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Nordea XCCY Publication

Keeping up with Cross-Currency!

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Welcome to our latest XCCY Publication!

As we reached the end of 2023, EURUSD basis hit the highest levels seen for a very long time – especially in the short end. In "cash-terms" this can be interpreted as the demand for US dollars has been very low – or in relative terms – EUR has become more expensive. With risk sentiment remaining overall positive, we don't see this changing in March; Relative excess liquidity between USD and EUR could impact the outlook for the front slightly lower in the near future – more on that later in this publication. Ample amount of USD liquidity (and sustained investor interest) has resulted in historically high levels of issuance by EUR entities in USD; Overall it has pushed the belly of the EURUSD basis curve upwards. Continuous arbitrage for USD prints sustains paying pressure on the curve.

Scandi issuance has mainly been focused on the USD market, whereas EUR issuance has seen less activity. The relative EUR issuance level has been low considering the season. Relative to the move in EUR, Scandies have been lacking behind the trend, overall widening the spread between EUR relative to SEK and NOK. The 5s10s curve for both SEK & NOK has seen a steepening; NOK curve driven by financials issuing and SEK curve driven by corporate flow. The front has remained steady the last months, rather elevated as seen in EUR due to ample USD liquidity.

EUR issuance looks attractive relative to domestic funding for Norwegian issuers for the tenors 5Y and out. For Swedish issuers the domestic market remains the cheapest alternative, however, the latest NOK issuances in EUR could change the picture, more on that in the publication.

Scandinavian issuance in EUR & USD:
KI 3Y EUR & USD, SWEDBANK 6Y USD, STENA 7Y USD, SHBAS 10Y EUR, Ellevio AB 10Y EUR, Epiroc AB 7Y EUR, SEB 3Y & 5Y USD, DNB SEK 5Y & EUR 5Y, EIKA 5Y EUR, KommuneKredit 24Y SEK.

Please have a look at our QuantPacks for extended graphs and details regarding curve changes and rolls (link can be found in the e-Markets article) along with issuance in February, where you among other things can see biggest issuances driving the XCCY market along with issuance levels in historic context.

Enjoy the read!

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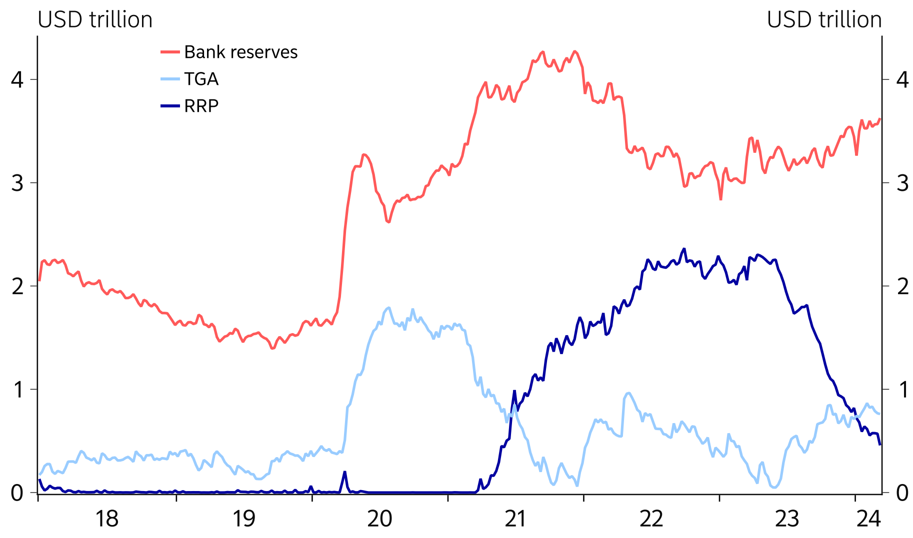
EURUSD XCCY (1/2):
Funding preference favours USD issuance

- **Our thoughts in a nutshell.** In our last publication, we discussed that the soft-landing consensus expectation and that the rise of dollar liquidity had resulted in cheap dollar funding and that receiving EUR/USD basis had become more attractive from a strategical perspective. We also highlighted that timing the trade would be tactically difficult, because dollar liquidity was likely to increase in the first quarter of the year. Today, we feel more comfortable about that our strategical and tactical views are aligned. We now think that dollar liquidity could become a headwind in the coming quarters (read more here).

- **The increase of dollar liquidity**. Back last year, the US Treasury neutralised the impact from the Federal reserve's (Fed) Quantitative Tightening program (QT) and caused overall bank reserves to increase, rather than decrease like the consensus had expected. Before the debt ceiling the Treasury ran down its Treasury General Account (TGA) and after the debt ceiling it filled up its account by issuing Treasury Bills. Emptying the TGA added new liquidity to the banking system and issuing Treasury Bills pulled out liquidity that was parked in the Fed's Reverse Repurchase Facility (RRP). Ultimately, both actions increased the level of bank reserves in the banking sector.

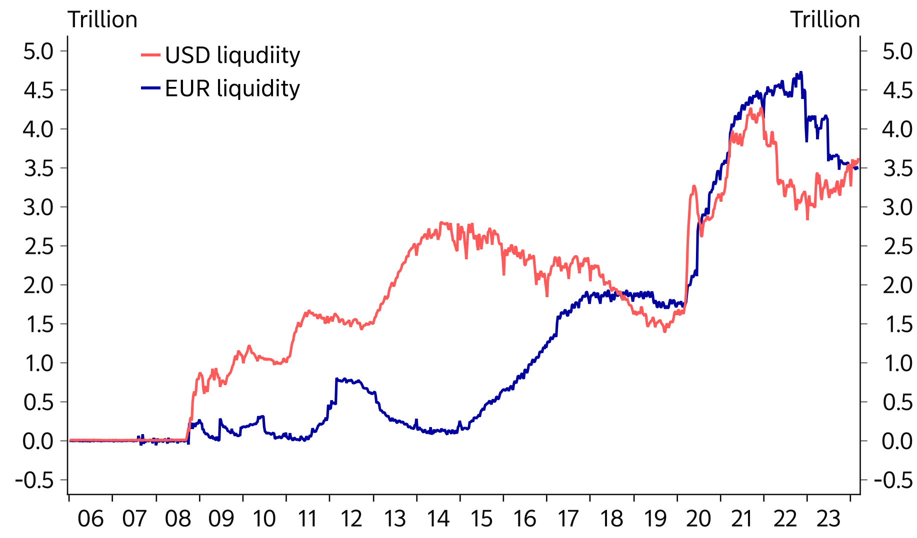
- **The decline of dollar liquidity.** Going into this year, the amount of liquidity in the RRP Facility is much lower than last year, which automatically increases the probability that banking reserves will start to fall soon. We might not even have to wait until the RRP facility has been run down. The Treasury has announced that it is reducing the outstanding amount of Treasury Bills in the second quarter, and we also know that some of the Fed's emergency bank loans from the banking stress episode last year is running out. Together with the ongoing QT program this is likely to result in overall lower bank reserves throughout the year.

Bank reserves have increased as a function of TGA and RRP



Source: Nordea and Macrobond

Bank reserves are likely to begin to trend down in 2024



Source: Macrobond and Nordea

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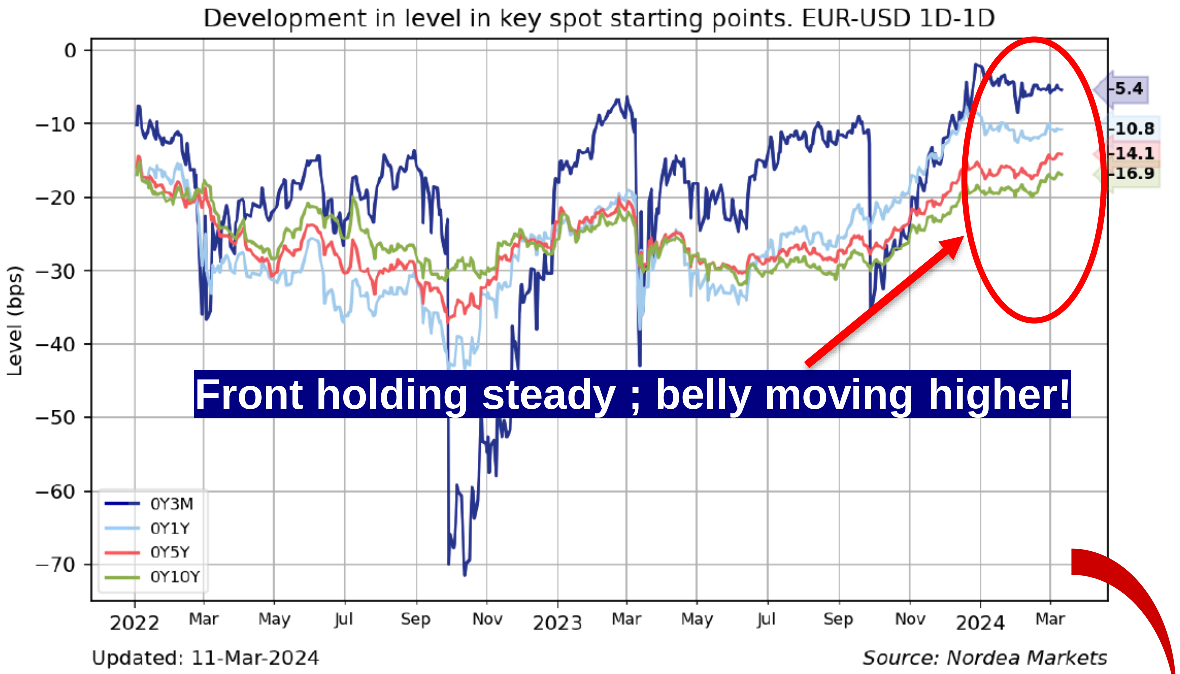
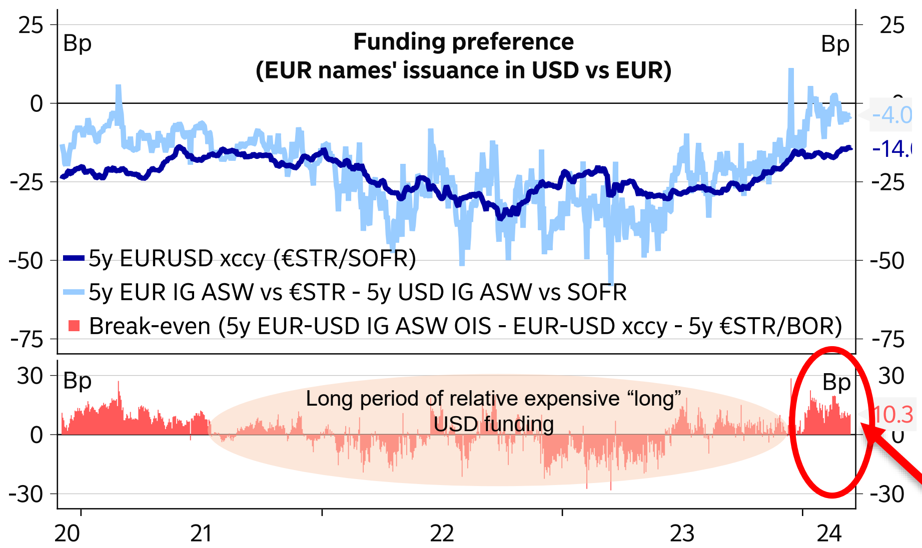
EURUSD XCCY (2/2): The relative game

Funding preference favours USD issuance

- As of late, we have seen EUR names issuing in USD to take advantage of cheap USD funding after a long period of relatively expensive USD funding.
- The break-even for EUR names' issuance in USD vs EUR (chart below) shows USD issuance has seen a sustained period with attractive arbitrage for the first time in years, especially at the belly of the curve, pushing the basis higher (chart to the right + tables).
- Hedging USD issuance back to EUR 3s is pushing the EURUSD basis less negative and tightening €STR/BOR.
- A declining USD liquidity in Q2 (see previous slide) could close the window for USD issuance by EUR names unless the basis turns more negative.
- Thus, risk/reward now favours receiving EURUSD basis as well as €STR/BOR wideners.

EURUSD (€STR/SOFR) XCCY basis:





	Issuer	Bb code	Tenor	Currency	Volume (local, m)
2024-02-06	EIB	ZF833952 CORP	10Y	USD	4000
2024-02-06	EDC	ZF8267949 CORP	5Y	USD	3500
2024-02-06	LAND NRW	ZF8346156 CORP	3Y	USD	2000
2024-02-12	BNP PARIBAS	ZF9882191 CORP	6Y	USD	1750
2024-02-12	BNP PARIBAS	ZF9882225 CORP	11Y	USD	1500
2024-02-14	BNP PARIBAS	ZD0403216 CORP	PERPETUAL (2031-Aug)	USD	1500
2024-02-21	KfW	ZD1817612 CORP	10Y	USD	2000

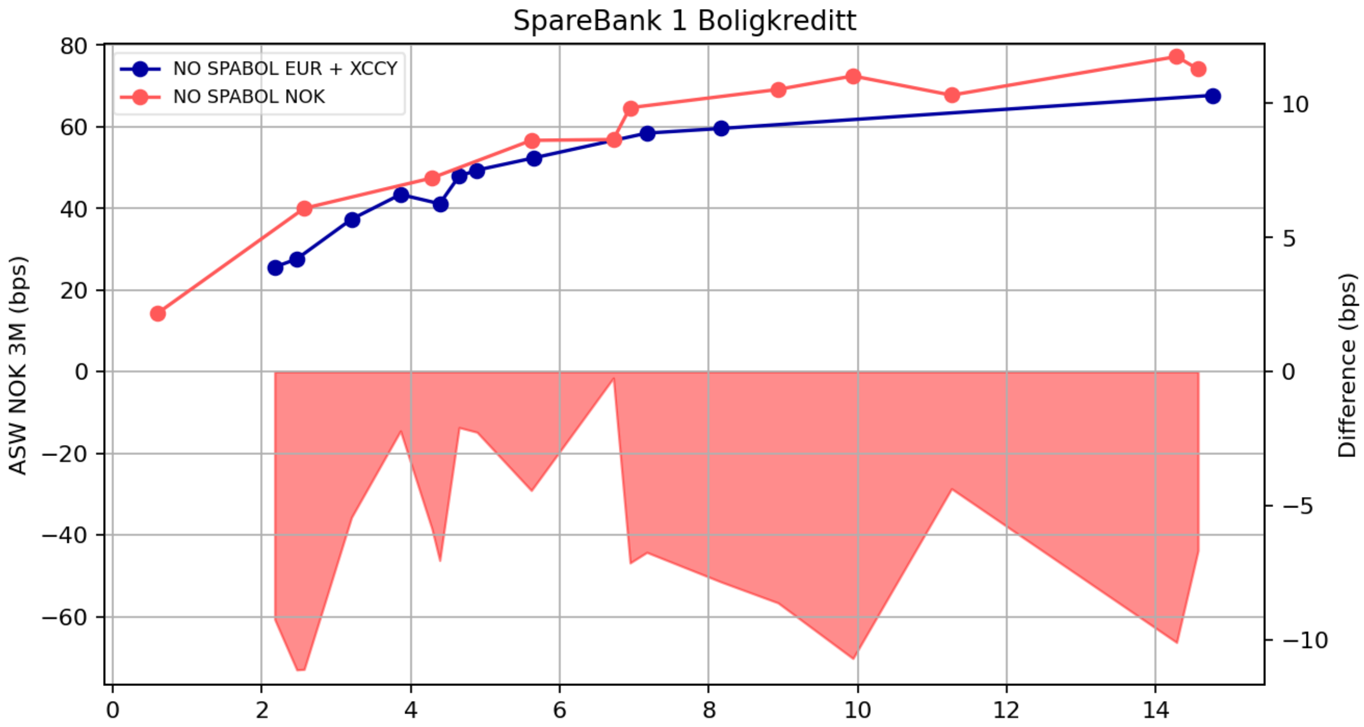
	Issuer	Bb code	Tenor	Currency	Volume (local, m)	Volume (GBP, m)	Country
2024-02-09	ARDONAGH	ZF8261215 CORP	8Y	USD	1000	791	UNITED KINGDOM
2024-02-21	ASTRAZENECA	ZD2134819 CORP	10Y	USD	1500	1187	UNITED KINGDOM
2024-02-21	ASTRAZENECA	ZD2134769 CORP	5Y	USD	1250	989	UNITED KINGDOM
2024-02-21	ASTRAZENECA	ZD2134751 CORP	3Y	USD	1250	989	UNITED KINGDOM
2024-02-21	ASTRAZENECA	ZD2134777 CORP	7Y	USD	1000	791	UNITED KINGDOM

NOK XCCY

EUR Issuance remains attractive, overall issuance to stay subdued

- As of late, we have seen Norwegian issuers in the EUR market, a few longer dated prints created a paying pressure further out the belly, overall steepening the curve, e.g., 5y vs 10y. Furthermore, it's worth noting, DNB printing, 12/03/2029, MS + 27 & EIKA printing,19/03/2029, MS + 28, in the EUR market. Both names saw significant tightening in the pricing, DNB saw a 7bps tightening and EIKA 8bps bps tightening. Looking at overall NOK domestic curves vs. EUR, the arbitrage remains persistent. Tighter USD liquidity could change the picture, as it will move EURNOK basis higher.

- With subdued turnover and still feeble price discovery for Norwegian housing, credit growth looks to be low also in 2024. Hence, the net funding demand for the Norwegian covered bond companies is on the low side, enabling them to be nimble and tap the market when spreads are low (like we have seen lately). If we are right in seeing general higher credit spreads as US bank liquidity shrinks, we should expect to see less issuance in Norwegian covered bonds. Should we on the other hand get a series of rate cuts from Norges Bank (which we do not expect before December this year), we could see renewed activity in housing turnover and hence increased demand for funding.



Updated: 11-Mar-2024

Source: Nordea Markets & Bloomberg

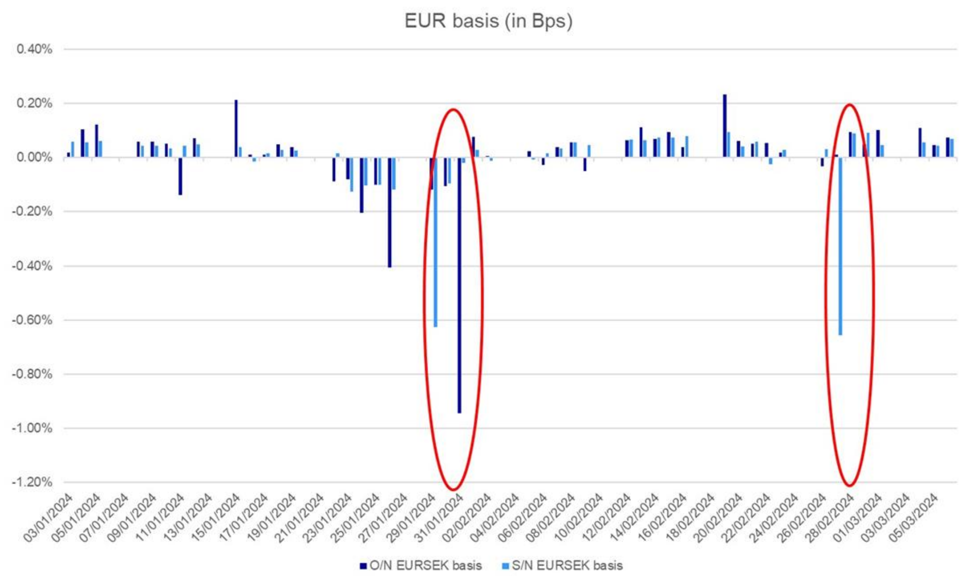
SEK XCCY (1/2):

- On the agenda for our last published piece on XCCY we talked about SEK cash and it being expensive. Our expectation then was that month-end turn February/March would be the most expensive one until June. This was due to 3 factors; long maintenance period on the MRR, seasonality and flow. We have seen previously that the offered volume and total submission on the Riksbank certificates has tightened significantly into month-ends but for the February month-end the submissions actually decreased and the gap grew.

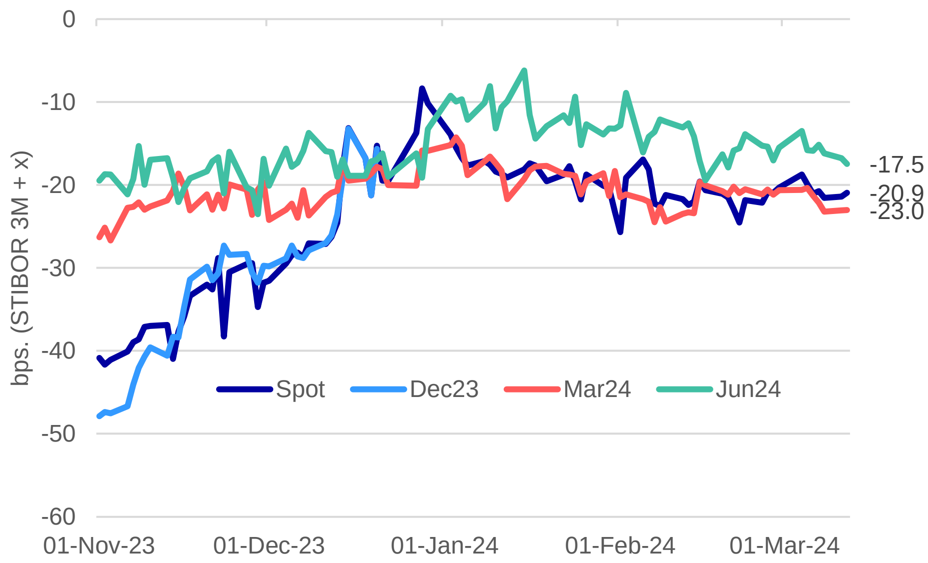
- We see the reasoning that banks are more risk-averse due to the volatility and keep more in the overnight depo As in graph the effect seems to have been there on the Spot/Next but not on the Over/Night and did not make impacts further out on the curve at all. Another explanation (might) be that the repo-volumes on Bostäder have become more smoothed. With less big spikes around month-ends there is also less factors bringing SEK cash bid.

- Overall, front USDSEK breaks remain steady into 2024.

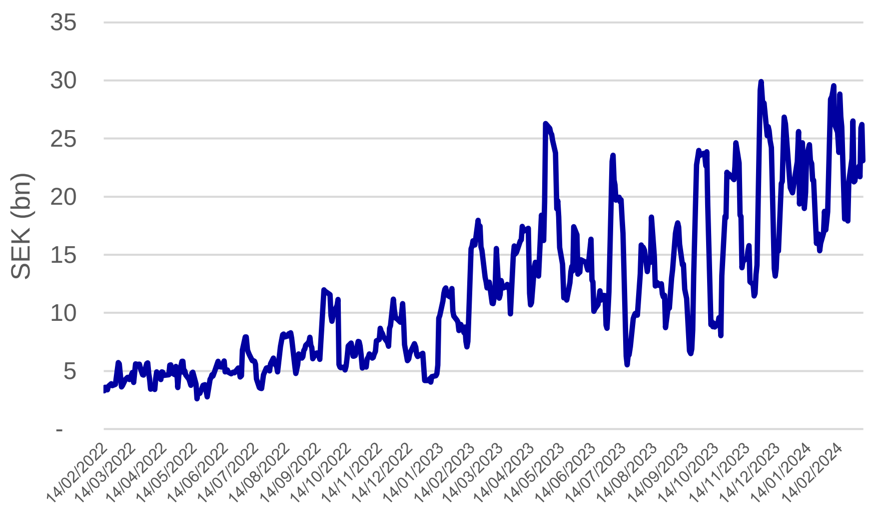
O/N & S/N EURSEK Basis



USDSEK 3M Breaks



Average (2W-rolling) SEK REPO Volume



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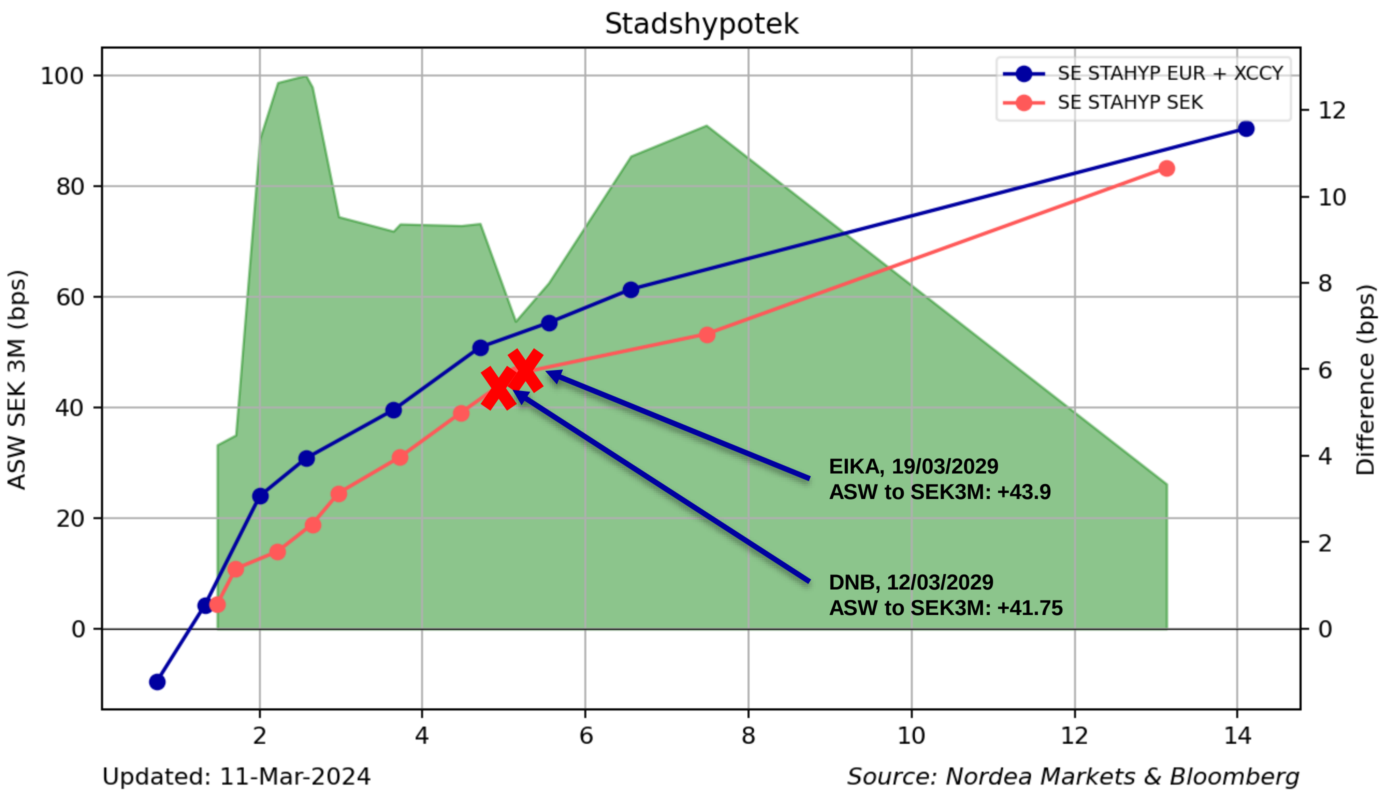
SEK XCCY (2/2):

- When it comes to seasonality and flow it has been a mixed bag. FIG flow has been muted with the SEK domestic market being very attractive. On the other hand, we have observed some more one-off corporate flow in the long-end which has steepened the curve slightly, both 5y vs 10y and 10y vs 15y, but nothing exceptionally steep. Given the strong bid in euro for FIG we do see the possibility of some more activity from that part of the issuer universe in SEK XCCY during the spring. We see little reason for SEK cash being expensive before June and like prospects of being received 1y2y which we see having more sensitivity vs the short-end.

- The latest activity by Norwegian issuers, DNB printing MS + 27 & EIKA MS + 28, in the EUR market, could in turn be interesting for Swedish issuers as well, considering the overall levels relative to their domestic curve.



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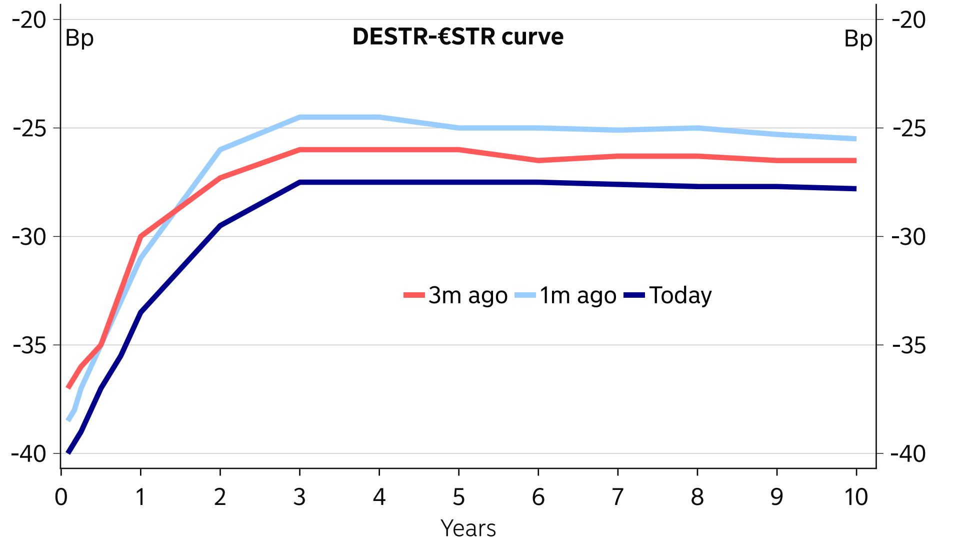
DKK XCCY: DESTR-€STR and €STR/BOR flattening

EUR/DKK FX spot remains stable

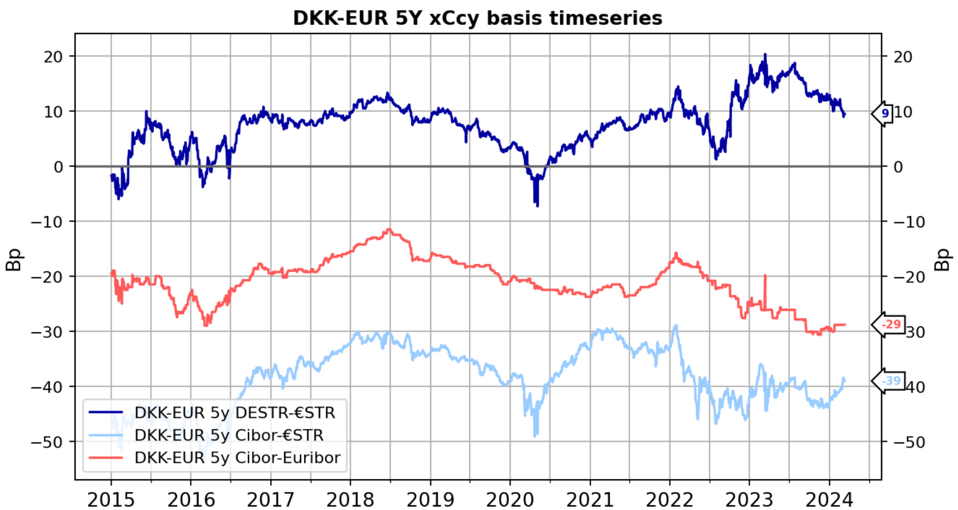
- The EUR/DKK FX spot remains near the middle of the range between previous intervention levels. Seasonality shows that EUR/DKK moves higher towards the end of Q1, where Danish companies pay dividends, and moves lower in April and May.
- DKK liquidity is amble, implying that the central bank's reaction function could be asymmetric. Intervention to prevent a too strong DKK would have little impact on money market rates given that liquidity is already amble and an independent Danish rate cut could in turn follow without much intervention, whereas intervention to support a weaker DKK would bring the net position closer to normal and could in turn be continued for a bit longer before an independent Danish rate hike. We have no independent policy rate changes in our official forecast.
- The DESTR-€STR curve remains steep, most likely reflecting risk premia in an unbalanced swap market more than independent rate hike expectations. Risk/reward still favours front-end receiving, though the DESTR-€STR curve has flattened so far this year.
- €STR/BOR is tightening driven by 1) USD issuance by EUR names, 2) ECB's Strategy Review, and 3) New Euribor methodology coming. Given that EURDKK XCCY is trading DKK 3s vs EUR €STR, the €STR/BOR moves are only indirectly affecting DKK-EUR basis. Interestingly, 3m-3m is the more stable spread.

DESTR-€STR coming lower



Source: Nordea and Macrobond

EUR/DKK XCCY



Note: DESTR is CITA-19bp before 1 Apr 2022. Source: Nordea Markets

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