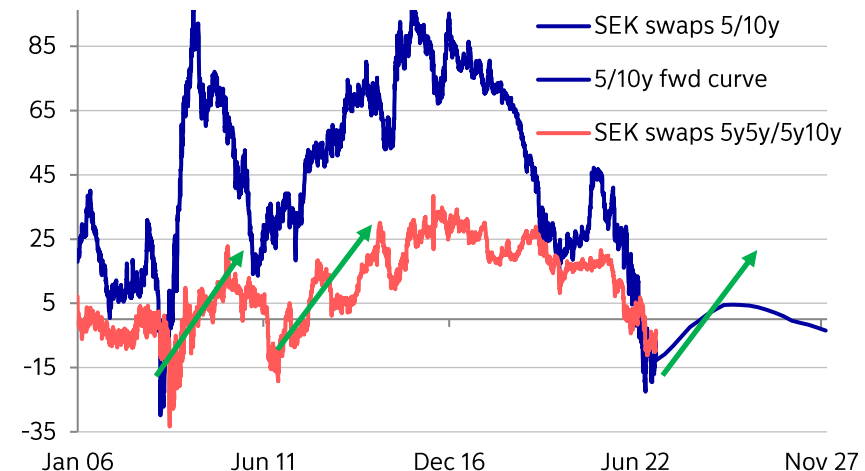
3. On longer tenors, the super-pessimism on the economy has created a “sink hole” in 4-6y segment of the yield curve. But worth noting is that 5y+ segment of the curve has not flattened despite bon rally.



2. The SEK swap curve is the main absorber of the rate risk mismatch in demand/supply from domestics. The swap curve inversion has made the covered curve unbelievably flat. Steepen covered 2/5s or buy covered 5y ASW?



4. As we close in on the end of the hiking cycle, the long-end of the yield curve will eventually steepen. The inverted spot yield curve creates incentives to extend duration of debt for cash-flow sensitive liability managers.



# SEK covered: Issuance outlook for each issuer

## 1. Our current estimates on SEK benchmark covered bond issuance in 2023

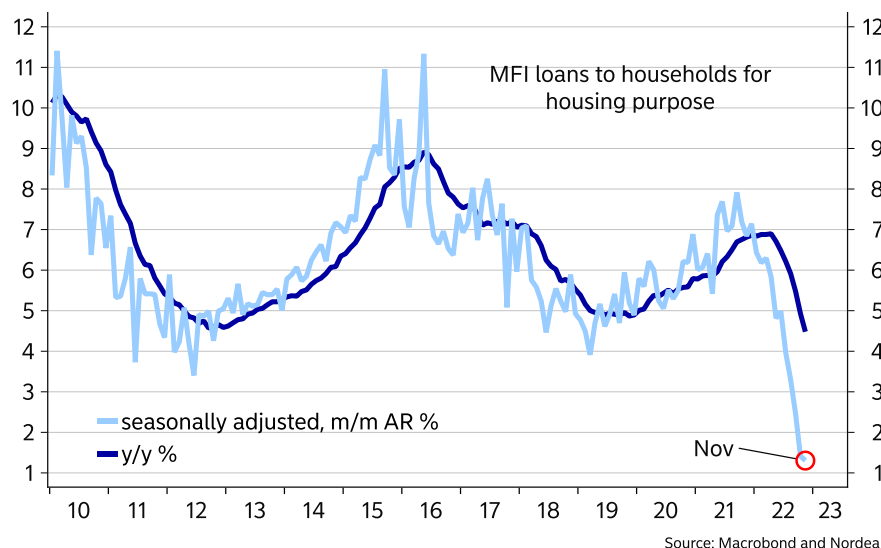
bn SEK Issuer	Issuance					Redemptions					QE		OutAmt	QE hld	RB holds %
	2023E	2022	2021	2020	2019	2022	2021	2020	2019	2018	2022	2021			
SHBASS	100	108	110	100	110	56	63	86	39	65	9	114	486	100	20.6%
SWEDA	40	47	72	37	93	63	82	43	87	18	4	68	253	59	23.2%
NDASS	75	81	64	68	69	64	71	55	50	37	5	72	312	64	20.4%
SEB	45	50	41	78	68	53	57	48	40	44	3	64	225	44	19.4%
SBAB	47	57	68	61	31	29	21	12	12	18	3	48	239	46	19.2%
LANSBK	31	33	40	32	22	26	28	14	15	7	3	42	167	35	21.1%
DANBNK	27	28	26	23	26	22	19	13	0	0	2	28	105	20	19.3%
Total	365	404	419	399	417	314	340	272	243	190	29	436	1787	368	20.6%

Issuance estimates based on own calculations, to be revised

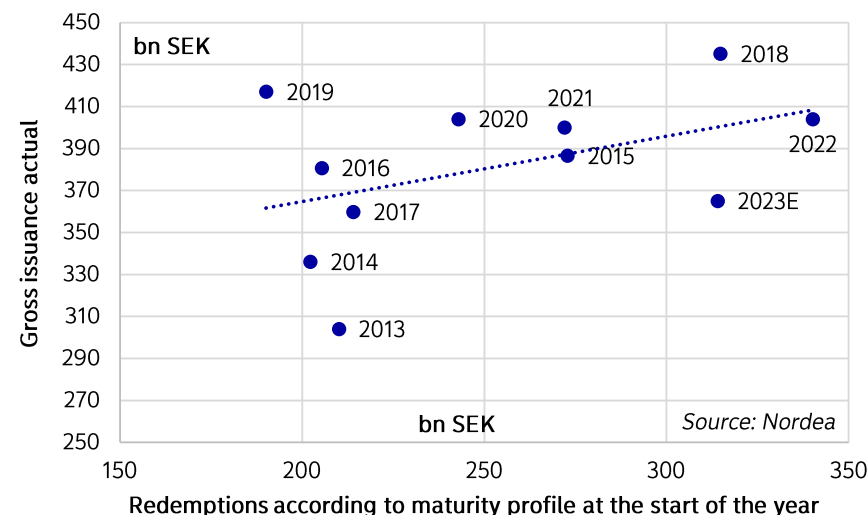
Source: Nordea

Ex-ante redemptions as of 31-Dec prev. year

## 2. Lending to households has hit a stone wall. Less lending growth contributes to less issuance in 2023.

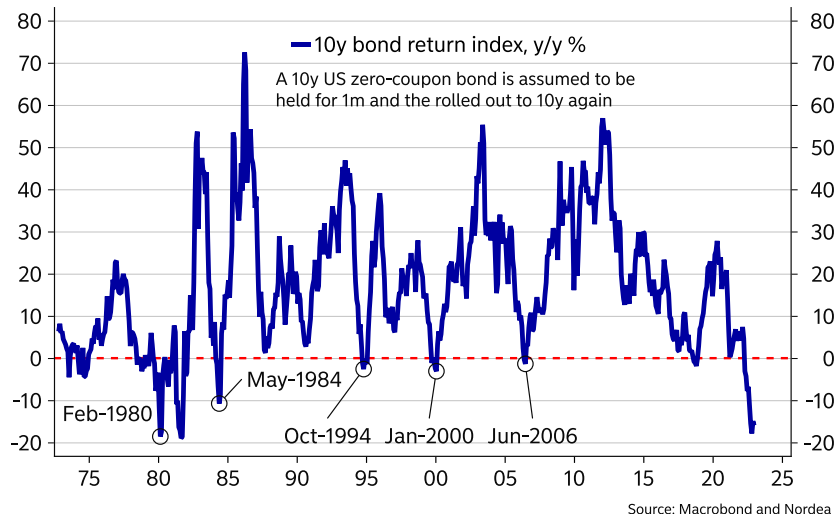


## 3. The link between redemptions and issuance is weak but chart below points at upside risk to the 365bn issuance estimate.

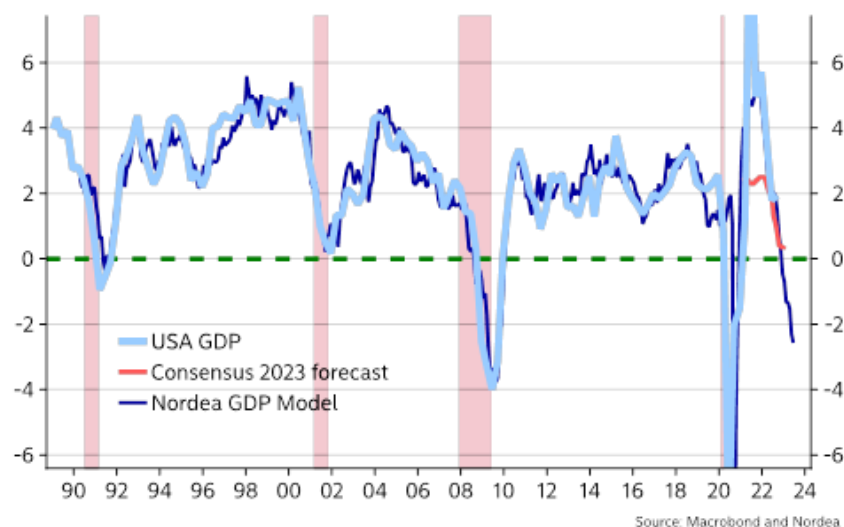


# Duration: Bond rally not supported by obvious drivers

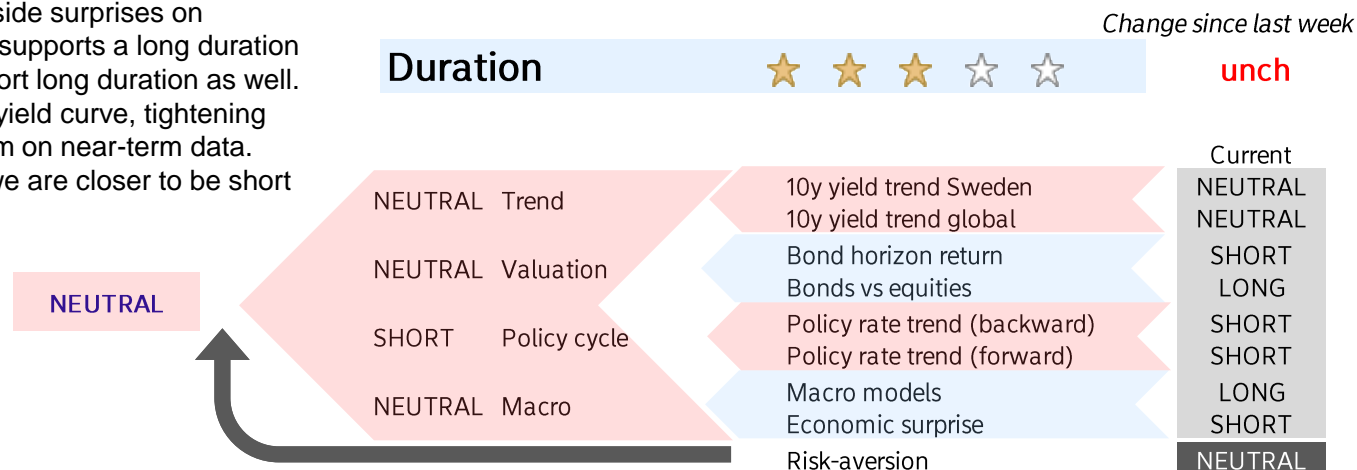
1. Bond performance in 2022 among the poorest on the records. After rain comes sunshine? We believe central banks need to calm down first, before there is sustained bond performance.



2. Important to make difference between near-term data outcomes relative expectations and the reading of the outlook. The economy will get worse, despite some bouncing data.

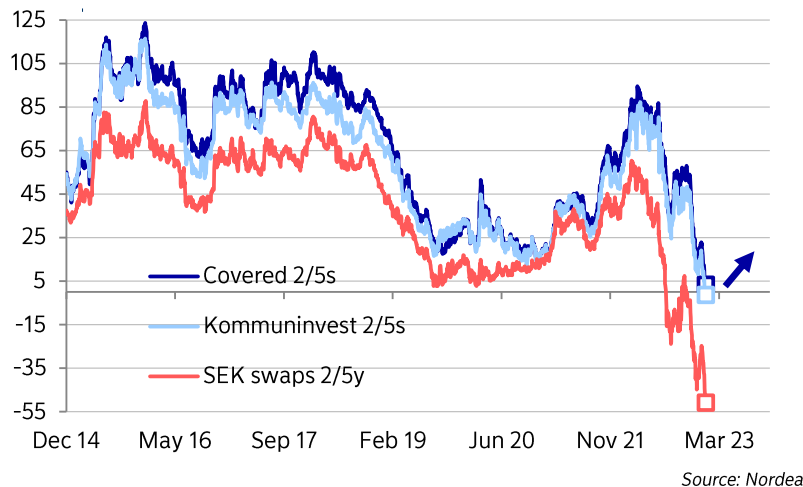


3. **Bias on duration** Despite some upside surprises on economic data, the macro outlook still supports a long duration bias. The relation bonds-equities support long duration as well. On the short side, we put the inverted yield curve, tightening central banks and excessive pessimism on near-term data. The net is a neutral duration bias but we are closer to be short than long duration.



# Trade Ideas: Steepen 2/5s in covereds, pay 5y vs wings in swaps

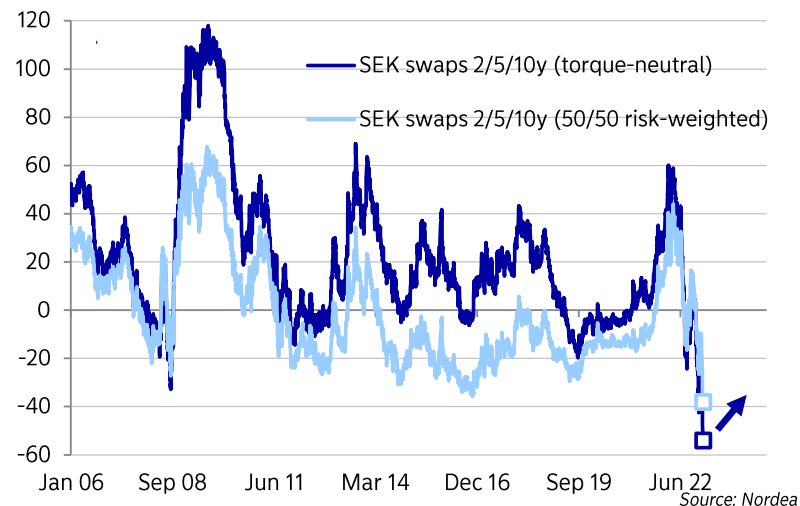
## 1. Buy 2y Shyp bond future, sell 5y Shyp bond future



### The rational:

- The covered curve has over-flattened with the swap curve as the driver.
- The covered curve should find it difficult to invert.
- Inverted yield curve indicates great pessimism on the economy, but should not the covered curve have a risk-premium also in outright yields?
- 2y covereds offers decent yield in contrast to 2y govies.

## 2. Pay SEK 5y swap vs 2y & 10y



### The rational:

- SEK swaps overly depressed after ASW issuance and outright buying
- Pessimism on the economy seems overdone near-term and some data is surprising on the upside
- Central banks may pivot from mega front-loaded hikes to smaller but sustained hikes. Steeper 0-2y, steeper 2/5s?
- Global issuance of bonds massive in H1 and central bank buying is being phased out – a steeper curve in the brewing?

# References: Publications year-to-date

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

13-Jan-2023 [SEK rates weekly: Weak SEK should mean higher rates, not lower](#)  
 4-Jan-2023 [SEK covered: Supply update December](#)  
 16-Jan-2023 [SEK rates weekly: No cigar for the Riksbank](#)  
 9-Dec-2022 [SEK rates weekly: Demand main driver of covered issuance](#)  
 5-Dec-2022 [SEK covered: Supply update November](#)  
 2-Dec-2022 [SEK rates weekly: 2023 – a rate odyssey](#)  
 25-Nov-2022 [SEK rates weekly: It is not over yet](#)  
 18-Nov-2022 [SEK rates weekly: 75 bps – priced and done?](#)  
 11-Nov-2022 [SEK rates weekly: Riksbank needs excuses to not stay behind](#)  
 4-Nov-2022 [SEK rates weekly: Too many jugglers, too many balls](#)  
 3-Nov-2022 [SEK covered: Supply update October](#)  
 28-Oct-2022 [SEK rates weekly: The policy rate gap must hold](#)  
 21-Oct-2022 [SEK rates weekly: No change to issuance in borrowing report](#)  
 14-Oct-2022 [SEK rates weekly: Please Riksbank, tell us the story about the SEK](#)  
 7-Oct-2022 [SEK rates weekly: A false dawn for the yield curve](#)  
 5-Oct-2022 [SEK covered: Supply update September](#)  
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 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](#)

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25-Mar-2022 [SEK rates weekly: When facts change, Riskbank changes its mind](#)  
 18-Mar-2022 [SEK rates weekly: Surprises...doubts... inflation exceptionalism](#)  
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