

Nordea XCCY Publication

May edition

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

Anders Skytte Aalund, Anders Svendsen, Erik Buch, Lars Barnekow, Lars Moulund, Rasmus Dall-Hansen & Phillip Madsen

Welcome to the May XCCY Publication!

Since our latest XCCY publication; the tight levels of EUR prints by Norwegian issuers resulted in additional EUR prints from Scandinavian issuers. Overall issuance from Norway was approx. 3x that of last year incl. covered prints. Swedish names also printed in EUR, but the trend continues with less issuance compared to last year.

USD issuance YTD has been elevated compared to previous years with an uptick from last year by non-USD issuers printing in USD. However, the interest by non-domestic names, though up from last year, seems to have dialed down compared to relative issuance by non-domestic names in the previous months; Relative arbitrage in USD funding vs. EUR has diminished in April.

NOK XCCY has seen a continues paying pressure of the 5s10s (+4.5bps YTD), overall driven by paying pressure 10y and further out the curve; Since the SPABOL 10Y EUR print we've seen REC int coming into the 10Y segment of the curve. Whereas 5s10s in EURs continues to be offered, well in line with overall sentiment, that when USD funding markets moves towards relatively higher premium than EUR; longer end of USD issuance from EUR names should dwindle, whereas USD names printing in longer EUR maturities should persist, all else equal, creating a receive bias in 5s10s EUR basis.

Non-domestic issuance by Scandi names has been rather muted in April; Scandinavian related prints of interest:

SR Bank 5Y EUR	SEB 3Y EUR	DNB 6Y CHF	IBRD 6Y NOK
SPABOL 10Y EUR	KBN 5Y EUR	KBN 7Y CHF	KFW 5Y NOK
LF 6Y EUR	SB Vest 5Y EUR		

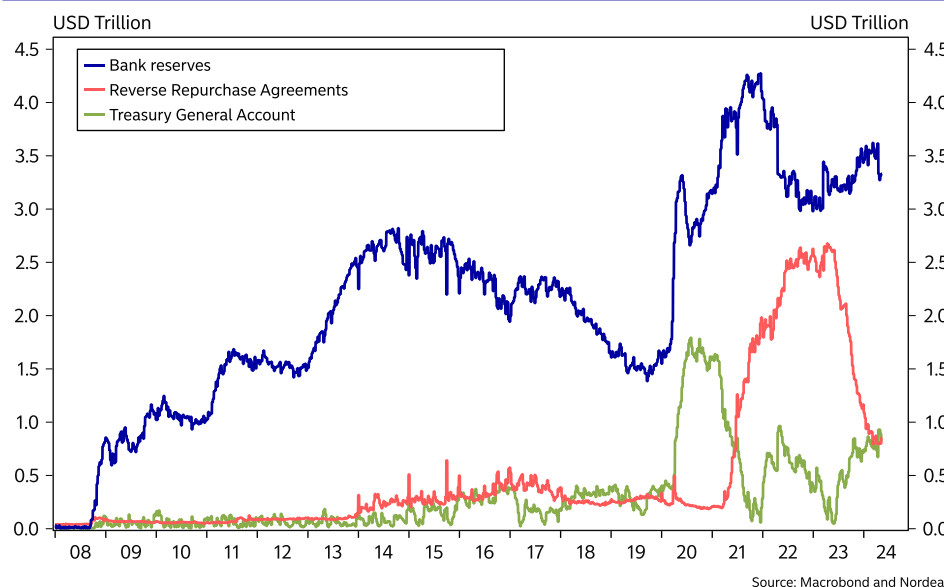
Please have a look at our QuantPack for extended graphs and details regarding curve changes and rolls (link can be found in the e-markets article).

Enjoy the read!

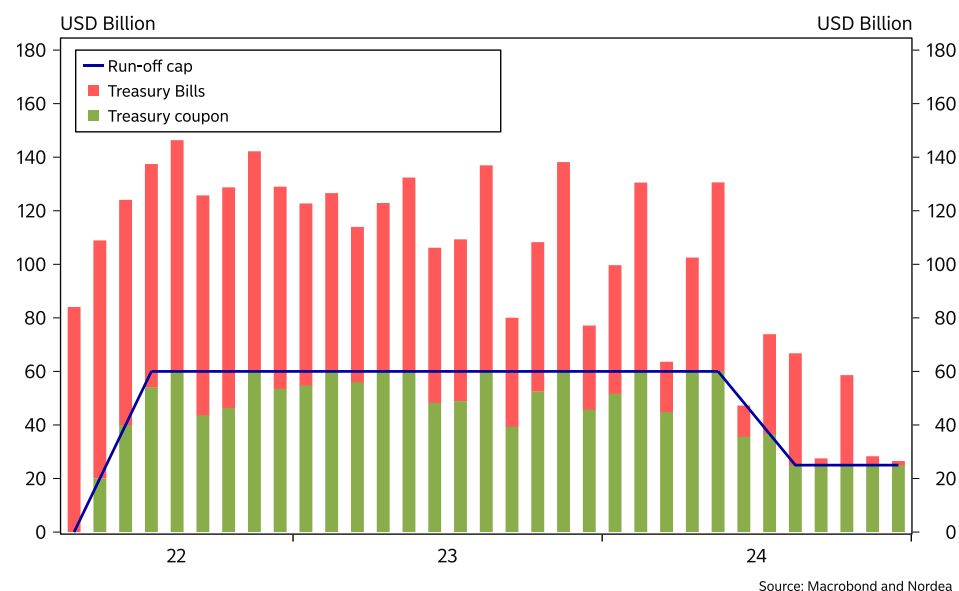
EURUSD XCCY: Headwinds are gathering

- What has happened.** In our March publication, we said that a decline in dollar liquidity would make EUR/USD basis funding more expensive, because it would likely put upward pressure on US credit spreads. Dollar Liquidity did indeed fall, but US credit spreads have tightened, instead of widened, as investors have become much more bullish on the economic situation and the economic outlook. In that perspective it is not so surprising that EUR/USD basis has continued to tighten and steepen.
- What do we think will happen.** Looking ahead, the Fed's taper of its QT program will dampen the headwind from falling dollar liquidity, but that does not change the fact that dollar liquidity will decline and put upwards pressure on the cost of dollar funding. In addition, the financial market is pricing in a lot of positive news, which lowers the bar for downside surprises, especially with the Fed keeping its policy rate at a high level for a long time. We think the dollar liquidity picture and the economic outlook is likely to make dollar funding more expensive.
- Fed QT taper and dollar liquidity.** At the May FOMC meeting, the Fed announced that it will reduce the maximum pace that it allows Treasury Bonds and Bills to run-off its balance sheet from \$60bn per months to \$25bn per months from June and onward (see chart below). This will reduce the liquidity headwind to EUR/USD basis, but the overall direction is still clearly towards gradually more expensive dollar funding.

USD liquidity is likely to begin to trend down in 2024



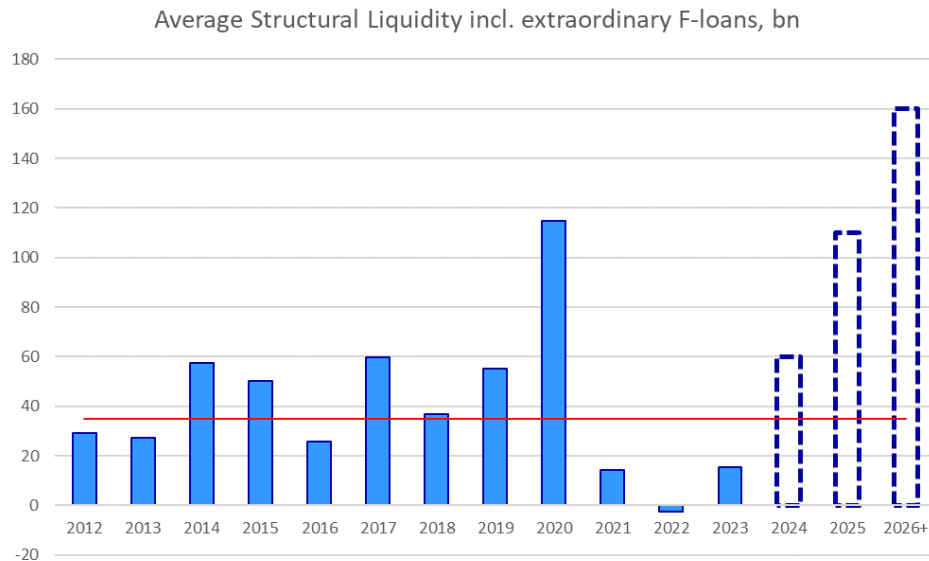
The Fed has tapered its quantitative tightening program



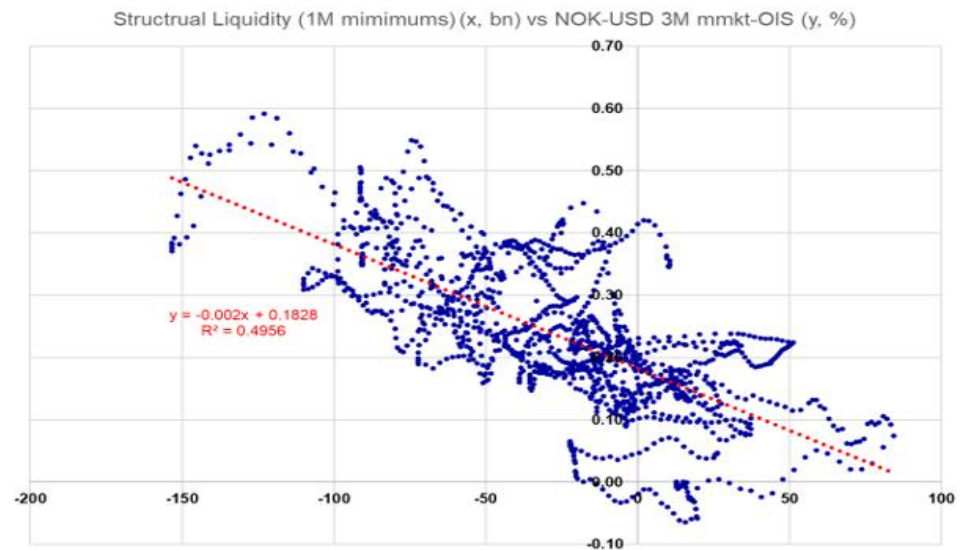
NOK XCCY: Ample structural liquidity calls for low Nibor-OIS

- Proposed changes to the government accounts and transactions looks to add a substantial amount to structural liquidity in 2025 and thereafter (approx. +100bn NOK). So far it looks like Norges Bank will not increase banks deposit quotas, but rather drain the excess liquidity via F-deposits. This could lead to larger changes in the functioning of the Norwegian money market with banks constantly wanting to lend NOK in the short end of the FX swap market. For more detail, please see <https://corporate.nordea.com/article/92832/norwegian-money-market-liquidity-from-scarcity-to-excess>.
- Historically, we have seen 3M Nibor/OIS tightening by about 10bps for every 50bn in added liquidity, with limited impact in the basis swap market. In addition to increases overall liquidity, there is also a proposal to smoother petroleum tax payments which should remove much of the short-term downside risks to liquidity and remove much of the term-premium imbedded in the FX Swap curve and Nibor/OIS.
- To summarize we don't expect the front break in XCCY to be impacted materially from the NOK perspective and thus, it should have little impact on the NOK XCCY curve. With the caveat that all details is of course not clear and that Norges Bank could end up draining this excess liquidity via other means eventually.
- However, the increased excess liquidity should lead to cheaper funding, all-else-equal, also in the REPO market; This would make it easier for investors to fund trades in the NOK bond market, i.e., making it easier for SSAs and domestic issuers to tap the NOK market.
- Take: NOK XCCY should be better offered around the belly moving into H1-2025.

Lifting structural liquidity by 100bn by end-2025 is a huge shift from history



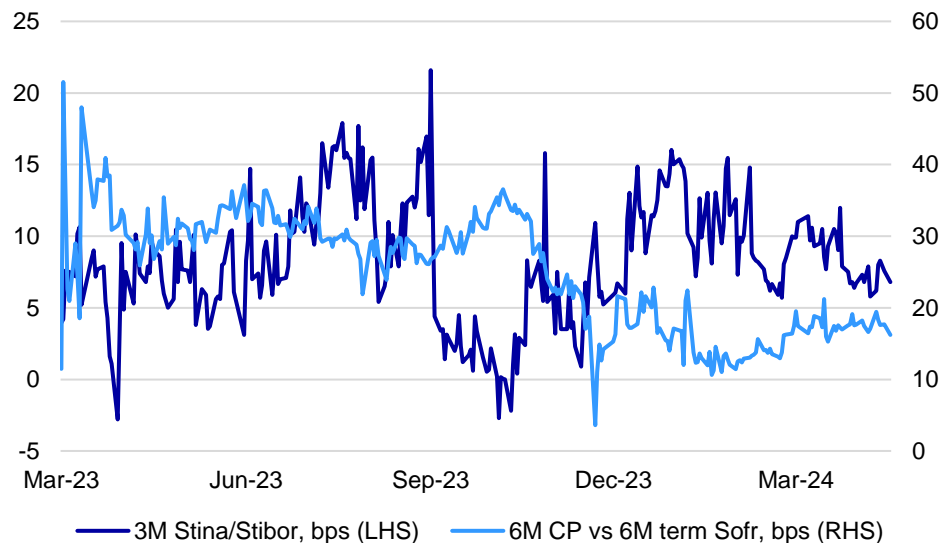
A lasting 100bn extra in liquidity should reduce Nibor-OIS by about 20bps



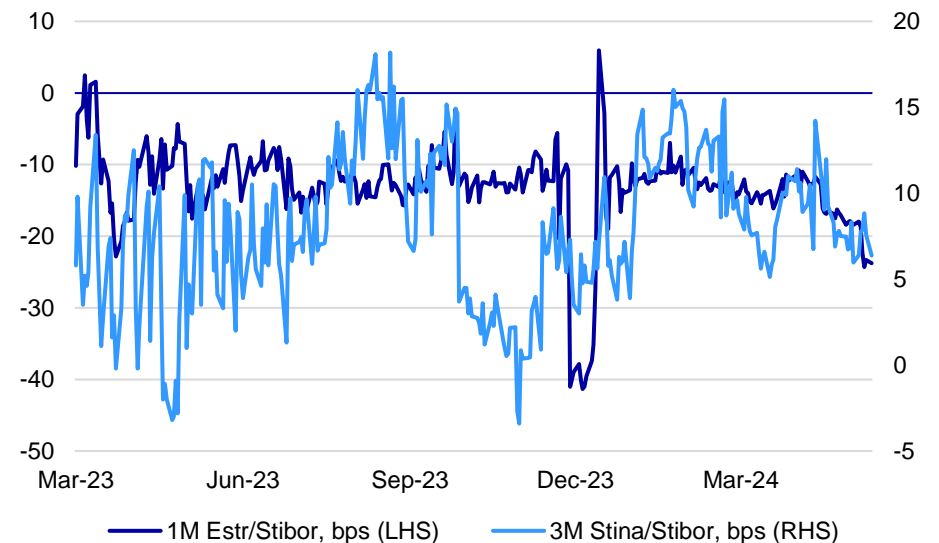
SEK XCCY: Dependency on US liquidity

- The consensus view on USD excess liquidity seems to be that through September it should fall \$260bn split 145bn/115bn between RRP & Bank reserves. We see that as significantly outpace the liquidity drain in SEK which pacing QT should be SEK 80-90bn following QT. We see SEK breaks vs Sofr as a bit tight considering this move in liquidity; It should trade closer to -30bps then -20bps in our opinion.
- With tighter US liquidity, it should bring some widening in Sofr/CP ASW spreads. Given Nordic banks dependency on US CP for short-term funding if those levels widen we should see slightly wider Stibor-OIS as well.
- It's hard to say, what is what, but wider Stibor-OIS is should infer wider EURSEK XCCY (expressed by the 1M below).
- This fits well with the sentiment in SEK covered that seems to be looking for reason to widen and in turn should bring EURSEK XCCY wider if it happens. If our estimates on the USDSEK breaks are correct, then REC 1Y1Y USDSEK remains interesting with 5-7bps performance to September. Additionally, in relative terms, if we see a correction in SEK covered this would give some protection.

3M Stibor/Stina vs. 6MCP/6MSofr



3M Stibor/Stina vs. 1M Estr/Stibor



Thank you!

Important information

Nordea Markets is the commercial name for Nordea's international capital markets operation.

The information provided herein is intended for the sole use of the intended recipient. The views and other information provided herein are the current views of Nordea Markets as of the date of this document and are subject to change without notice. The views have been provided solely based on the information made available to Nordea Markets and for the purposes of presenting the services made available by Nordea Markets. This notice does not substitute the judgement of the recipient.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction. Relevant professional advice should always be obtained before making any investment or credit decision.

This document may not be reproduced, distributed or published for any purpose without the prior written consent from Nordea Markets.

Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9
Further information on Nordea available on www.nordea.com

