

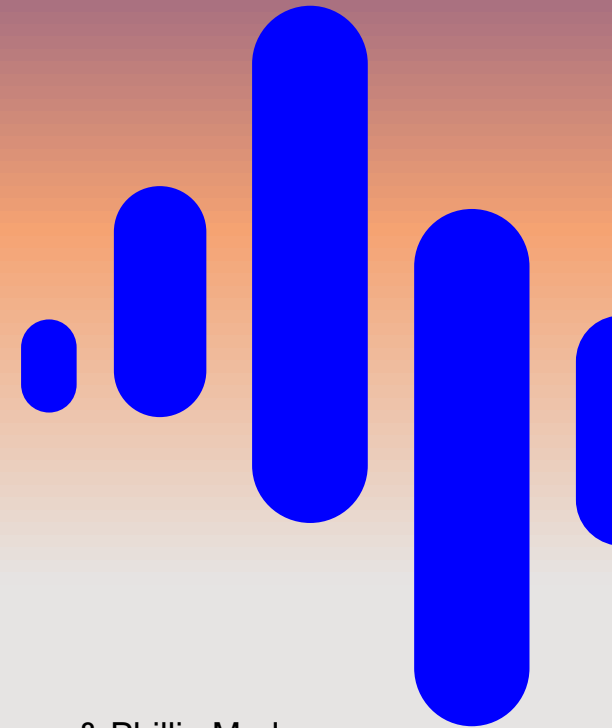
Nordea

Nordea XCCY Publication

Keeping up with Cross-Currency! 30th of April 2025

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Welcome to our latest XCCY Publication!

Since the election of the new US administration in November last year volatility in the XCCY market has increased significantly

➤ See EUR/USD XCCY timeseries for selected tenors in the chart below.

Despite increased volatility, the trend has been for higher EUR/USD XCCY basis, i.e., EUR getting more expensive relative to USD. The upwards trend can be explained by various factors, but the overarching factor is the prolonged period with funding arbitrage in USD for issuers with access to the US primary market. However, now less favorable. In the aftermath of “Liberation Day”, the XCCY market saw significant intra-day volatility, wide spreads and thin liquidity being some of the main proponents. The market has gradually normalized after Easter with spreads tightening and issuers in need of XCCY derivatives coming back to the primary market into month-end.

What is interesting now in a broader perspective:

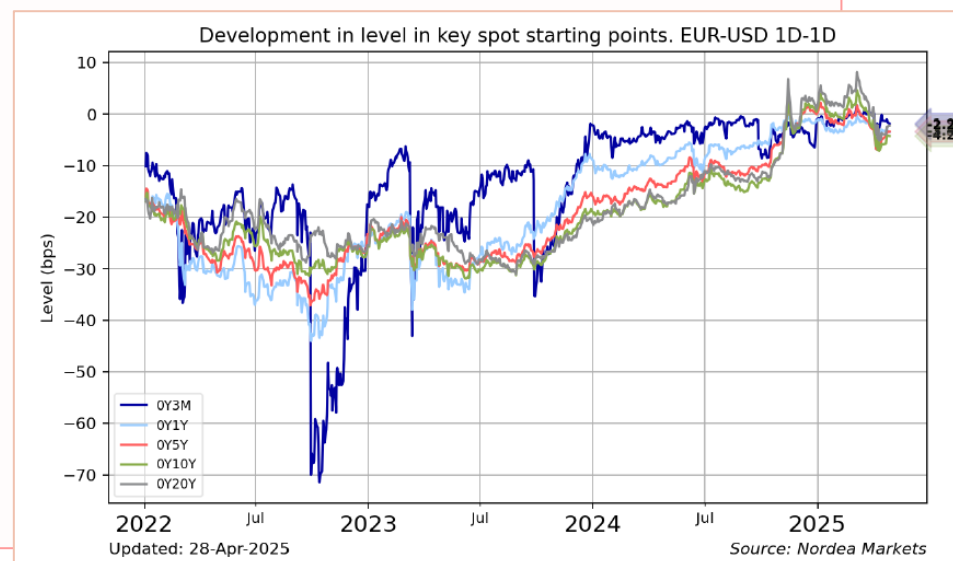
- To what extent demand for USD increase to establish e.g., production facilities in the US given the US administrations ambitions?
- Will relative ASW spreads in the Eurozone vs. the US remain volatile, and how will the EURUSD basis “balance” this?
- Will reallocations of assets and reserve currency out of USD continue, and is the EUR an alternative?
- USD becoming a less “safe haven”?

Despite the latest developments and many questions like those raised above remain unanswered and comes with a large degree of uncertainty, we have observed very little strain on USD liquidity funding premiums and currently very small risk-premiums imbedded in the EURUSD XCCY across curve; Now back near levels from pre-US2024 election.

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!

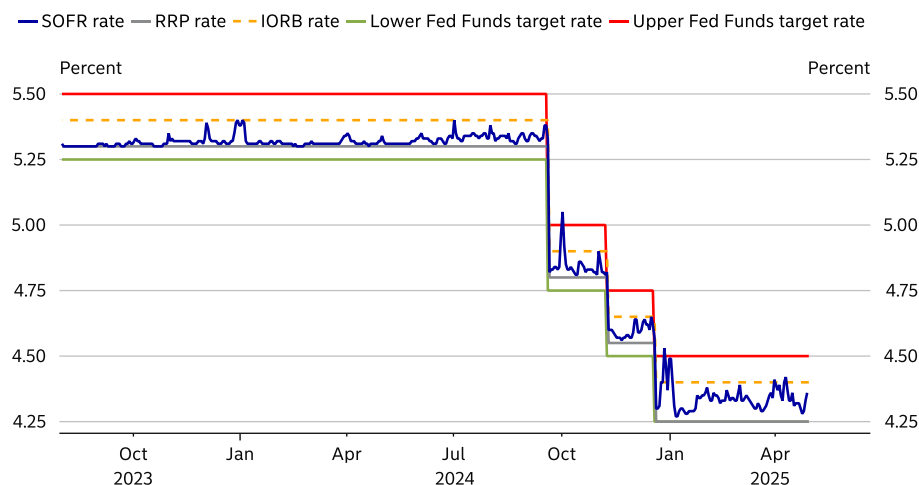


EURUSD XCCY (1/4):

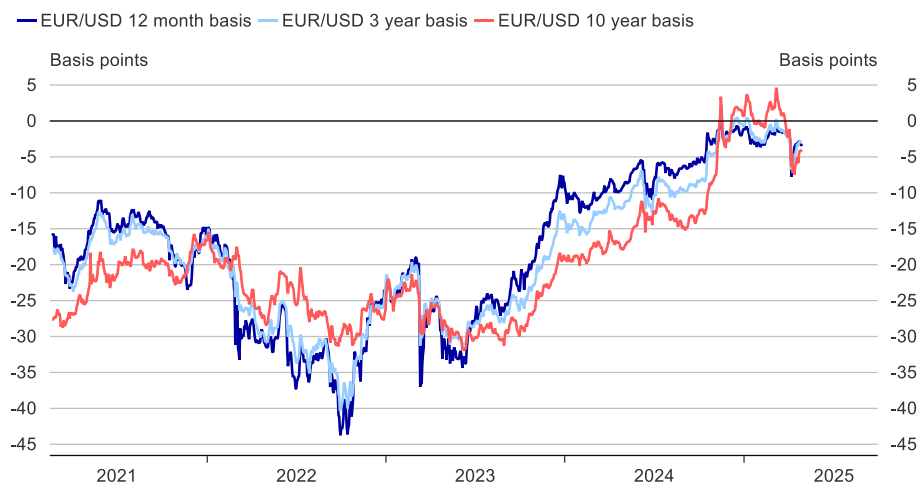
Dollar funding risks are increasing after years of stability

- Dollar funding has cheapened and stabilised over the last years, but the benign trend could change in the second half of this year when Trump's centaury high tariffs hit the economy and the Treasury must refill its account at the Federal Reserve taking liquidity out of the private sector.
- Dollar funding conditions have stabilised over the last years, but early signs of dollar funding stress are emerging. At the start of the year, the Federal Reserve (Fed) lowered its Reverse Repurchase (RRP) facility rate by 15 basis points down to the Lower Fed Funds Target rate, to encourage lenders to lend out cash in the repo market instead of parking cash at the Fed. Yet, the Secured Overnight Funding rate (SOFR) did not fall by that much at all, which suggest liquidity is not nearly as abundant as it used to be just some year ago and that the direction points toward more expensive funding.
- The increasing funding fragility is not a problem today, but could quickly become one if the downside risks to the economy become a reality. For example, when the stock market sank after Liberation Day, the Secured Overnight Funding Rate (SOFR) briefly rose above the Interest On Reserve Balance rate (IORB), which suggest domestic demand for dollars got a bit scarce. Similarly, the EUR/USD cross currency basis widened, especially at shorter tenors, which indicate foreign demand for dollar funding showed signs of stress. Obviously, funding conditions recovered when risk aversion abated, but it highlights how fast conditions can change later this year.

Domestic funding stress is increasing but remains modest



Foreign funding is stable and cheap with limited signs of stress

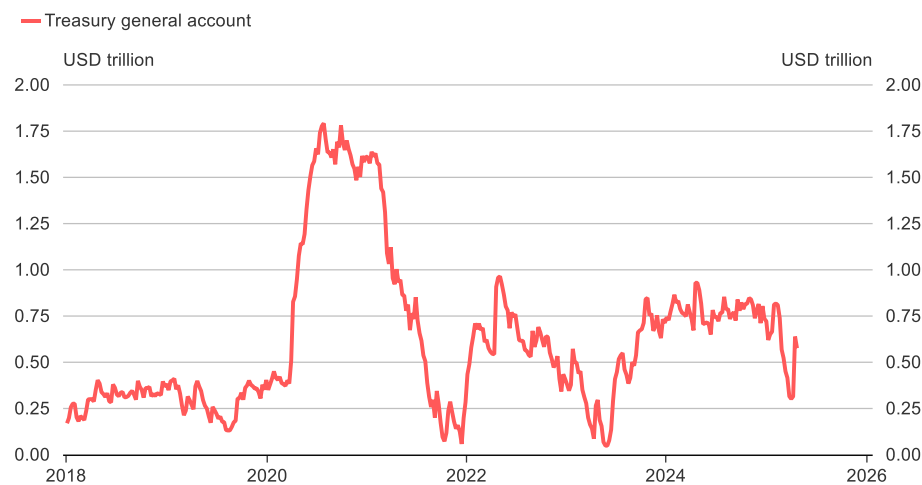


EURUSD XCCY (2/4):

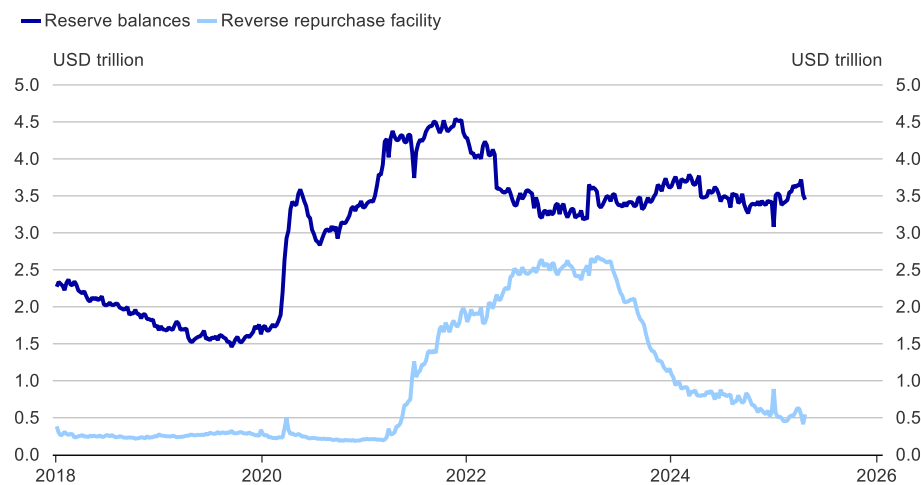
Dollar funding risks are increasing after years of stability

- The last two years of economic goldilocks and annual 25% stock returns does not look like something that will be repeated this year. On the contrary, euphoric expectations sets up the financial market for disappointment, especially given the likely stagflationary shock from tariffs, which will hit the economy in the coming quarters. Downside risks to the economy and financial market are significant and could put a lot of stress on dollar funding later this year.
- Dollar liquidity looks easy today, but will worsen later this year, when the debt ceiling impasse is resolved, because the Treasury will then have to increase issuance to fill up its account at the Fed, which will take out liquidity from the private sector in the second half of the year. This indicates dollar liquidity will fall even though the Fed has slowed down Quantitative Tightening (QT) meaningfully at its March meeting.
- EUR liquidity remains abundant. Excess liquidity remains above pre-pandemic levels, and the ECB only came to full speed QT this year. Now, however, the ECBs balance sheet is shrinking by 500bn/year because of bonds running off.
- The ECB is close to neutral rates. It would be natural for a significant policy easing from the current policy rates to be accompanied by an end to QT! This policy option is not yet at the forefront of discussions at the ECB, but it is important to note the difference in likely balance sheet policies between the Fed and the ECB in a downside scenario. The Fed is already done with QT. The ECB has a long way.

Treasury general account will run down until september



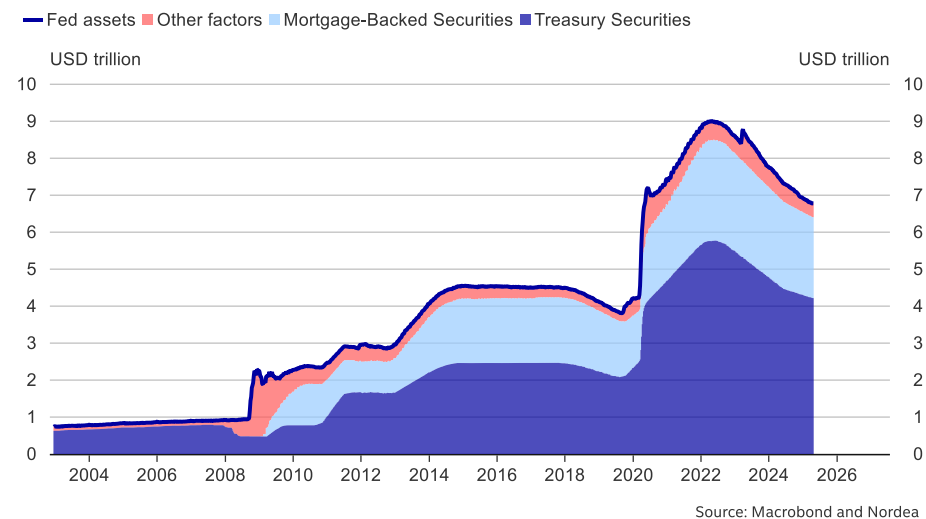
The debt ceiling situation will inject and then drain liquidity



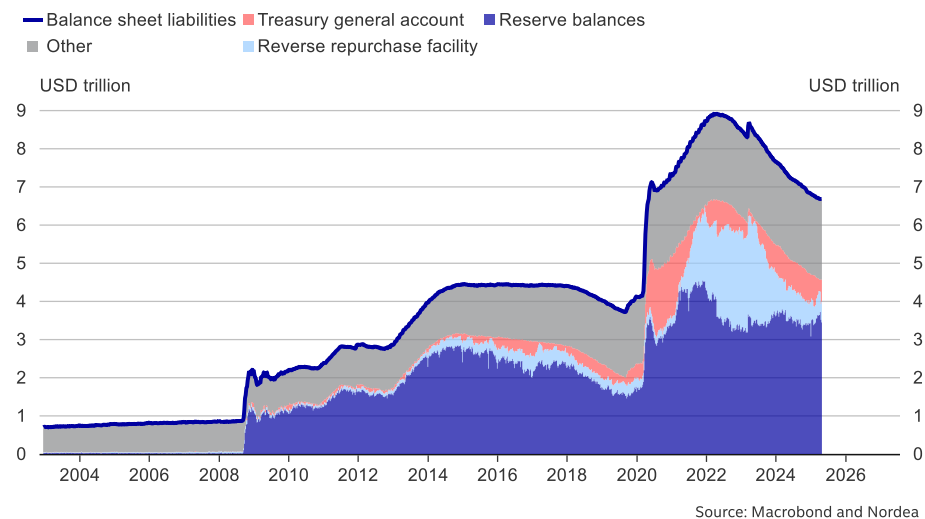
EURUSD XCCY (3/4):

Dollar funding risks are increasing after years of stability

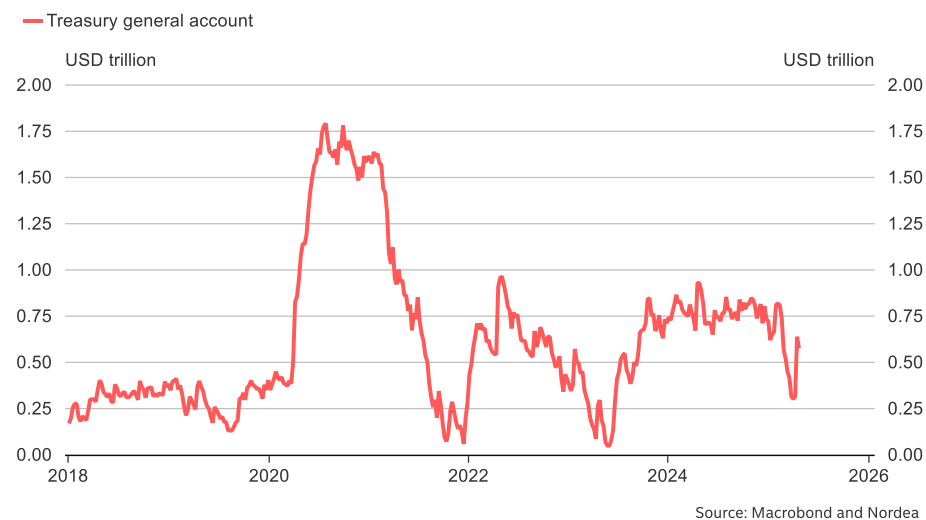
Fed balance sheet asset run off will slow down going forward



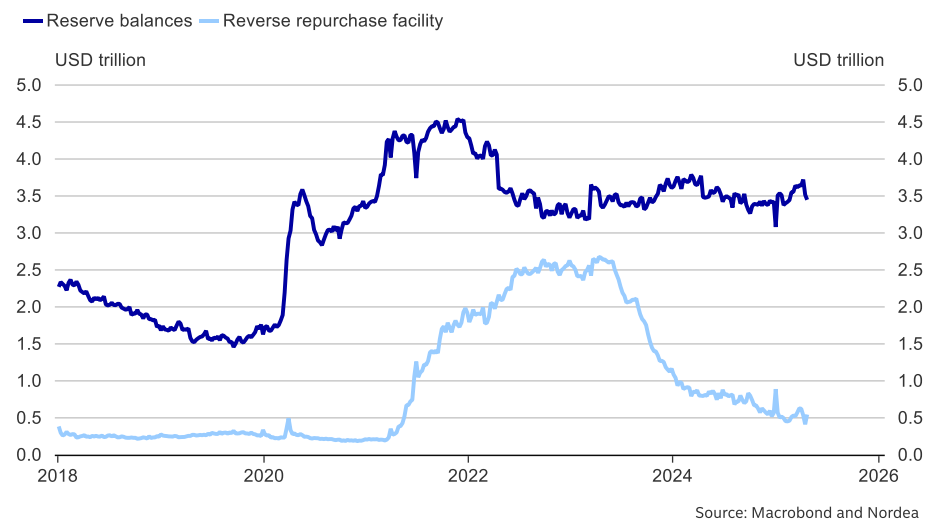
Fed balance sheet liability run off will slow down going forward



Treasury general account will run down until september



The debt ceiling situation will inject and then drain liquidity



EURUSD XCCY (4/4):

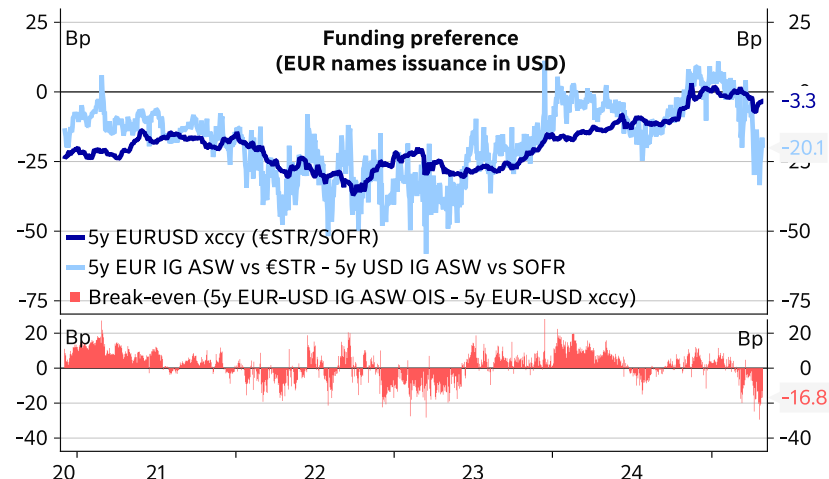
Dollar funding risks are increasing after years of stability

High correlation! Liquidity in the drivers' seat



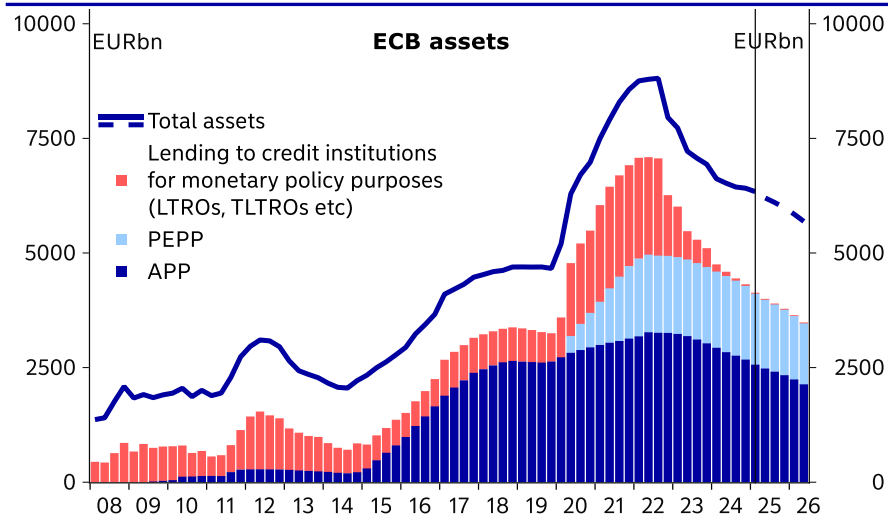
Source: Nordea and Macrobond

USD funding still cheaper for EUR names



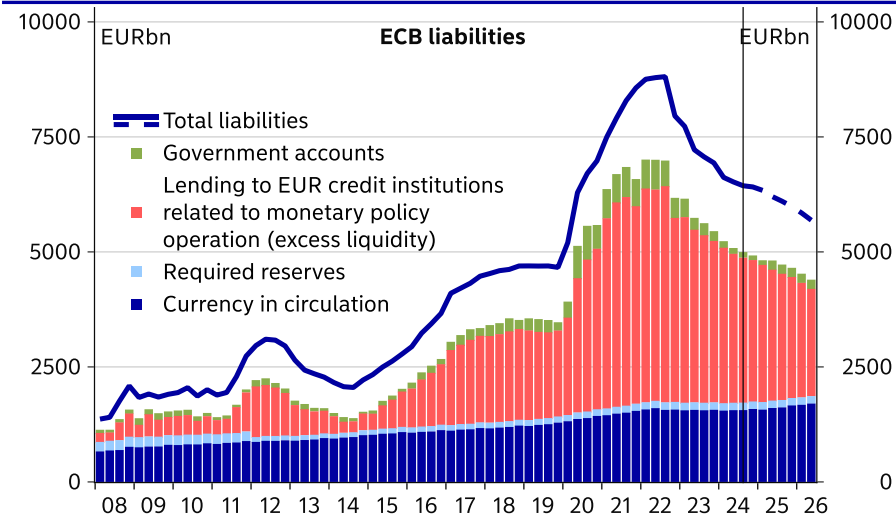
Source: Nordea and Macrobond

The ECB is still far from done in reducing its bond portfolio



Source: Nordea and Macrobond

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

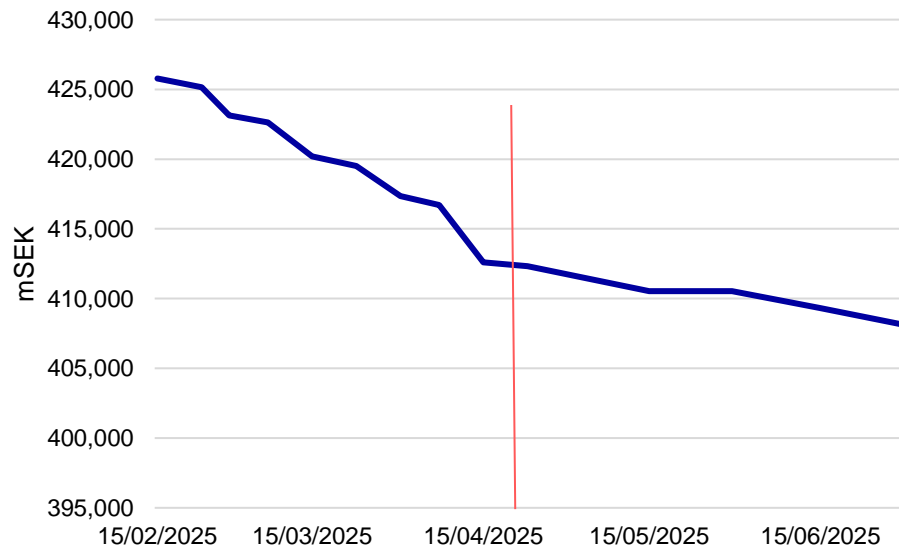


Source: Nordea and Macrobond

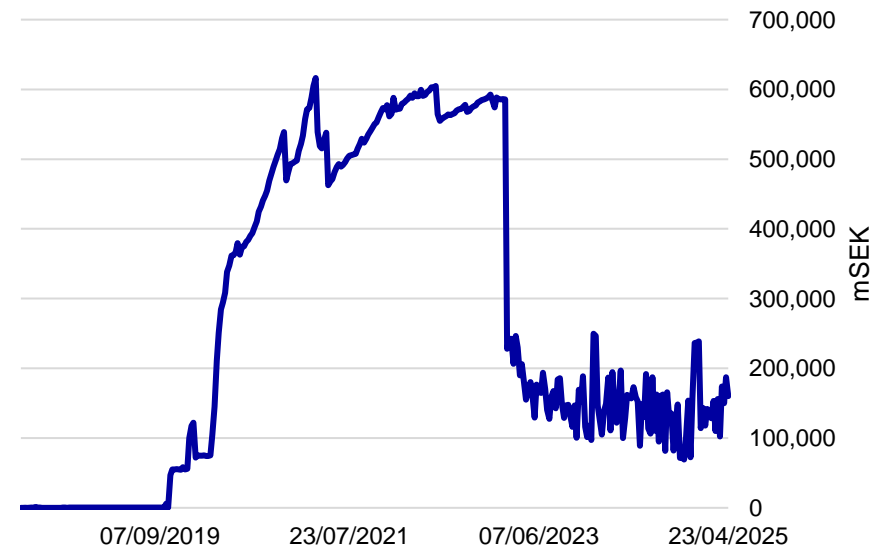
SEK XCCY (1/2): Summer expectations

- Revisiting some of our favorite short-term metrics we expect SEK cash to stay or become more expensive leading in to summer. The steepness between the spot break & June IMM (spot less negative) is rather steep and should flatten. Looking at what Swedish banks place on deposit with the Riksbank that figure is rather stable around 100 – 150 MMSEK. Apart from Swedbank most of the larger banks are running a negative loan to deposit gap in SEK where the balancing factor is short term done in EUR & USD. A fair share of this is swapped into SEK and placed in the certificates which creates the squeeze in the short SEK from time to time.
- The bond redemption pattern looks heaviest in September with benchmark bonds from Handelsbanken, Nordea & LF redeeming. May & June is KommunInvest, SBAB & Swedbank. The latter has a positive funding gap in SEK and generally redemptions of their bonds seem to have little impact on SEK liquidity. That said the June redemptions will decrease the Riksbank asset portfolio with SEK 24bl in June & 35bl in September which will of course decrease the available balance at the Riksbank certificate. Thus, we expect structural liquidity to be fairly unchanged.

Riksbank balance sheet run-off



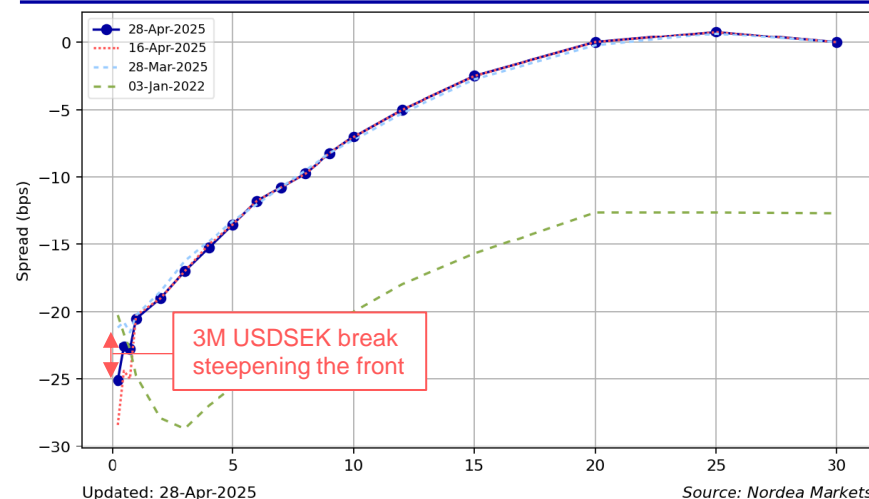
Swedish Bank deposits at the Riksbank



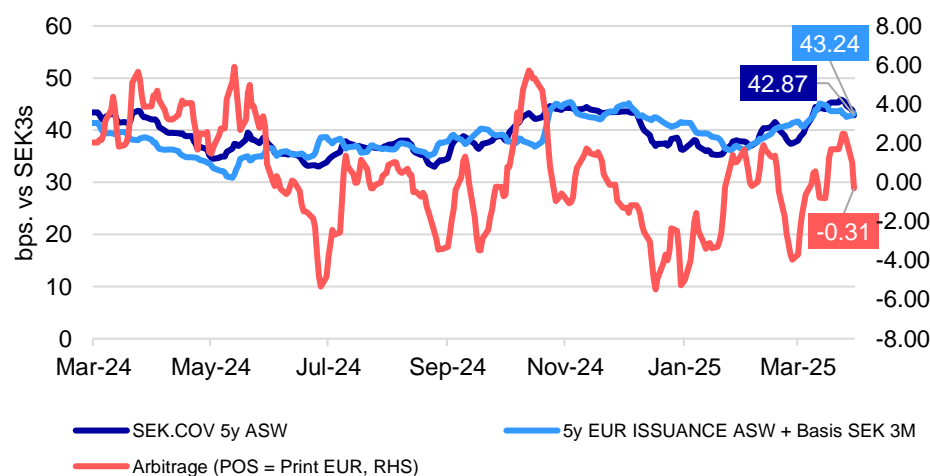
SEK XCCY (2/2): Funding arbitrage and curve developments

- Funding arbitrage for Swedish Issuers in EURs remains rather muted, see graph below, however, we have seen LF, Stadshypotek, Swedbank and SEB coming out in a mix of Snr Non-Pref & Covereds as of late.
 - See table in the back of the presentation for more details.
- The latest EUR covered issuance by a Swedish Issuer was SEB, printed 29th of April 2025, see details relative to domestic curve in the graph below.
 - On the back of a 2-year period without any EUR covered issuances from SEB. Previous 5Y issuance 20th of Feb 2023.
- In the latest month we have observed a slight steepening of the front of the USDSEK XCCY; Mainly driven the 3M break; unlike on USDNOK where we've seen additional steepening of the front on longer dated tenors.

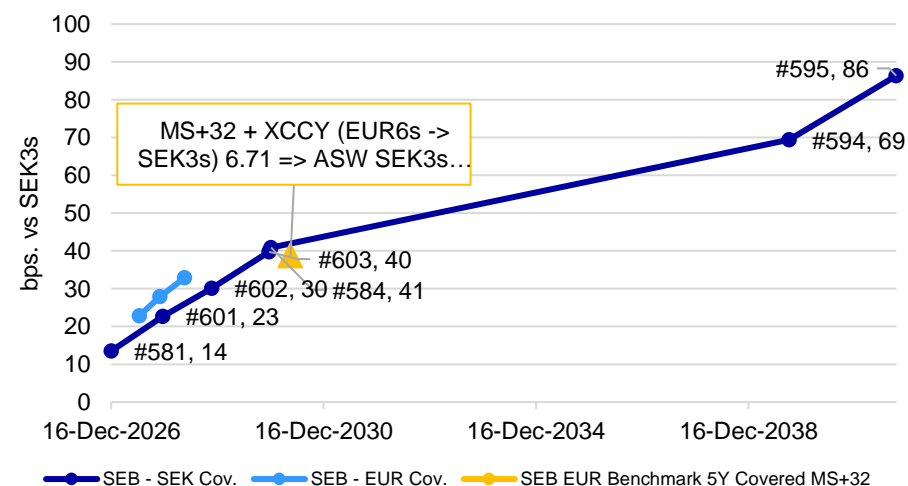
USDSEK, Sofr/Stibor3M, Curve developments



Swedish 5Y Benchmark in EURs vs. Local Issuance level, 3D rolling avg.



SEB 5Y Benchmark in EURs vs. Local Issuance level



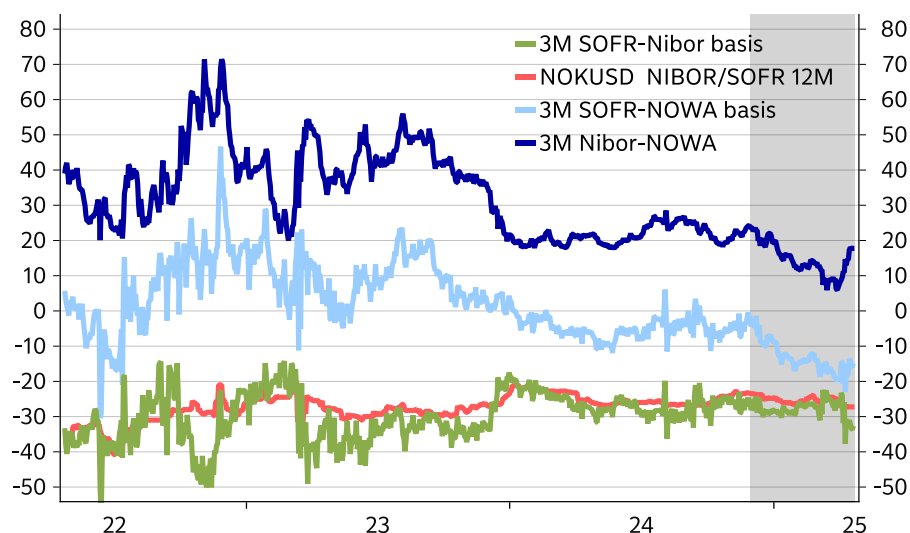
* Positive values on "Arbitrage" implies issuing in EURs and swapping the funding back to SEK will come at a premium for Swedish issuers and vice versa

NOK XCCY (1/2):

Full passthrough from higher NOK liquidity to lower Nibor premiums

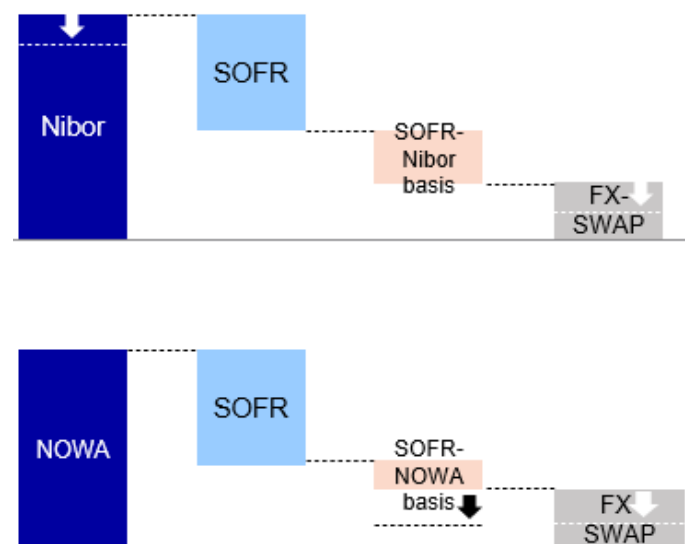
- The massive increase in NOK structural liquidity this year had pushed 3M Nibor-NOWA spreads from 25bp to below 10bps before the recent market turmoil
- Moving NOK liquidity from a ~35bn balanced system into a ~135bn surplus system (Norwegian banks are still only allowed to deposit a total of 45bn overnight at the Central bank) has depressed the additional “NOK” premium in the USDNOK FX-Swap.
- A close inspection of the USDNOK fx-swap finds that there has been an almost 100% passthrough into lower Nibor-NOWA spreads, with no impact on SOFR-Nibor basis, alternatively a 100% impact on SOFR-NOWA basis. This observation further confirms our long-standing view that Nibor is still a function of USD money-market rates and a scarcity premium on NOK driven by structural liquidity.
- NOK structural liquidity is likely to stay elevated (above 100bn) for the next couple of years (at least).
- The recent increase in Nibor-NOWA spreads can be attributed to higher premiums in the US money market/more expensive US bank balance sheets. If/when the US market calms down, we therefore expect Nibor-NOWA to again move down towards 10bps.

3M SOFR-NOWA basis has moved 1-1 with Nibor-NOWA since Oct-24



Source: Macrobond and Nordea

Tighter USDNOK fx swaps with full impact on Nibor and SOFR-NOWA basis

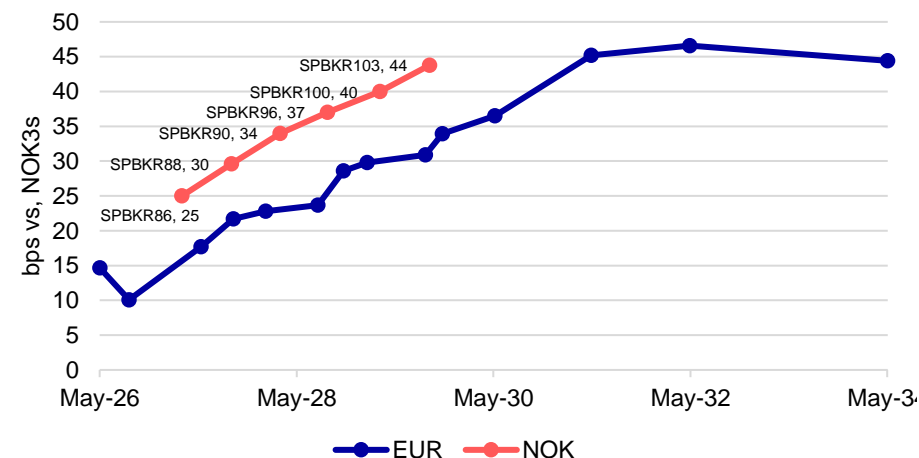


NOK XCCY (2/2):

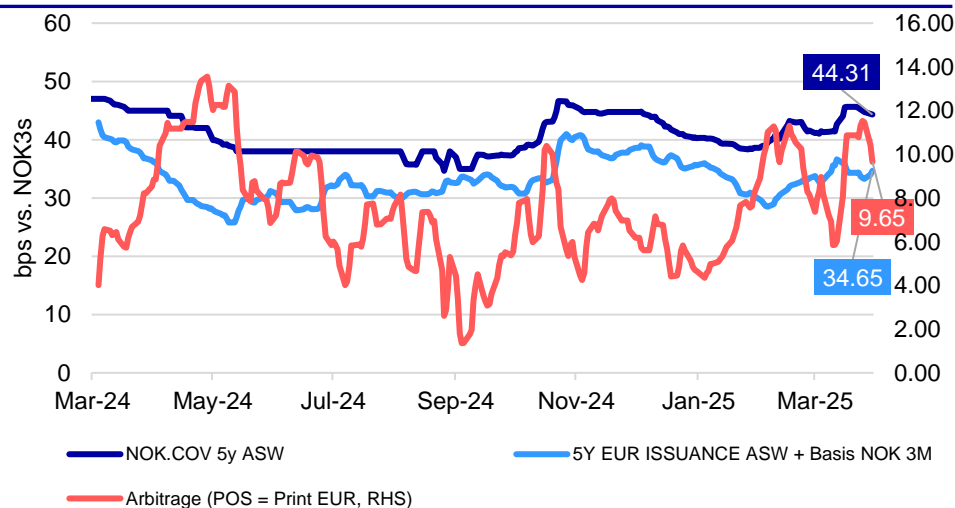
Funding arbitrage and curve developments

- Funding arbitrage for Norwegian Issuers in the EUR market remains elevated, see graph below.
- Many of the larger Norwegian issuers have already utilized this arbitrage; As of late we have seen Eika, DNB and SpareBank Vest in EUR covered.
 - See table in the back of the presentation for more details.
 - Considering issuance premium vs. KFW by the SEB EUR covered the 29th of April; Issuance arbitrage by Norwegian issuers might be underestimated.
- Coming back to the increased structural liquidity in the NOK market. In the latest month we have observed a steepening of the front-end of the USDNOK XCCY curve on the back of ample excess liquidity; overall, offering better roll-down on the curve – See graph below.
 - We have not observed similar developments in EURs.
 - EURUSD XCCY holding steady in the very front end of the curve, with levels slightly lower but consistently flat curve.

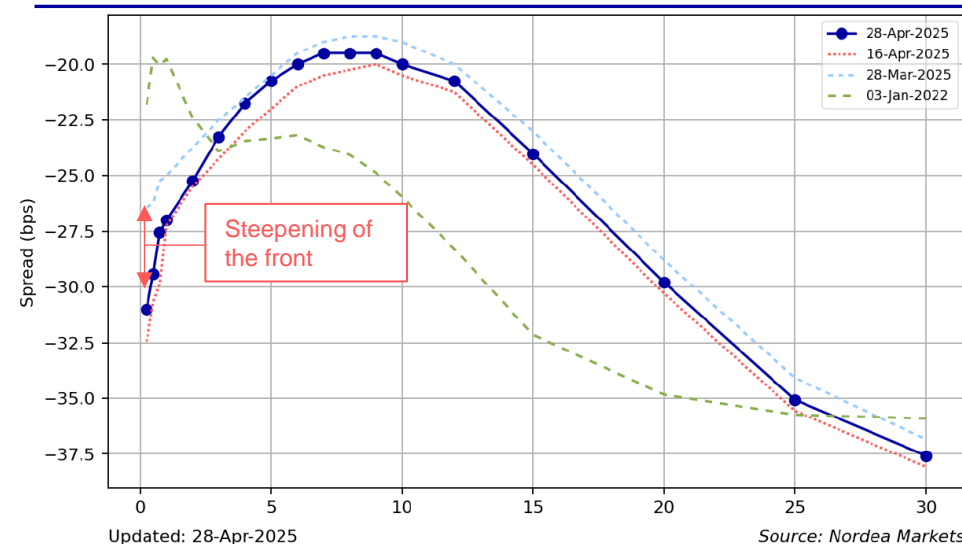
SpareBank 1 Boligkreditt (SPABOL) - ASW + Basis vs NOK3s



Norwegian 5Y Benchmark in EURs vs. Local Issuance level, 3D rolling avg.



USDNOK, Sofr/Nibor3M, Curve developments



* Positive values on "Arbitrage" implies issuing in EURs and swapping the funding back to NOK will come at a premium for Norwegian issuers and vice versa

DKK XCCY:

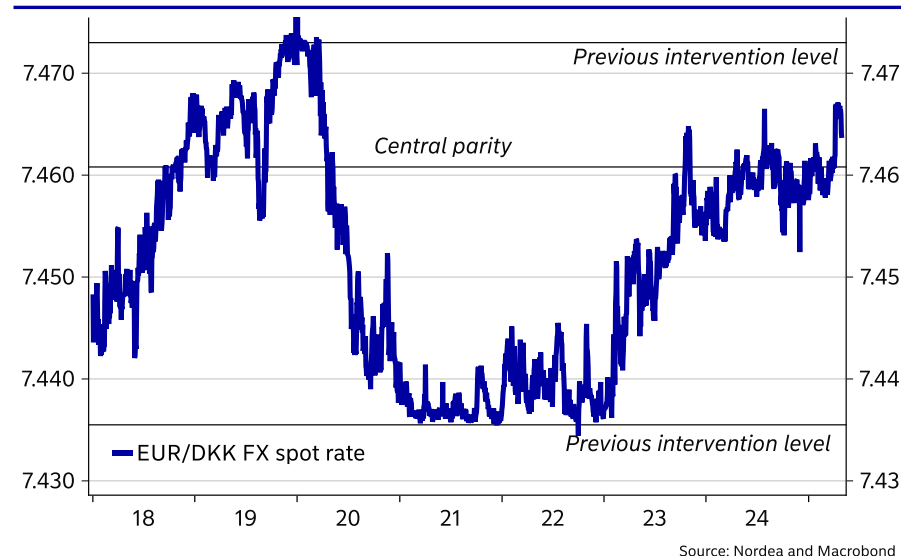
Tight DKK liquidity & intervention levels

- One of the largest Danish issuers, KommuneKredit, changed their funding strategy end of March, [press release](#); The announcement had a market impact from the belly and out on the DKK XCCY curve, which moved lower driven less expectations to funding swapped back to DKK moving forward. Additionally, less issuance in FX swapped back to DKK is likely.
- **Tight DKK liquidity.** The central bank's net position with the banking sector was thought to be good above DKK 200bn. However, recent market developments suggest more liquidity may be needed going forward for the market to clear. Three arguments for normalization: 1) Seasonality should increase the net position going forward, 2) banks have shown willingness to use the central bank's 1-week facility when the net position is too low, and 3) the government account at the central bank should gradually be reduced from increased spending and one-offs.
- **EUR/DKK FX spot is not far from previous intervention levels.** The sell-off in US assets pushed some market participants to buy more USD asset to keep allocation targets and made the insurance and pension sectors over-hedged in USD. Additional US assets sell-off could push the EUR/DKK FX spot to intervention levels. Given the tight DKK liquidity, FX intervention on the top side (buying DKK and thus reducing DKK liquidity) would probably be smaller before the Danish policy rates are hiked / cut less than the ECB's policy rate.





EUR/DKK XCCY responding to tight DKK liquidity



EUR/DKK FX spot nearing previous intervention levels



Issuances of note:

	Country	Ticker	Issuer	Ccy	Coupon type	Issue spread	Issue date	Maturity	Tenor~	Rank	Green	Amount issued (mio.)
	Denmark	DANBNK	DANSKE BANK A/S	EUR	FIXED	38	9-Apr-2025	12-Apr-2030	5Y	Covered		500
		DANSKB	DANMARKS SKIBSKREDIT AS	EUR	FIXED	77	18-Mar-2025	25-Mar-2031	6Y	Covered		500
		KOMMUN	KOMMUNEKREDIT	USD	FIXED	44	5-Mar-2025	28-Feb-2030	5Y	Sr Unsecured		1,000
	Norway	KBN	KOMMUNALBANKEN AS	CNY	FIXED	-	14-Mar-2025	15-Mar-2028	3Y	Sr Unsecured		1,500
		DNBNO	DNB BOLIGKREDIT AS	EUR	FIXED	30	20-Mar-2025	27-Sep-2029	4Y6M	Covered		1,500
		SVEGNO	SPAREBANKEN VEST BOLIGKR	EUR	FIXED	34	21-Mar-2025	28-Jun-2030	5Y3M	Covered		750
		EIKBOL	EIKA BOLIGKREDIT AS	EUR	FIXED	54	13-Mar-2025	20-Mar-2035	10Y	Covered		500
		KBN	KOMMUNALBANKEN AS	SEK	FIXED	20	28-Mar-2025	4-Oct-2028	3Y6M	Sr Unsecured	GRN	1,500
		SVEGNO	SPAREBANKEN VEST	SEK	FIXED	-	5-Mar-2025	12-Dec-2028	3Y9M	Sr Preferred		500
		NONGNO	SPAREBANK 1 NORD NORGE	SEK	FIXED	-	5-Mar-2025	11-Jun-2029	4Y3M	Sr Preferred	GRN	500
		SVEGNO	SPAREBANKEN VEST BOLIGKR	SEK	FLOATING	42	10-Mar-2025	10-Jun-2030	5Y3M	Covered		700
	Sweden	VLVY	VOLVO TREASURY AB	EUR	FLOATING	42	10-Mar-2025	17-Mar-2027	2Y	Sr Unsecured		500
		SWEDA	SWEDBANK AB	EUR	FIXED	90	17-Mar-2025	24-Sep-2029	4Y6M	Sr Non Preferred	GRN	750
		SEB	SKANDINAVISKA ENSKILDA	EUR	FIXED	90	12-Mar-2025	19-Mar-2030	5Y	Sr Non Preferred	GRN	1,000
		LFBANK	LANSFORSKRINGAR HYPOTEK	EUR	FIXED	33	18-Mar-2025	25-Mar-2030	5Y	Covered		500
		SEB	SKANDINAVISKA ENSKILDA	EUR	FIXED	32	29-Apr-2025	8-May-2030	5Y	Covered		1,000
		SHBASS	STADSHYPOTEK AB	EUR	FIXED	40	24-Mar-2025	31-Mar-2032	7Y	Covered		1,000
		KOMINS	KOMMUNINVEST I SVERIGE	USD	FIXED	31	13-Mar-2025	21-Apr-2027	2Y1M	Sr Unsecured		1,250
		SEK	SWEDISH EXPORT CREDIT	USD	FIXED	45	28-Apr-2025	8-May-2028	3Y	Sr Unsecured		1,750
	Supra	EIB	EUROPEAN INVESTMENT BANK	CAD	FIXED	29	28-Mar-2025	10-Apr-2028	3Y	Sr Unsecured		750
		NIB	NORDIC INVESTMENT BANK	EUR	FIXED	11	14-Apr-2025	23-May-2028	3Y1M	Sr Unsecured		1,000
		NIB	NORDIC INVESTMENT BANK	EUR	FIXED	31	12-Mar-2025	19-Mar-2032	7Y	Sr Unsecured	GRN	750
		EBRD	EUROPEAN BK RECON & DEV	EUR	FIXED	32	13-Mar-2025	22-Mar-2032	7Y	Sr Unsecured	GRN	1,000
		COE	COUNCIL OF EUROPE	EUR	FIXED	33	17-Mar-2025	25-Mar-2032	7Y	Sr Unsecured		1,000
		EIB	EUROPEAN INVESTMENT BANK	EUR	FIXED	32	4-Mar-2025	14-May-2032	7Y2M	Sr Unsecured	GRN	4,000
		EU	EUROPEAN UNION	EUR	FIXED	65	11-Mar-2025	12-Dec-2035	10Y9M	Sr Unsecured		9,000
		EIB	EUROPEAN INVESTMENT BANK	EUR	FIXED	53	2-Apr-2025	15-May-2037	12Y2M	Sr Unsecured	GRN	3,000
		IFC	INTL FINANCE CORP	GBP	FIXED	35	29-Apr-2025	1-Oct-2027	2Y5M	Unsecured		600
		NIB	NORDIC INVESTMENT BANK	HKD	FIXED	-	15-Apr-2025	24-Apr-2028	3Y	Sr Unsecured		500
		IFC	INTL FINANCE CORP	HKD	FIXED	5	29-Apr-2025	8-May-2028	3Y	Sr Unsecured		5,000
		EIB	EUROPEAN INVESTMENT BANK	INR	FIXED	-	24-Apr-2025	2-May-2032	7Y	Sr Unsecured		5,000
		IFC	INTL FINANCE CORP	NOK	FIXED	-	29-Apr-2025	8-May-2028	3Y	Sr Unsecured		1,500
		EIB	EUROPEAN INVESTMENT BANK	NOK	FIXED	6	25-Mar-2025	2-Apr-2030	5Y	Sr Unsecured		3,000
		EIB	EUROPEAN INVESTMENT BANK	NOK	FIXED	-	12-Mar-2025	20-Mar-2037	12Y	Sr Unsecured		1,000
		NIB	NORDIC INVESTMENT BANK	SEK	FIXED	-	6-Mar-2025	13-Mar-2028	3Y	Sr Unsecured		500
		EIB	EUROPEAN INVESTMENT BANK	SEK	FIXED	24	8-Apr-2025	4-Apr-2030	5Y	Sr Unsecured		1,000
		ASIA	ASIAN DEVELOPMENT BANK	TRY	FIXED	-	7-Apr-2025	25-Apr-2028	3Y1M	Sr Unsecured	GRN	1,000
		NEWDEV	NEW DEVELOPM BANK BRICS	USD	FIXED	65	25-Mar-2025	31-Mar-2028	3Y	Sr Unsecured		1,250
		IBRD	INTL BK RECON & DEVELOP	USD	FIXED	35	29-Apr-2025	5-May-2028	3Y	Sr Unsecured		4,000
		EIB	EUROPEAN INVESTMENT BANK	USD	FIXED	32	11-Mar-2025	15-Jun-2028	3Y3M	Sr Unsecured		4,000
		IADB	INTER-AMERICAN DEVEL BK	USD	FLOATING	39	6-Mar-2025	13-Mar-2030	5Y	Sr Unsecured		600
		AFDB	AFRICAN DEVELOPMENT BANK	USD	FIXED	43	11-Mar-2025	18-Mar-2030	5Y	Sr Unsecured		2,000
		ISDB	ISDB TRUST NO 2	USD	FIXED	54	11-Mar-2025	18-Mar-2030	5Y	Sr Unsecured		1,750
		IBRD	INTL BK RECON & DEVELOP	USD	FIXED	42	13-Mar-2025	20-Mar-2030	5Y	Sr Unsecured		6,000
		IBRD	INTL BK RECON & DEVELOP	USD	FIXED	55	29-Apr-2025	6-May-2032	7Y	Sr Unsecured		5,000
		ASIA	ASIAN DEVELOPMENT BANK	USD	FIXED	57	18-Mar-2025	22-Mar-2035	10Y	Sr Unsecured		2,000

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