# Nordea XCCY Publication

# Keeping up with Cross-Currency!

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## Welcome to our latest XCCY Publication!

The year-end turn is upon us and so far, it has been rather uneventful. The frontend of EURUSD Basis remains elevated as amble excess liquidity in USD continues; more on that later in this publication. Along with the elevated front, we have seen mixed arbitrage in EURs and USDs after issuance picked up in September. In relative historic terms USD funding is currently 'cheap' adding flow driven paying pressure around the belly; Mainly driven by tightening in USD ASW relative to EUR ASW.

The NOK and SEK outright basis levels have remained relative stable across the summer and into the issuance season as SSA interest, real & fast-money interests has balanced the paying interests coming from locals. As the domestic curves have remained relatively stable; The move higher in EURUSD basis has kept potential for Primary issuance in EURs by Norwegian names and potentially Swedish issuers, more on this later in the presentation.

**Latest Scandinavian issuance in EUR & USD of note**:
EUR: KommuneInvest 4Y, Moere Boligkreditt 5Y and Spar Nord 6Y
USD: Svensk Eksport Kredit 3Y and Kommunalbanken 5Y

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 September, where you among other things can see biggest issuances driving the XCCY market along with issuance levels in historic context.

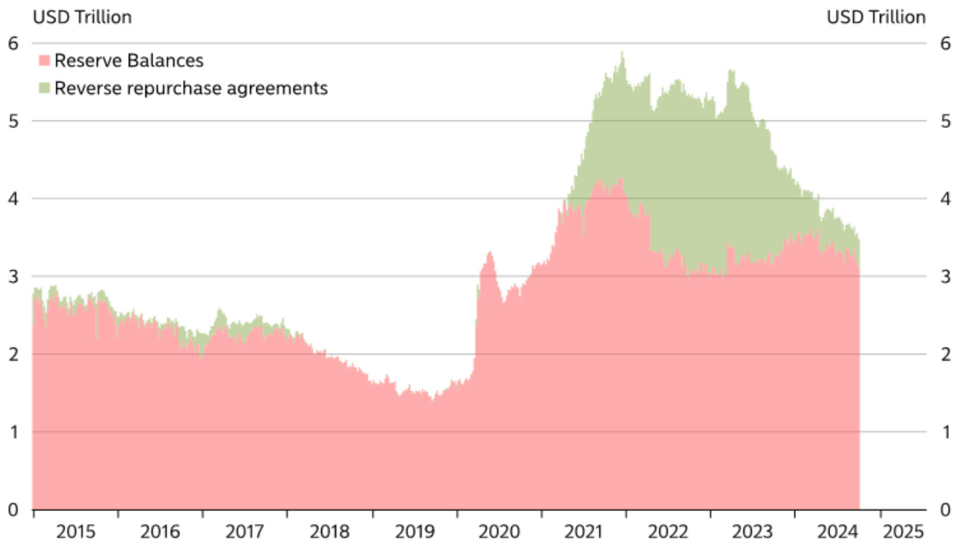
Enjoy the read!

# EURUSD XCCY (1/2): Turning neutral and see risk of more tightening

## Funding preference favours USD issuance

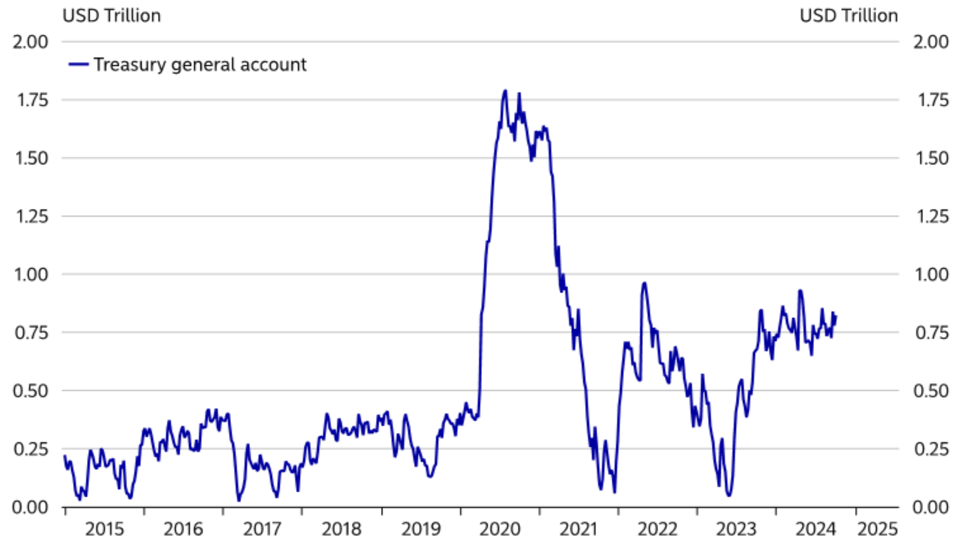
- **Turning neutral and seeing risk of more tightening.** We are turning neutral on EUR/USD cross currency basis and see risks that basis could continue to tighten over the coming quarters. Quantitative tightening has removed excess liquidity in the United States and the Euro Area, but liquidity remains amble and is still quarters away from becoming close to a problematic. In addition, we see an increasing probability that USD liquidity will increase in the coming quarters, due to the debt ceiling debacle and potential regulation of the Fed's discount window, which could make USD funding even cheaper in relation to EUR funding.
- **Fed is making progress on removing excess liquidity.** The Fed has spent two years reducing its holdings of Treasury and Mortgage bonds. The reduction has been smooth and has not caused any liquidity problems. This is because the Fed's Reverse Repurchase (RRP) facility has absorbed the downward pressure on liquidity. Outstanding Bank Reserves have remained amble above $3 trillion. Today, there are still some $350-400bn in the RRP facility that will protect the banking sector from liquidity starting from falling and become a problem. The Fed has reduced its portfolio by about $40bn per month and this suggests that the RRP facility is likely to be about $100bn in about 8 months. At this point it is likely that the Fed will want to stop, which means that Bank Reserves are unlikely to decrease much. On the contrary, we see two risks that could put upward pressure on liquidity. The first factor is the risk that the government will not manage to lift the debt ceiling in the new year and that the Treasury General Account will be drawn down and add liquidity to the banking sector. The second factor is the potential change of regulation of the Discount Window, which would make more banks tap the facility and draw out new liquidity.
- **ECB excess liquidity is falling in line with expectations.** The last €29bn TLTROs will expire in December and so far there is hardly any MRO uptake. The balance sheet run-off continues with an average of €28bn per month in the APP over the next 2 years and €7.5bn per month in the PEPP in the second half of this year, rising to approximately €15bn per month next year. Under current plans, the return to 2019-levels of excess liquidity will happen in 2026.

**The reverse repurchase facility has almost been drawn down ...**




Source: Macrobond and Nordea

**… But dollar liquidity is likely to be cushioned by the debt ceiling debacle**



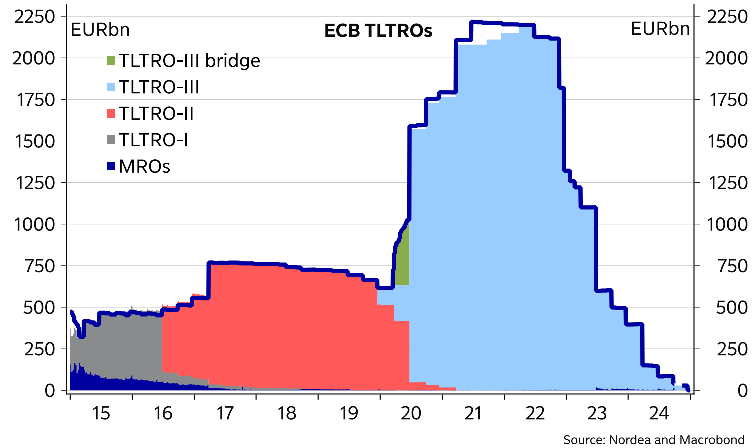

Source: Macrobond and Nordea

# EURUSD XCCY (1/2):

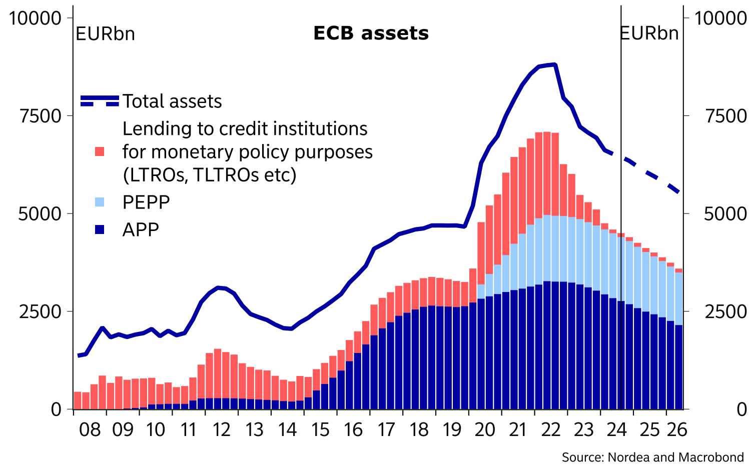
## Funding preference favours USD issuance

### EUR/USD basis could tighten even more in the coming quarters

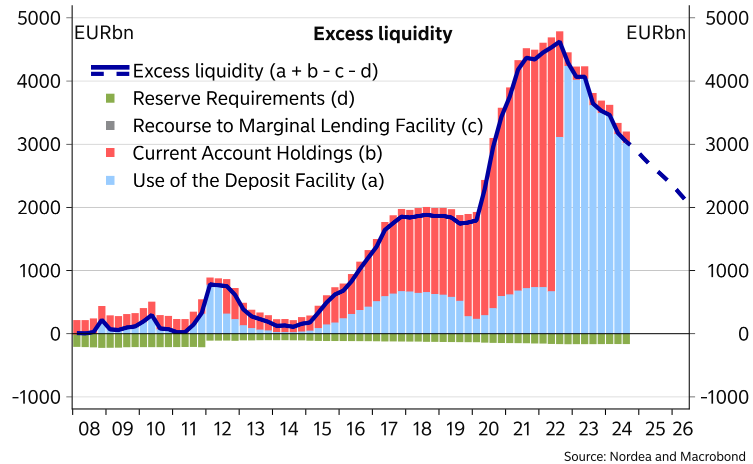

### There has been no uptick in the MRO credit facility




### THe ECB is still far from done in reducing its bond portfolio




### Excess liquidity will continue on its downward trend in the euro area



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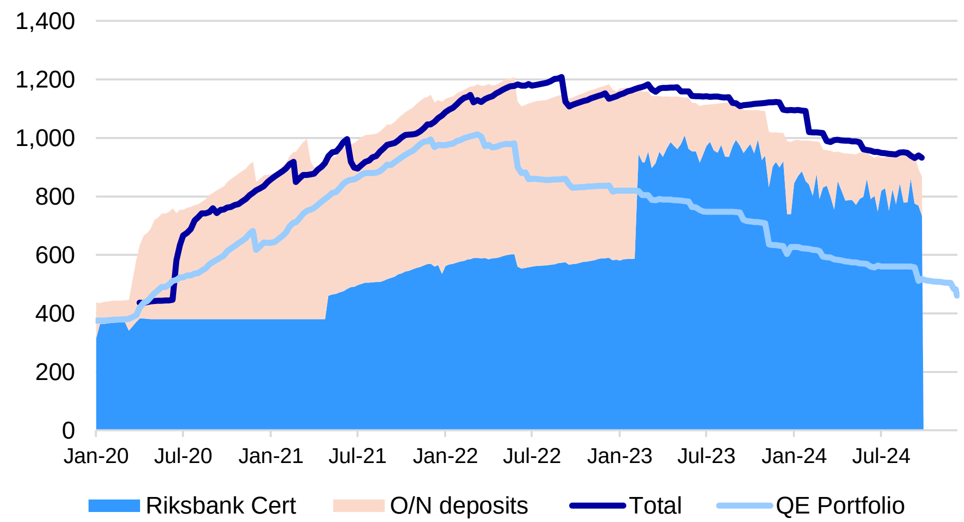
# SEK XCCY (1/2):

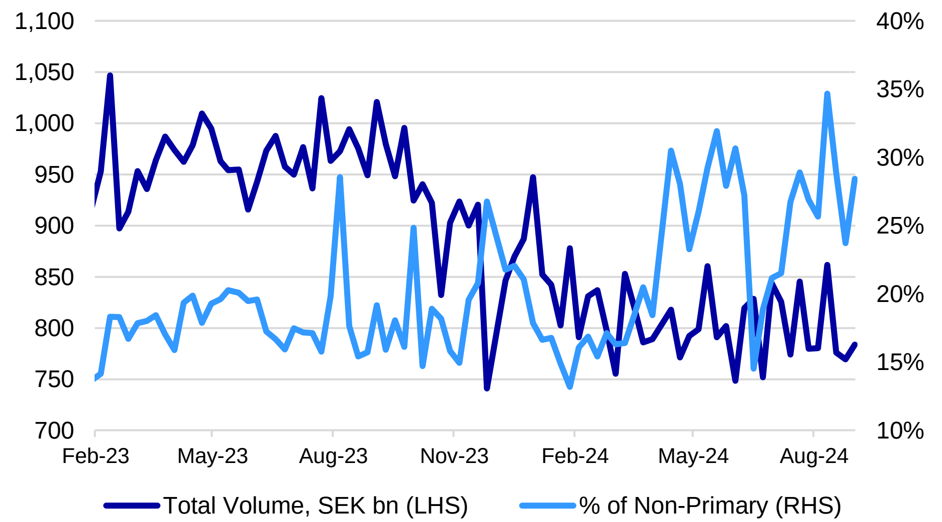
- SEK cash has once again gone scarcer in the weekly Riksbank certificate auctions. The large covered bond redemptions from their balance on September IMM has led to smaller available amount. As we have mentioned before the free float in the certificates needs to be around SEK 120bn for there to be enough liquidity left and the current available amount has not been enough. In addition;
  - There will be another large redemption from the QE portfolio in December when another batch of covereds redeem (see bottom left graph).
  - We have seen a significant shift in the certificates from primary dealers to non-primary dealers (see bottom right graph). Despite this there is still roughly a 10bps pick-up to be had by swapping short-term USD (CP) funding to SEK and placing them in the certificates. This behavior will take a break when banks brace for year-end. Hence, making the QE portfolios redemption impact smaller. There is already a fair amount of SEK tightness priced in the forward breaks.
  - In mid May there is also the redemption of the SGB 1059 which is SEK 45bn in the QE portfolio.
  - The trend in the US seems to be increasing funding rates & more dependency further down the repo hierarchy. We see no reason this should not be the same for other markets & in a cash over collateral world the SEK has high potential to be more impacted.

- Despite rather expensive SEK priced in the forwards we like being paid 1y1y USDSEK reflecting more squeeze to come (decrease in FX-FWD swapped CP funding smaller decline then covered redemption in December).

**SEK Excess Liquidity Proxy, SEKbn**




**Certificate Allocation: primary vs non-primary**



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# SEK XCCY (2/2):

- Curve flatteners should also work well into year-end. There seems to be the usual league table stress from DCM desks causing an unwarranted amount of SSA prints putting downward pressure on 5s & 10s in USDSEK. As of late we have seen; IBRD 3bn 10y, KFW 2bn 5Y, IDA 3bn 5y.

- Swedish issuers have historically between very active in EURs, however, over the summer the domestic market has remained attractive for Swedish issuers. The premium for funding by Swedish issuers in EURs has averaged ~ 3.7 bps since 1st of July 2024. Within the first week of October, we observed a significant development in the relative funding in SEK vs EURs, currently close to par, driven by various factors; SEK basis lower, EUR basis higher & local SEK ASW wider. Below indications are assuming mid levels, i.e., if you consider potential costs related to non-domestic issuance, then domestic funding still looks preferable.

- Last year we saw approx. 1bn EUR in October & 2.5bn EUR in November of issuance by Swedish names in the EUR primary market.

## Swedish 5Y Benchmark in EURs vs. Local Issuance level

| Date | 5Y ASW EUR6s | 5Y STIBOR/SOFR XCCY | 5Y ESTR/SOFR XCCY | 5Y ESTR/6s | **ASW + XCCY** | **Local ASW** | **Relative *"arbitrage"* *** |
|---|---|---|---|---|---|---|---|
| *EOM* | *a* | *b* | *c* | *d* | *e=a+b-c+d* | *f* | *e-f* |
| Oct-07-24 | 30.0 | -18.5 | -9.9 | 18.0 | 39.4 | 39.2 | 0.2 |
| Sep-24 | 31.0 | -18.0 | -10.2 | 17.9 | 41.1 | 35.5 | 5.6 |
| Aug-24 | 28.4 | -18.0 | -11.5 | 18.0 | 39.9 | 37.6 | 2.3 |
| Jul-24 | 25.7 | -16.5 | -10.4 | 19.8 | 39.4 | 35.1 | 4.3 |
| Jun-24 | 25.4 | -17.2 | -13.4 | 18.8 | 40.3 | 36.2 | 4.1 |
| May-24 | 24.2 | -17.7 | -10.1 | 19.3 | 35.9 | 34.7 | 1.1 |
| Apr-24 | 24.4 | -18.0 | -14.1 | 20.6 | 41.1 | 42.2 | -1.1 |
| Mar-24 | 25.0 | -15.0 | -13.9 | 20.5 | 44.4 | 42.8 | 1.6 |

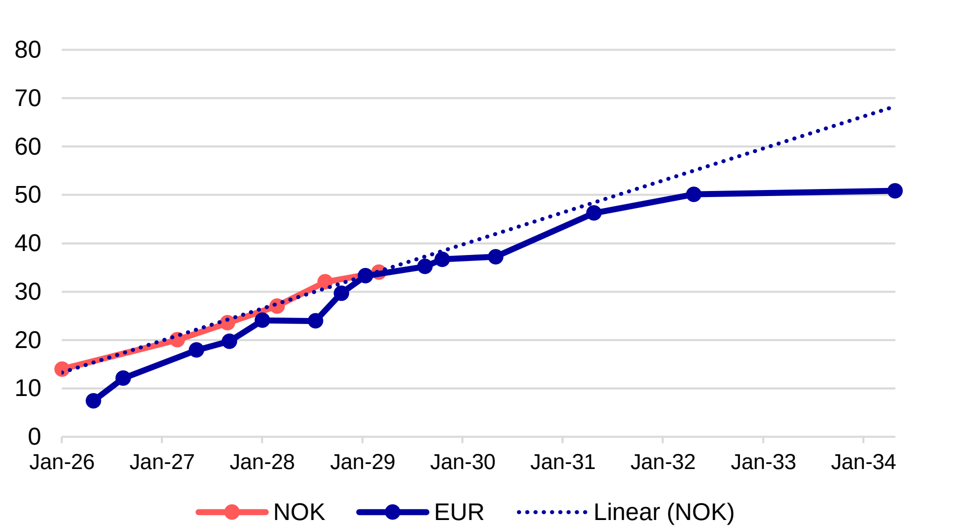
* Positive values implies issuing in EURs and swapping the funding back to SEK will come at a premium for Swedish issuers and vice versa

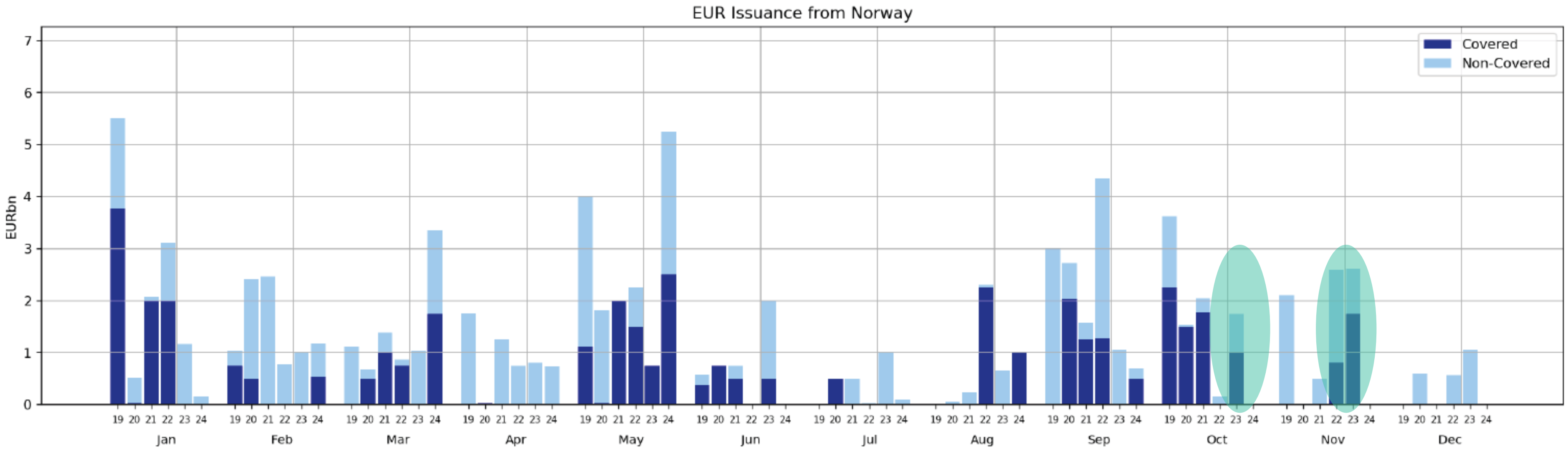
# NOK XCCY

## Balanced issuance interests; potentially more to come

- The NOK basis outright level has been quite stable across the summer, however, 5s10s and 10s20s has flattened a bit from their all-time-highs. In October we only saw Moere Boligkreditt (500m) in EUR covered vs. SSA prints IBRD 3bn 6Y and Munifin 2bn 5y.
- New 5y Norwegian domestic issuance expected to come in high 30s. Looking at pricing of Norwegian issuers EUR bonds it looks as if there is approx. 5 bps pickup (pre-costs) for NOK funding by utilizing the EUR market. However, if we benchmark the Norwegian issuers EUR bonds vs. KFW at the inception of issuance and use it as a guide, then the pickup no longer exists.
- Last year Norwegian issuers printed 1bn EUR covered in October and 1.75bn EUR covered in November.

**Norwegian Benchmark; ASW + Basis vs. NOK 3s, bps**



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