

SEK rates weekly: Some slack, but not for central banks

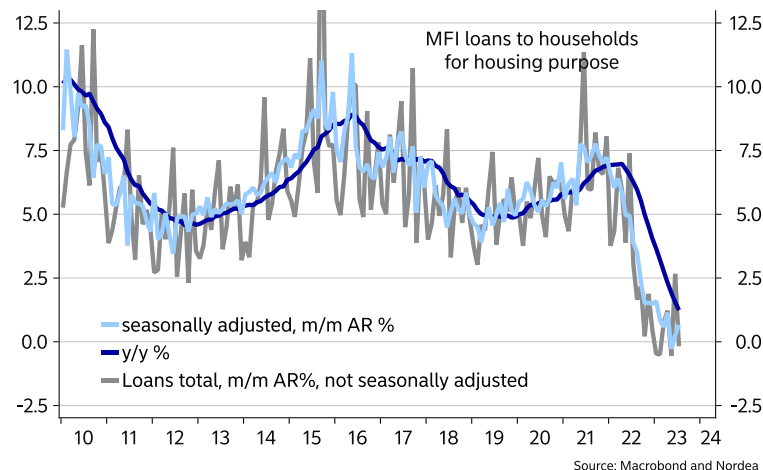
Mats Hydén
Chief Analyst
+46 8 407 91 04
mats.hyden@nordea.com

Completion timestamp: 1 September 2023 06:30 CET
Dissemination timestamp: 1 September 2023 07:15 CET

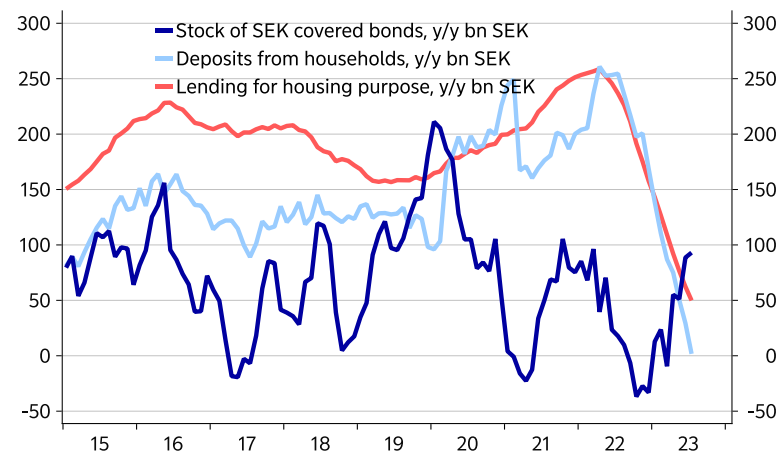
Marketing communication. This report has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Nordea Markets may have positions in the mentioned financial instruments. Some of the views and opinions expressed in this article may deviate from other articles, recommendations or opinions presented by other departments in Nordea.

SEK covereds: A look at lending, deposits and rate fixing preferences

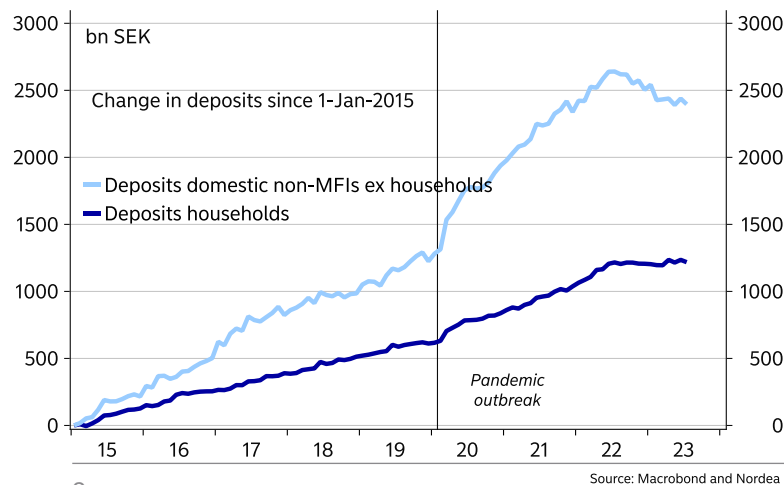
1. Lending to households for housing purpose continues to be at a standstill, but downward momentum has decreased.



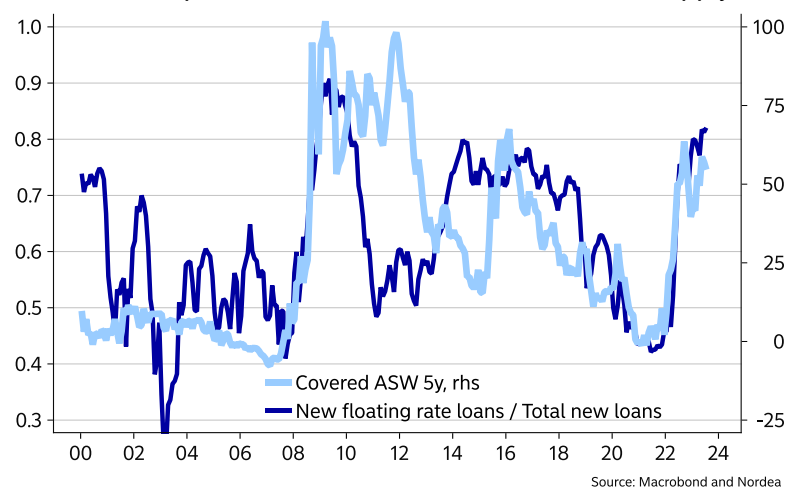
2. Growth in deposits in bn SEK has decreased more than lending growth. No straight-forward relationship between deposits, lending and covered bond issuance, but recent growth in the covered stock still reasonable.



3. Deposits from corporation are clearly decreasing, while household deposits no longer grows. Quite natural given less lending and Riksbank's reduction of excess liquidity.



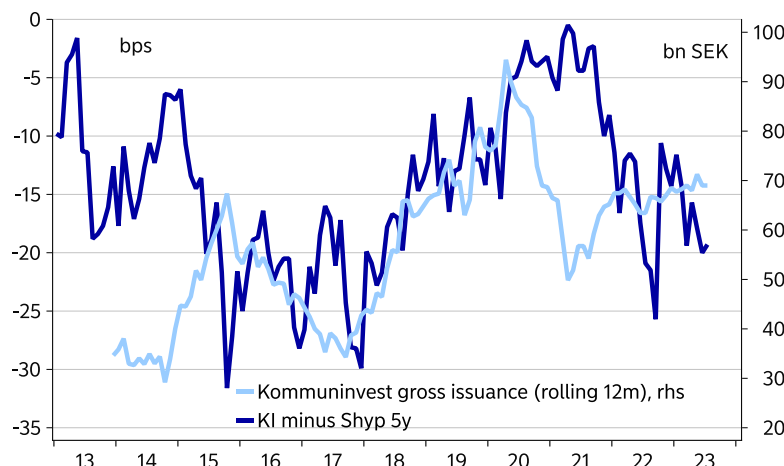
4. Households have hope for lower interest rates. More than 80% of new loans done at variable rate. Usually coincide with more issuance of covereds vs swaps and a wide ASW reflection a bond supply discount.



SEK rates: A glance at Kommuninvest & local governments

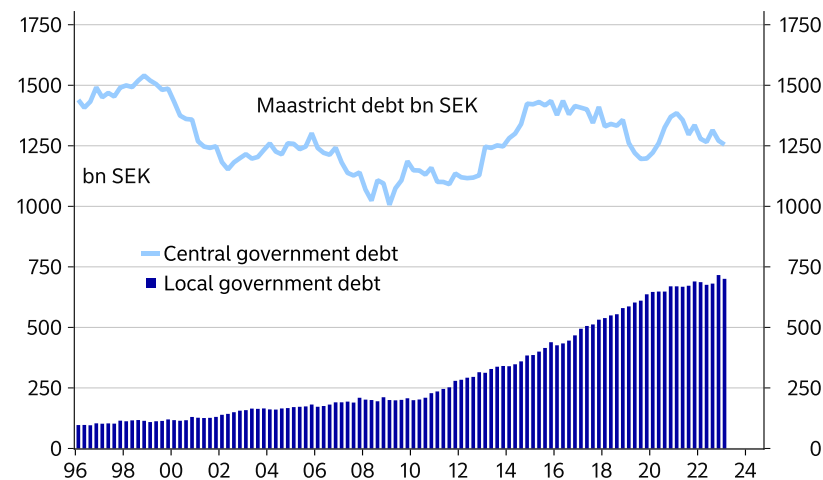
- Sweden's local governments (kommuner och regioner) have increased their debt significantly over the last decade. The debt level is also high compared to other countries.
- About 50% of debt is linked to corporations owned by local governments ("kommunernas verksamhet har bolagiserats...")
- Larger population growth due to immigration and a decentralized welfare system where local governments have responsibility for many services that in other countries are financed through the central government are the reasons for the growth of debt. (see Kommuninvest's report "Hur höga är egentligen kommunsektorns skulder?", March 2023).
- Ekonomistyrningsverket (ESV) forecasts local debt to be roughly of the same size as central government debt by 2026.
- The duration of Kommuninvest loan portfolio is ~2.7 years compared to the government's ~6 year for SEK debt. Local governments budgets are thus more sensitive to increasing policy rate and they also lack the inflation protection created by value-added taxes that the government enjoy.

2. Bond supply is one driver of the spread between Kommuninvest (KI) bonds and covereds...



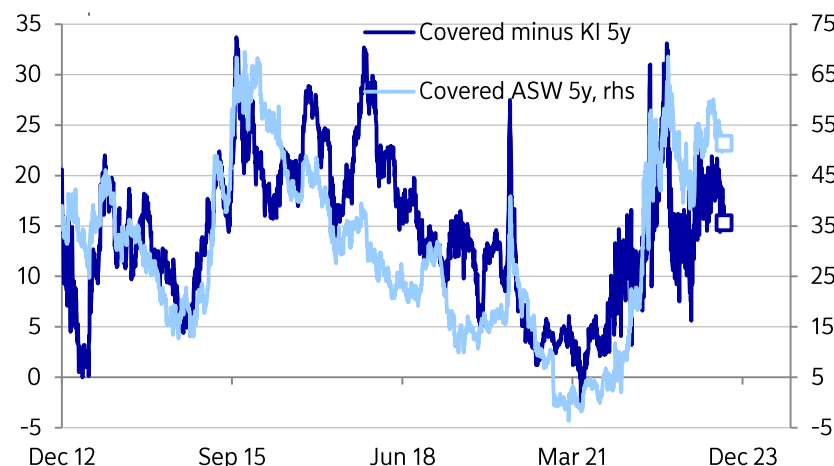
Source: Macrobond and Nordea

1. Local governments' debt has increase significantly since 2010. Investments linked to population growth/immigration is the main driver.



Source: Macrobond and Nordea

3. ... but the under/outperformance of covereds vs swaps is another. Weaker economy but no financial distress: KI should underperform covereds. Financial turbulence: covereds will underperform KI.

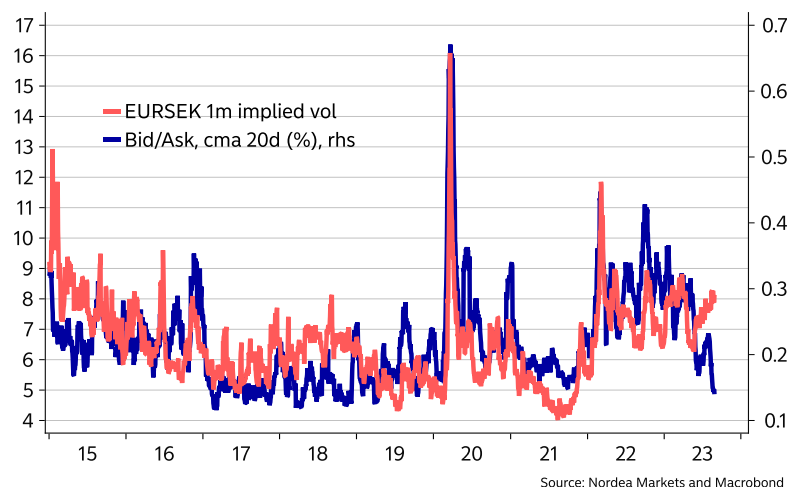


Source: Nordea

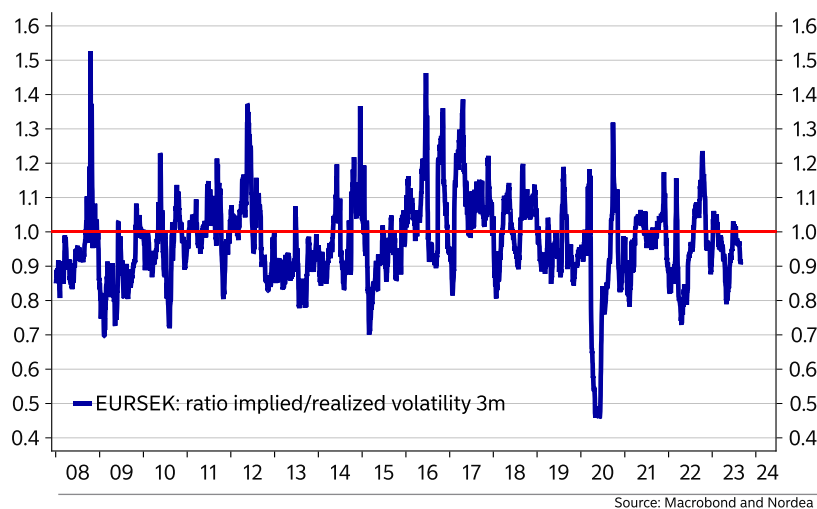
Nordea

SEK: No panic is a good sign, right?

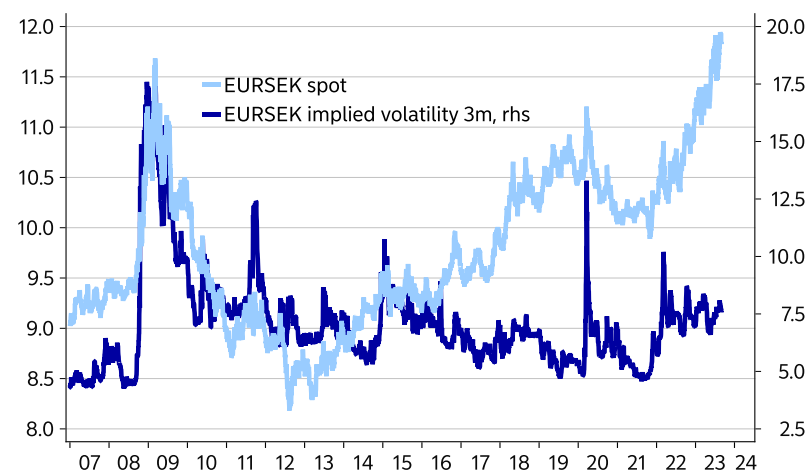
1. Bid/ask spread in EURSEK on the low side, consistent with implied volatility at “normal” levels.



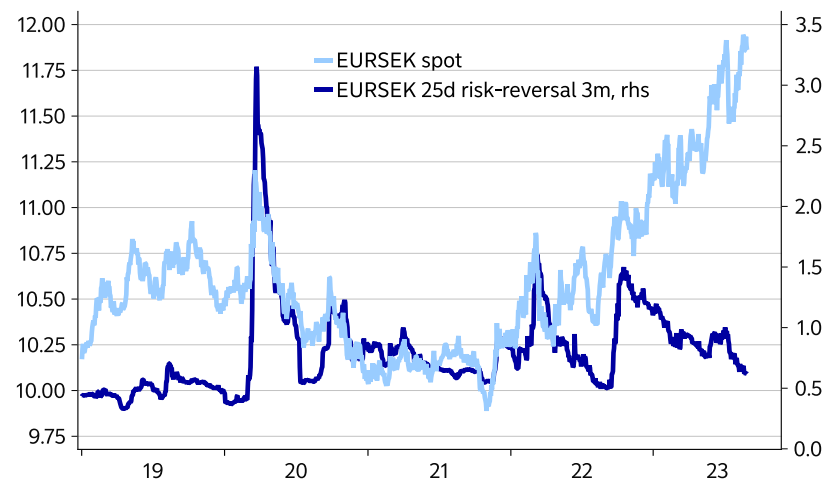
3. Indeed, implied volatility is even a touch on the cheap side given realized volatility.



2. Despite sky-rocketing EURSEK, there is no spike in implied volatility.



4. Risk-reversals show decreasing interest to buy protection for higher EURSEK. No spike in volatility, skews towards the downside in EURSEK: no sign of panic for higher EURSEK. A good sign, right? Or does it mean the recent moves north are not stretched at all...

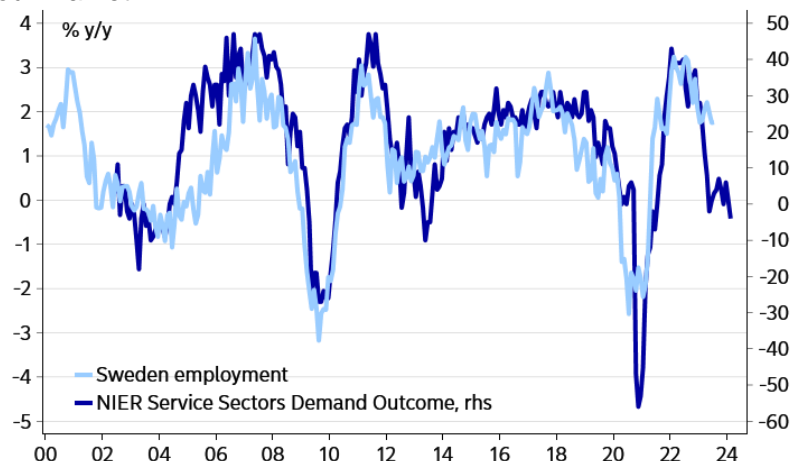


Source: Macrobond and Nordea

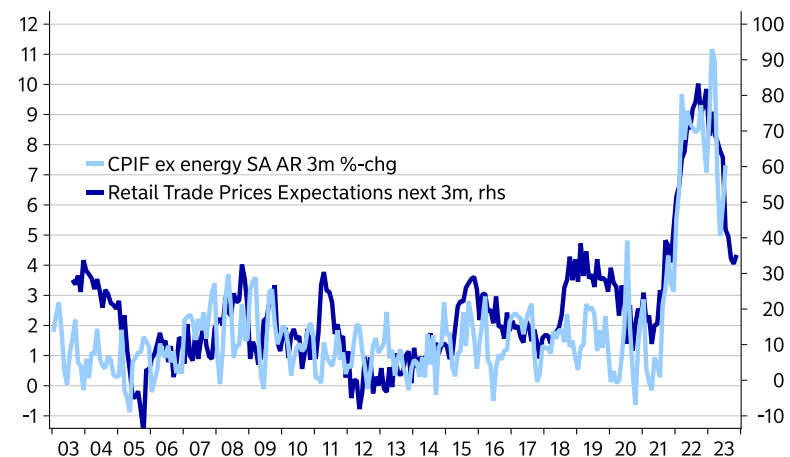
Nordea

Riksbank: Sour surveys, but no extra fuel for disinflation

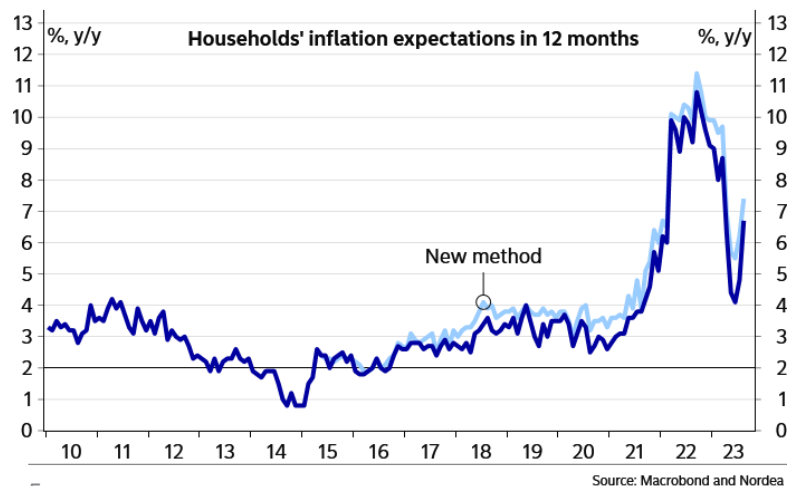
1. Confidence in the NIER surveys for August took a turn for the worse. Manufacturing souring and demand for services a bad sign for the labour market.



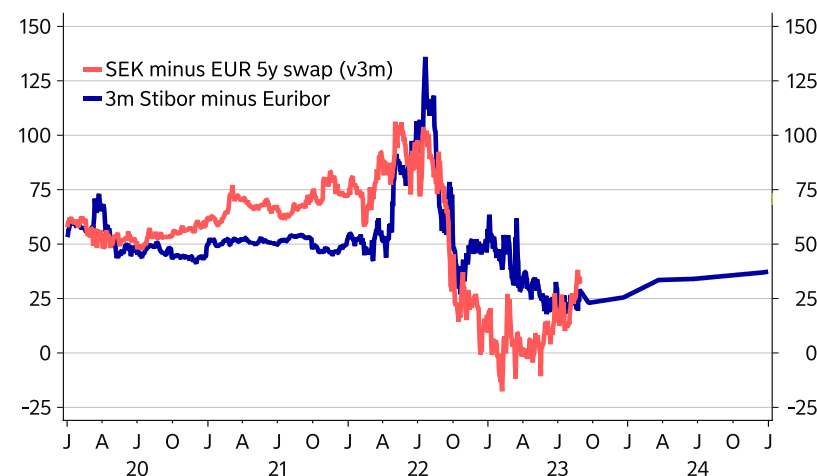
2. The surveys showed a slight uptick in price plans. Not enough to change the scenario of decreasing consumer price momentum, but not further fuel for the disinflation theme either.



3. Indeed, households' inflation 1y expectations jumped. New highs in fuel prices, lagged effect of mortgage rate increases, higher rents and fees for tenant-owned apartment etc Potential drivers are plentiful.



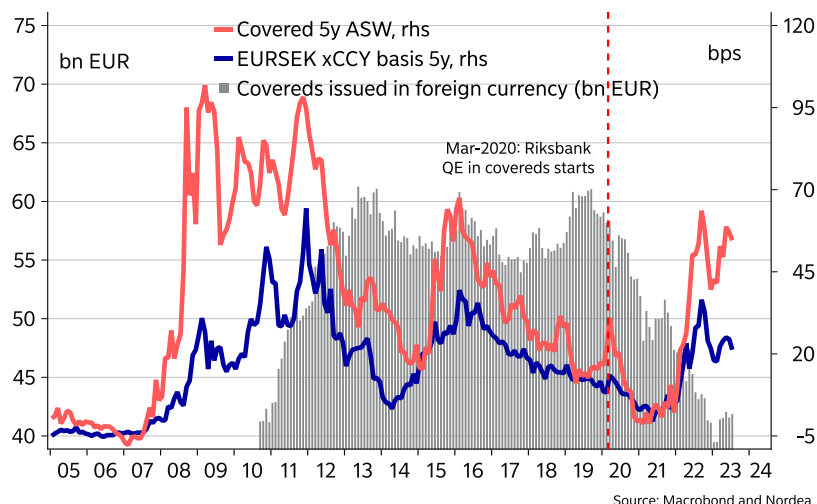
4. With little micro information in the surveys suggesting a softer monetary policy, a 25 bps hike in September with guidance for more in November should still be on the table for the Riksbank.



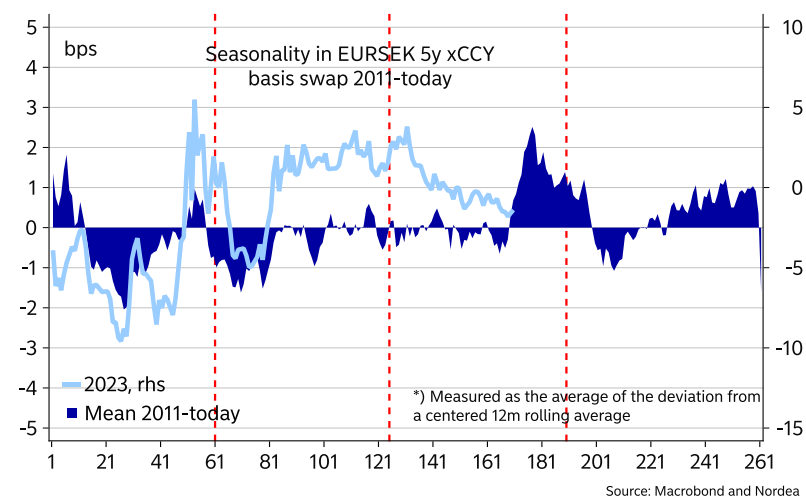
xCCY: The second derivatives of covered ASWs

- One can in some aspects describe the SEK basis market as the “second derivative” of the SEK covered market. For example, if the domestic covered markets freezes with wide spreads, issuers will issue in Euro and swap to SEK. The EURSEK basis will widen as a consequence. The risk-premium in domestic covereds for wider spreads, financial turmoil, liquidity drainage etc is also reflected in EURSEK basis.
- The covered ASW curve is steep and spreads are wide due to high bond yield volatility and housing market concerns. The rolldown in EURSEK basis is thus a way to exploit this particular risk-premium as well. In the near-term, with good global risk-appetite, covereds should do ok and the rolldown play in basis as well.
- Some drivers for wider basis spreads both near-term and on the horizon are however worth keeping in mind. Near-term, the issuance season has geared up. The seasonal pattern for EURSEK suggests some temporary widening. On the medium-term, some increase in Euro issuance from Swedish issuers may be on the cards. The Riksbank's QE into SEK covereds depressed ASWs and trigger domestic issuance: with no QE purchases, foreign issuance may increase somewhat. At the same time, the decrease of FX issuance may also be a consequence of structural changes over time to banks' preferred funding. The implication for the xCCY basis curve is inconclusive.
- In November and December, redemptions of bonds make the Riksbank's excess liquidity decrease significantly. Indeed, during H2, around 140bn SEK will be off-printed. Less SEK liquidity will obviously mean less downward pressure on short-end basis spreads. (read more in [“The ~140bn QT Gorilla”](#), 25 Aug)

3. EURSEK xCCY basis, domestic covered ASW and FX issuance

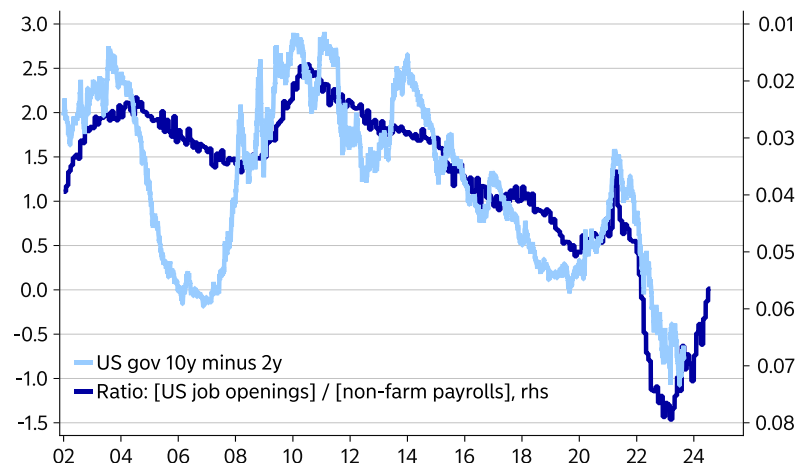


4. The seasonal pattern for EURSEK 5y xCCY basis



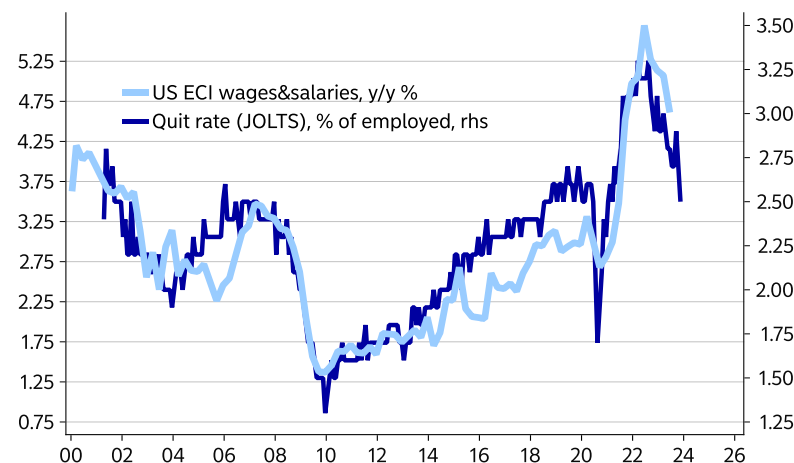
Duration: Some slack, but not for central banks

1. US job openings continues to decrease. Initial signs of slack in the labour market should steepen the yield curve with a lag.



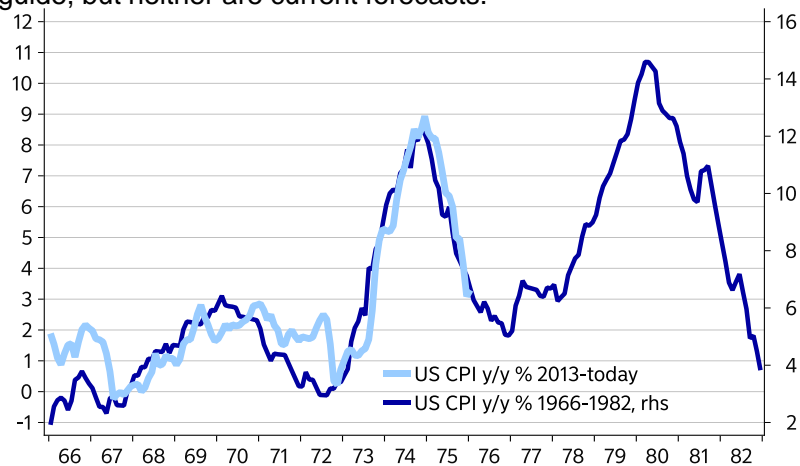
Source: Macrobond and Nordea

2. The quit rate in the US labour market suggest continued easing of wage pressure. Good news for medium term inflation.



Source: Macrobond and Nordea

3. Softening of forward-looking gauges of inflationary pressure should however not be sufficient for central banks to relax. Disinflation is not the same thing as inflation anchored at target. History may be no reliable guide, but neither are current forecasts.



Source: Macrobond and Nordea

4. **Bias on duration** The reading of the trend in bond yield is still on upside (short duration). The yield curve is still massively inverted (expensive to be long). Central banks are still in a tightening cycle, although closer to a pause. Activity data has surprised on the upside while some leading indicators, due to rising asset prices, no longer are deteriorating. Our duration bias process continues to output a short bias.

Duration

(short/long)

Bias on duration. Three stars mean neutral. More than three: long. Less than three: short

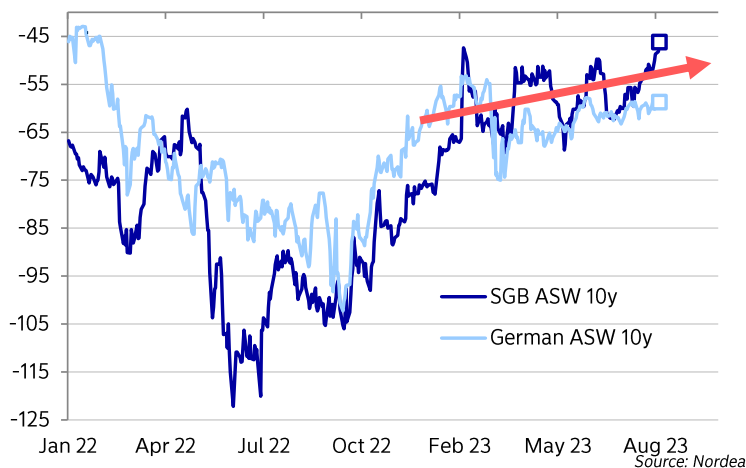


Change since last week

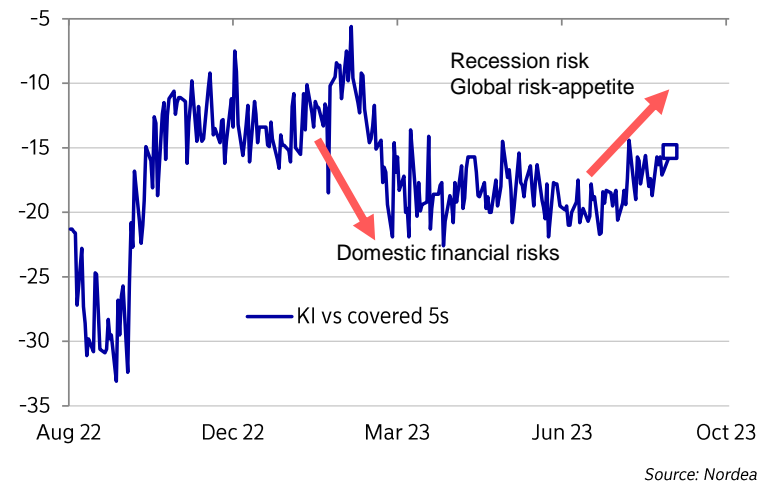
-

Trade ideas: The long march towards cheaper SGBs

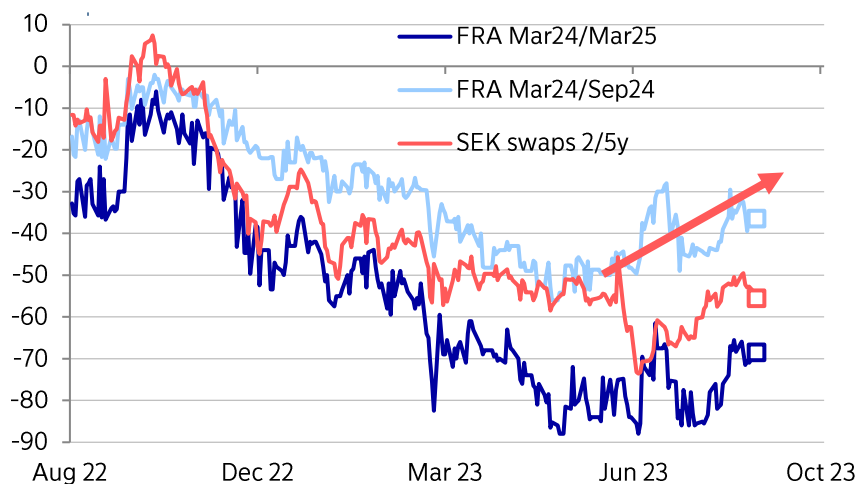
1. We believe “fair-value” in a 10y SGB ASW is at least tighter than -30 bps, but the adjustment can take time (~9-12m). The recent tightening seems right from a trend perspective, but may be near-term overdone.



2. Both Kommuninvest and covered bonds are sensitive to risk-aversion. The character of the sensitivity should however be slightly different. Covereds more linked to risk-premium linked to financial system, Kommuninvest more to supply risk due to recession.



3. Given the global bond bearish sentiment, could not the Swedish front-end curve have potential for some steepening? Receiving the highest point on the FRA curve (or buying a 1y covered) and paying something longer make sense.



Source: Nordea

Nordea

References: Year-to-date list of trade ideas

Date	Trade idea 1	Trade idea 2
18-Aug-2023	Sell SGB 1061, Buy SGB 1060	
4-Aug-2023	Buy covereds 5y vs SGBs	Sell 5y SGB vs Germany
16-Jun-2023	Buy Stadshypotek 5y covered, sell 5y BTPs FX hedged	
2-Jun-2023	Sell SGB 10y ASW	Steepen SGB 5/10y in bond futures
26-May-2023	Buy KI 2805 vs swaps	Pay SEK vs EUR 1y1y
12-May-2023	Buy SGBI 3112 vs SGB 1059	Steepen the covered 2/5s curve
5-May-2023	Pay SEK swap 10y, receive 5y	
14-Apr-2023	Buy 5y covereds vs swaps	
31-Mar-2023	Sell 1058, buy SWTB Mar-2024	
24-Mar-2023	Receive SEK swap 1y2y, pay 1y10y	Buy 5y covereds vs government in bond futures
10-Mar-2023	Pay SEK swap 1y5y	Receive FRA Sep-2023, Sell SGB 5y
3-Mar-2023	Buy receiver spread 6m1y amtf/atmf-30bps, sell out-of-the money payer	Sell SGB 1056 vs swaps
24-Feb-2023	Pay SEK 5y vs EUR in swaps	Receive SEK swaps 1y2y, pay 1y10y
17-Feb-2023	Buy KI 2911, sell SGB 1061	Buy SGBi 3115, sell SGB 1053
10-Feb-2023	Sell SGB 1060, receive 2y & 10y SEK swaps	Buy 5y covereds vs govies
3-Feb-2023	Flatten SEK swaps 5/10y in spread to Euro	Sell SGB 1058 outright
27-Jan-2023	Receive SEK swap 5y2y, pay 5y10y	Sell 2y Shyp bond future
20-Jan-2023	Buy 2y Shyp, sell 5y Shyp bond future	Pay SEK 5y swap vs 2y & 10y
13-Jan-2023	Pay SEK 5y vs EUR in swaps	Sell SGB 1058 outright

References: Publications year-to-date

Swedish interest strategy publications year-to-date:

25-Aug-2023 [SEK rates weekly: SE\(e\)K and you will find](#)
 18-Aug-2023 [SEK rates weekly: A hard place](#)
 11-Aug-2023 [SEK rates weekly: Bond issuance about to level up](#)
 4-Aug-2023 [SEK rates weekly: Risk appetite extends hiking cycle](#)
 3-Aug-2023 [SEK covereds: Supply update July](#)
 16-Jun-2023 [SEK rates weekly: Policy Perpetuum Mobile](#)
 9-Jun-2023 [SEK rates weekly: You can hike but you can't hide](#)
 7-Jun-2023 [SEK covereds: Supply update May](#)
 2-Jun-2023 [SEK rates weekly: The Riksbank's SEKret sauce](#)
 26-May-2023 [SEK rates weekly: SEK the Enforcer](#)
 12-May-2023 [SEK rates weekly: Minor changes to government borrowing](#)
 5-May-2023 [SEK rates weekly: Confuse-a-short](#)
 28-Apr-2023 [SEK rates weekly: The return of the forecasters](#)
 21-Apr-2023 [SEK rates weekly: The Riksbank to spring again](#)
 14-Apr-2023 [SEK rates weekly: The recession bond premium is all around](#)
 31-Mar-2023 [SEK rates weekly: Release the QT-hounds](#)
 24-Mar-2023 [SEK rates weekly: Exhalation](#)
 17-Mar-2023 [SEK rates weekly: Terrible, just terrible](#)
 10-Mar-2023 [SEK rates weekly: Yield curve inversions are built on hope](#)
 6-Mar-2023 [SEK covereds: Supply update February](#)
 3-Mar-2023 [SEK rates weekly: Over-tightening not the biggest worry](#)
 24-Feb-2023 [SEK rates weekly: Not a great week for the Riksbank](#)
 17-Feb-2023 [SEK rates weekly: No increase in SGB issuance near-term](#)
 10-Feb-2023 [SEK rates weekly: A brave new world?](#)
 3-Feb-2023 [SEK rates weekly: More hikes, lower yields to the extreme](#)
 2-Feb-2023 [SEK covereds: Supply update January](#)
 27-Jan-2023 [SEK rates weekly: A bit higher yields please](#)
 20-Jan-2023 [SEK rates weekly: Too rapid inversion of 2/5s](#)
 13-Jan-2023 [SEK rates weekly: Weak SEK should mean higher rates, not lower](#)
 4-Jan-2023 [SEK covereds: Supply update December](#)

...

...

16-Dec-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 covereds: 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 covereds: 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 covereds: Supply update September](#)
 29-Sep-2022 [SEK rates weekly: A SEK liquidity crunch in the brewing](#)
 23-Sep-2022 [SEK rates weekly: Riksbank overpowered](#)
 16-Sep-2022 [SEK rates weekly: The Riksbank's interest rate bomb](#)
 9-Sep-2022 [SEK rates weekly: In the midst of the Hikenado](#)
 5-Sep-2022 [SEK covereds: Supply update August](#)
 2-Sep-2022 [SEK rates weekly: A forest of question marks](#)
 26-Aug-2022 [SEK rates weekly: Once again short duration](#)
 19-Aug-2022 [SEK rates weekly: Stibor flies north](#)
 12-Aug-2022 [SEK rates weekly: Monster extension coming](#)
 5-Aug-2022 [SEK covereds: Supply update July](#)
 5-Aug-2022 [SEK rates weekly: Tightening hyperdrive](#)

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 their 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

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