



Strategy Sweden: On the radar

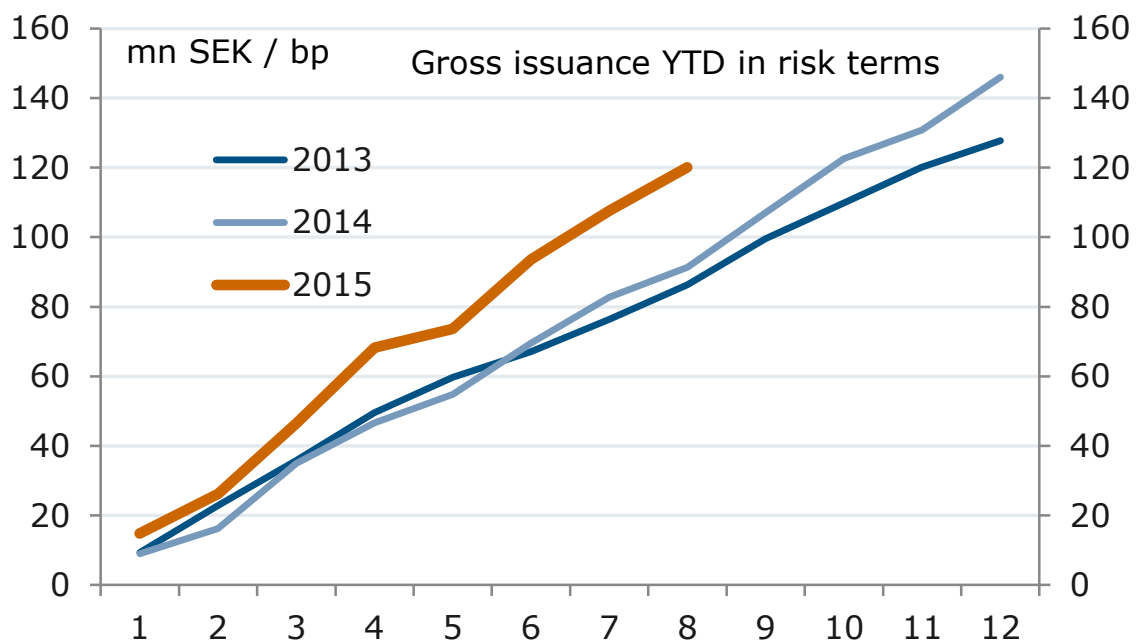
This publication is a summary of interesting market related topics and observations that have been covered and discussed within the Strategy Research Sweden group, but not necessarily yet formalized in form of a specific view or trading idea...

Themes in this edition:

- ***SEK covereds:*** cheap for a reason
- ***Index-linked:*** value in linkers, but timing is not there yet
- ***Rate vol:*** using high SEK vega to go long modest EUR vega
- ***EUR:*** markets may start discounting ECB QE2 in November
- ***Global macro:*** A Chinese Minsky Moment?

28 September 2015

Chart of the week: covered issuance in risk-terms



Source: Nordea Markets

Covered bond gross issuance year-to-date, in risk-terms (dv01), is about twice the size of Riksbanks QE, partly due to longer tenors on issued bonds.

Trades on the radar

Strategy view on direction and curve: Negative policy rate and strong domestic macro motivates a steep curve, but a hesitant Riksbank and dovish foreign CBs together with turmoil in equities/credits create near-term flattening environment. Covereds look cheap and squeeze in govies should continue.

FI Trade Ideas

Index-linked (28-Aug) – long 5y5y BEI (SGBi 3102/3109) Swedish 5y BEI lags global downturn. Low oil prices yet to feed through into CPI and may trigger more easing from Riksbank. Yet we think it make s sense to be cautiously long 10y BEI since it is below fair-value.

Swaps (7-Sep) – pay 10y10y, receive 5y5y. Compared to 5/10y curve and the govie SGB 1058/1053 curve, the SEK swap 10/20y curve looks to flat. Significant positive roll-down.

Country spread (28-Sep) – long SGBs 10y vs core EZ. Swedish 10y has underperformed despite ongoing bond squeeze. No doubt domestic data has been strong, but long-end should not be able to decouple overly much.

FX Trade Ideas

EURAUD (9-Sep) – Get on the right side of the road you pelican!

NOKSEK (9-Sep) – Be like Fleksnes

EURNOK (27-Aug) – Enough is enough for the NOK

JPYSEK (8-Aug) – A yearning for the yen

Previous edition (15 September)

Strategy view on direction and curve: Higher 5y+ rates and a steep curve still the base case, but uncertainty around global business cycle reduces conviction. RB did not ease despite lower inflation, while ECB sent bullish message: near-term curve flattening environment. Covereds look cheap and QE squeezed govies should stay supported.

FI Trade Ideas

ASWs – extend from SGB 1058 to 1059 vs swaps. The new 10y bond looks cheap on the curve. SGB 1059 should have potential to richen vs 1058s in ASW terms over the next 6 months as it rolls closer to being the new 10y deliverable.

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Covered/Swaps – steepen 2/5s covereds, flatten 5/10y swaps. Belly looks depressed. 2y covereds look cheap and 10y swap high. If 0-5y rates would start to discount potentially higher policy rate, may have to flatten a lot to reflect currency strength and head-wind to house prices.

FX Trade Ideas

EURAUD (9-Sep) – Get on the right side of the road you pelican!

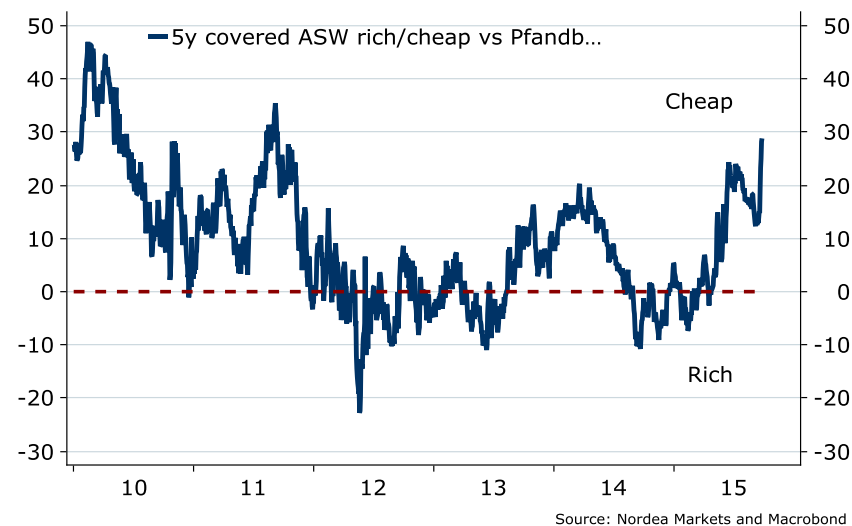
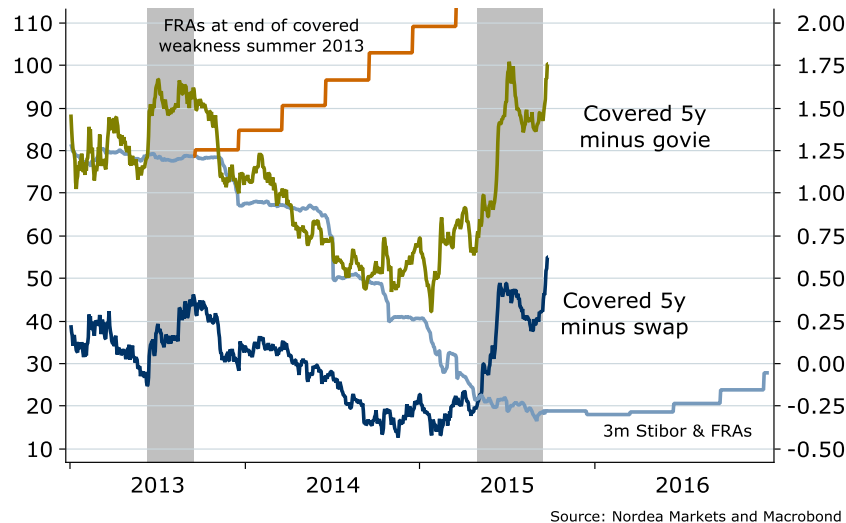
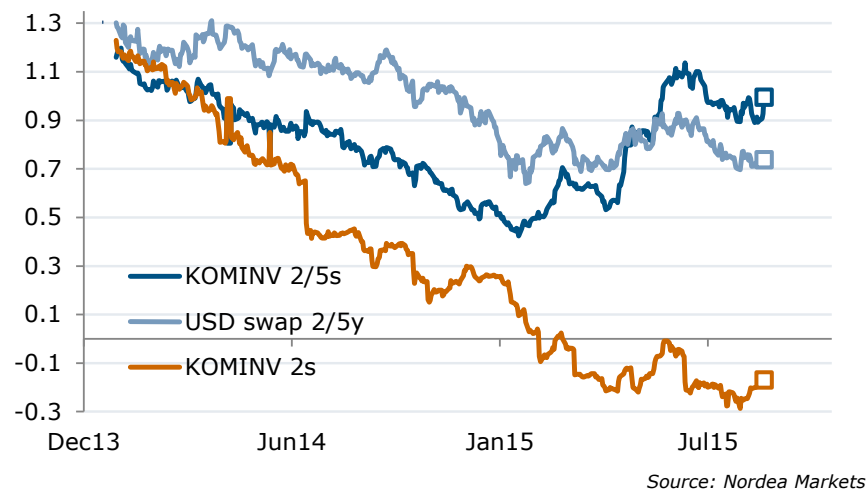
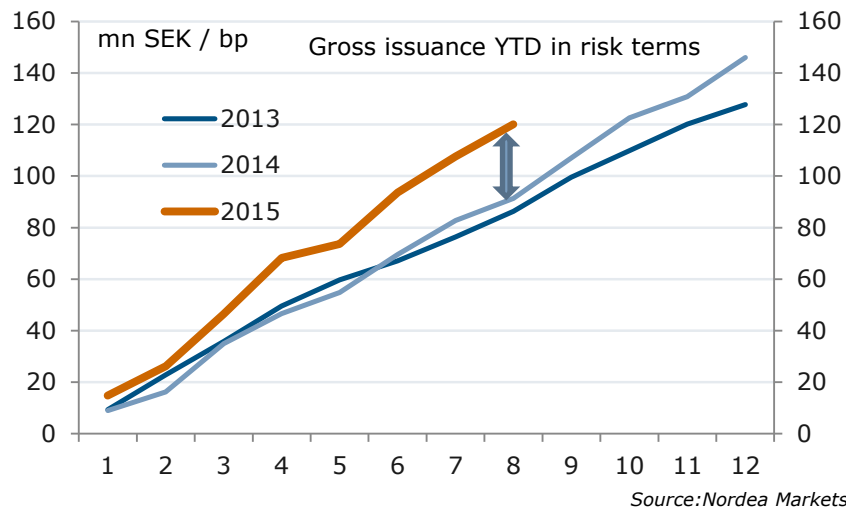
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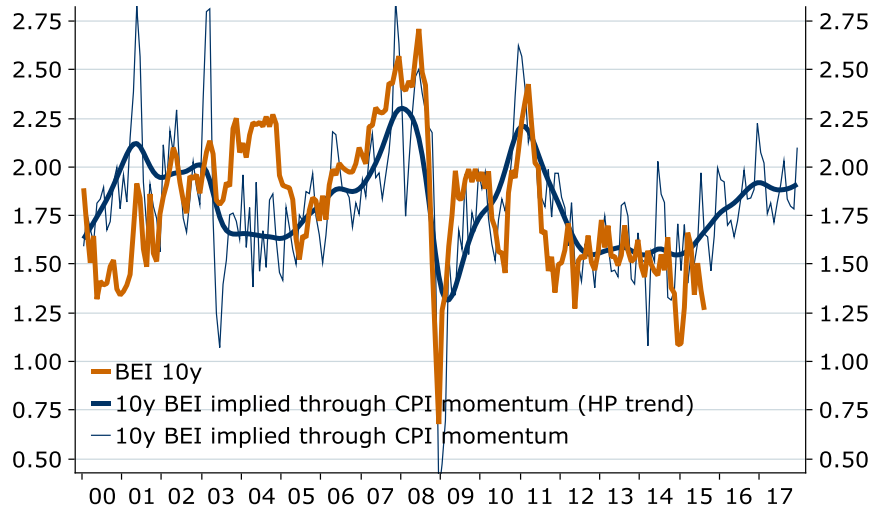
SEK covereds: cheap for a reason

Increased gross issuance, Riksbank "slamming the door" on covered QE and global credit risk-aversion have pulled spreads wider. SEK 5y covereds now look ~30 bps cheap compared to Pfandbriefe despite the Swedish m-mkt curve has flattened and price a probability of further easing from Riksbank. Well worth noting is that the Kommuninvest gross issuance YTD is close to target, but still has a curve slope that is equal to the covered curve: extensions or flatteners in Kommuninvest a good alternative to covereds

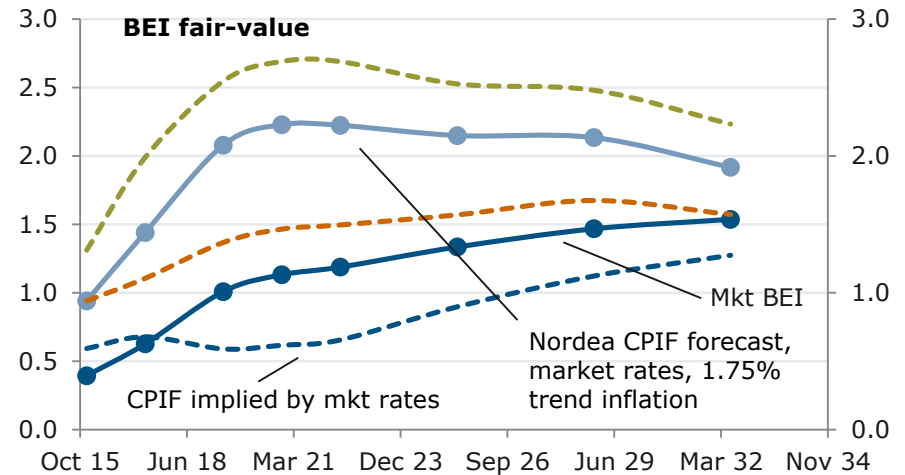


Linkers: value in linkers, but timing is not there yet

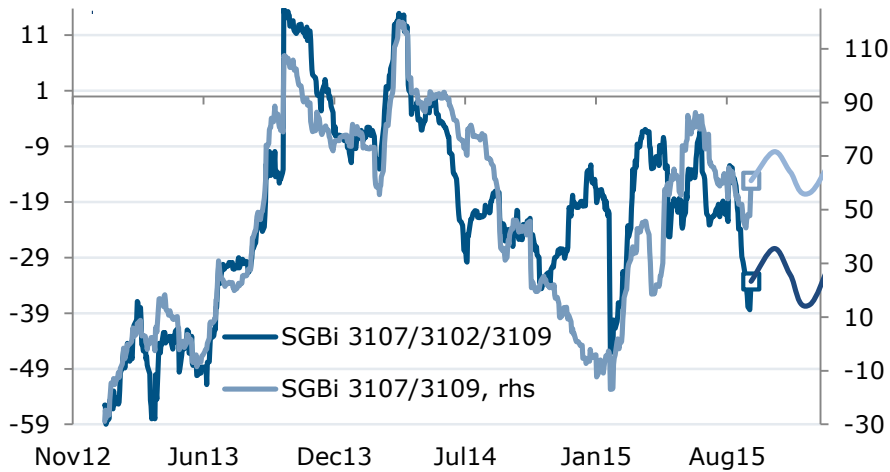
Linkers are cheap in a FV perspective, and momentum in CPI should start giving support. Dip in energy prices has neutralized positive carry season (Sep CPI), and possible krona-tantrum add to near-term down side risk. Swedish BEI curve is internationally flat and real curve belly rich. We would rather be long 10y BEI over 5y, alternative add a 3107/02/09 b-fly to a 5y BEI widener



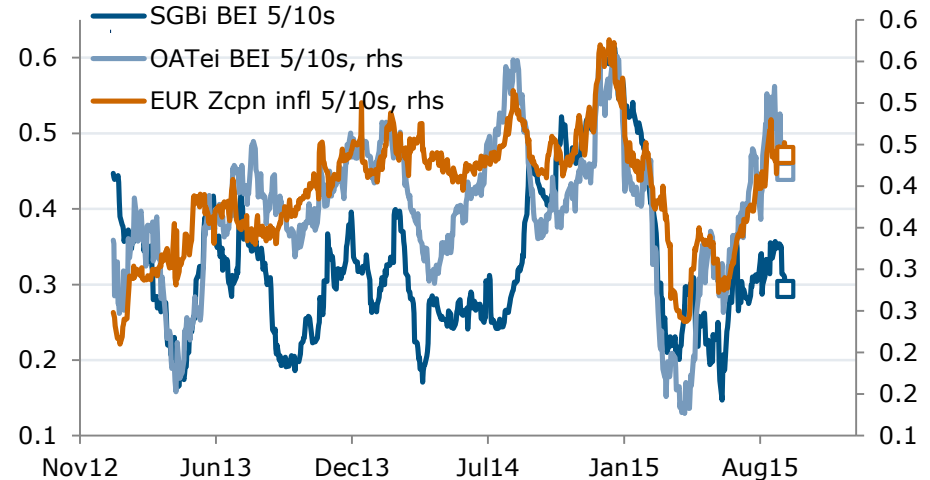
Source: Nordea Markets and Macrobond



Source: Nordea Markets



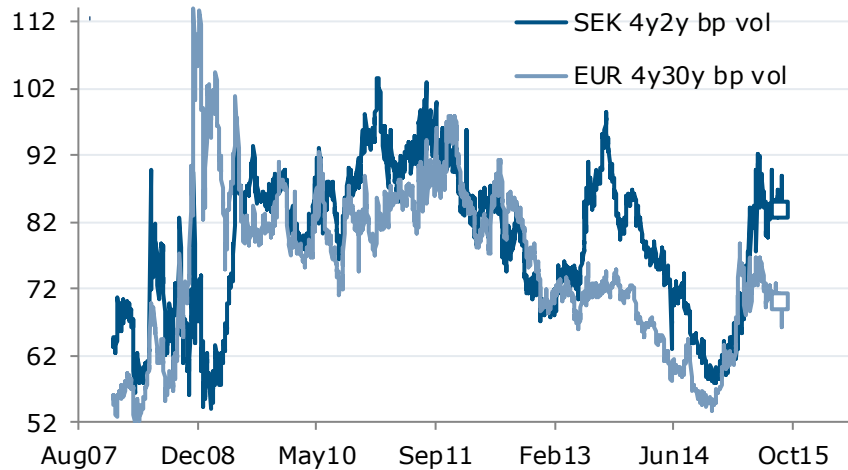
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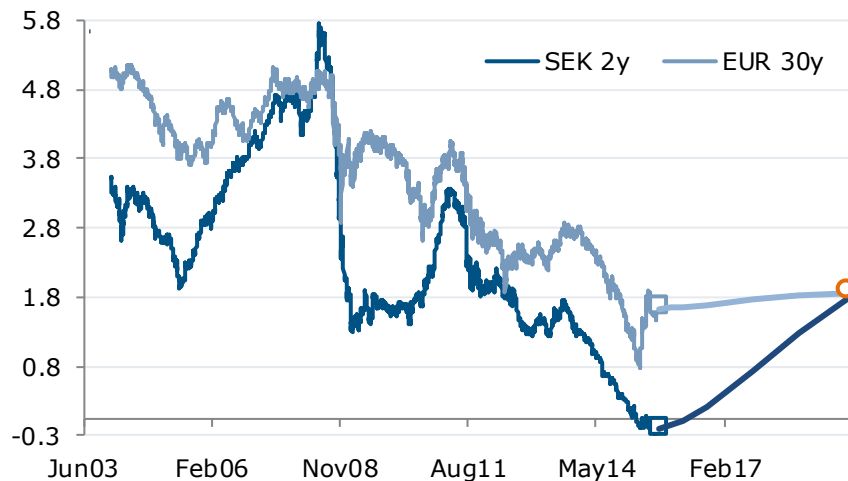
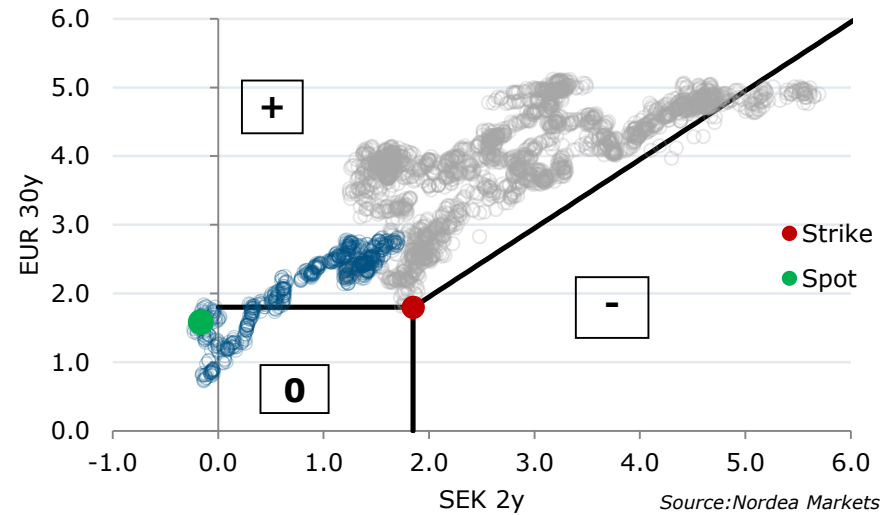
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Rate vol: using high SEK vega to go long modest EUR vega

Bottom left corner SEK vol looks cheap. A steep SEK curve make it possible to strike a payer SEK 4y2y above EUR 4y30y for zero-cost.



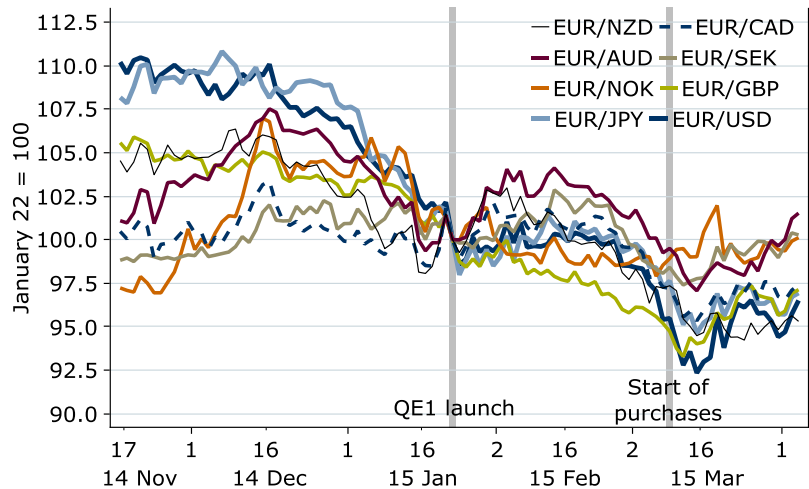
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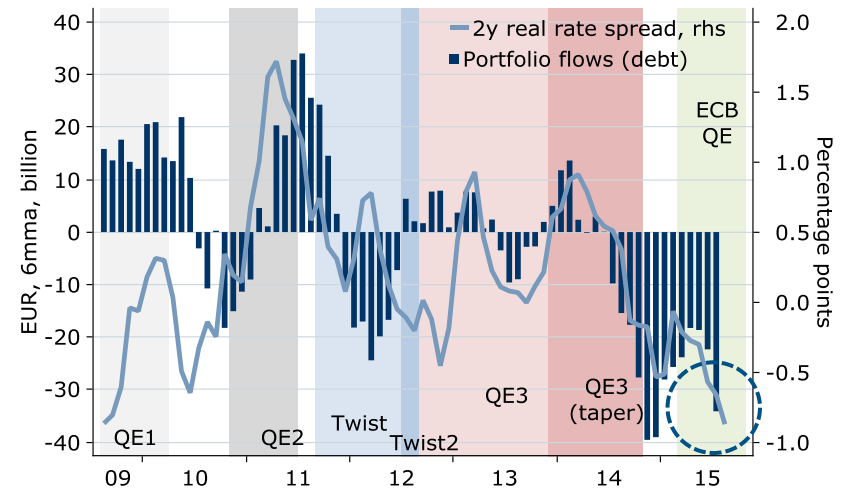
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EUR: markets may start discounting ECB QE2 in November

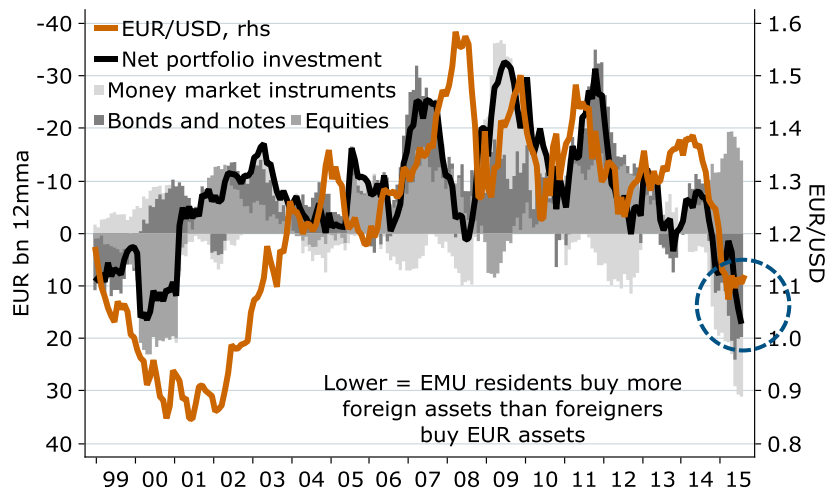
After the dovish pass by the FOMC in September, pressure rises on other central banks to do more. Markets might start to discount ECB QE2 already in November. EA's CA surplus is EUR-supportive, but is mostly recycled as fixed income chases relative real returns. While EA nominal yields are low and the correlation of EUR/USD with the 10y spread is often highlighted, the December-January move lower in EUR/USD coincided with spread tightening...



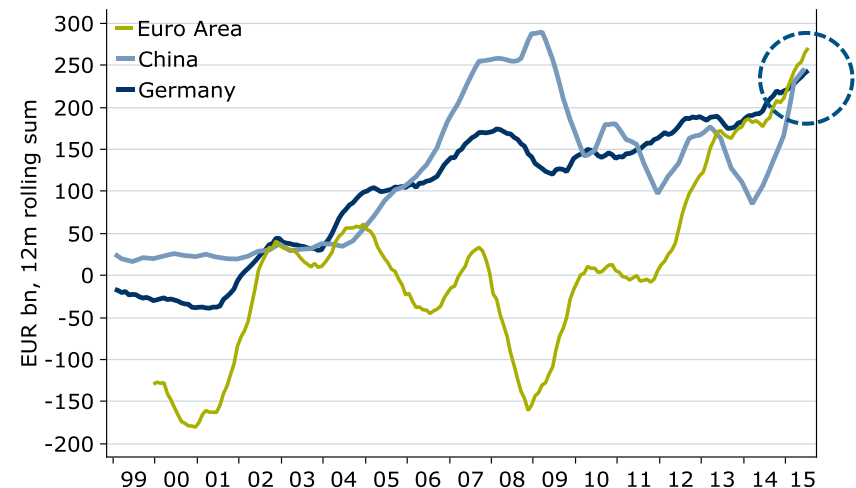
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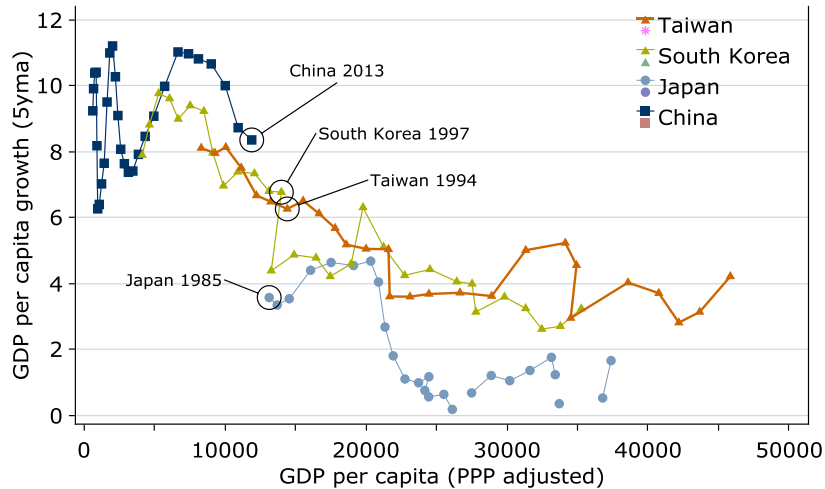
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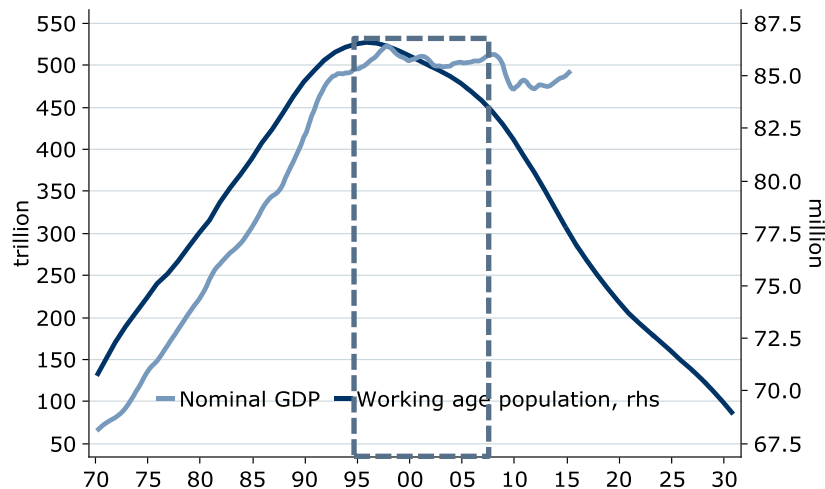
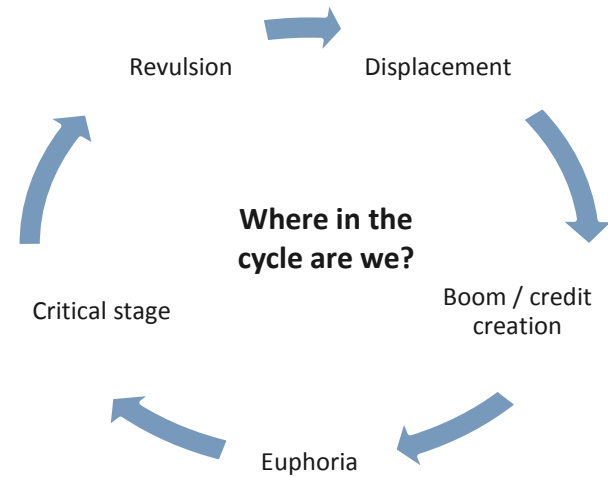
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Global macro: A Chinese Minsky Moment?

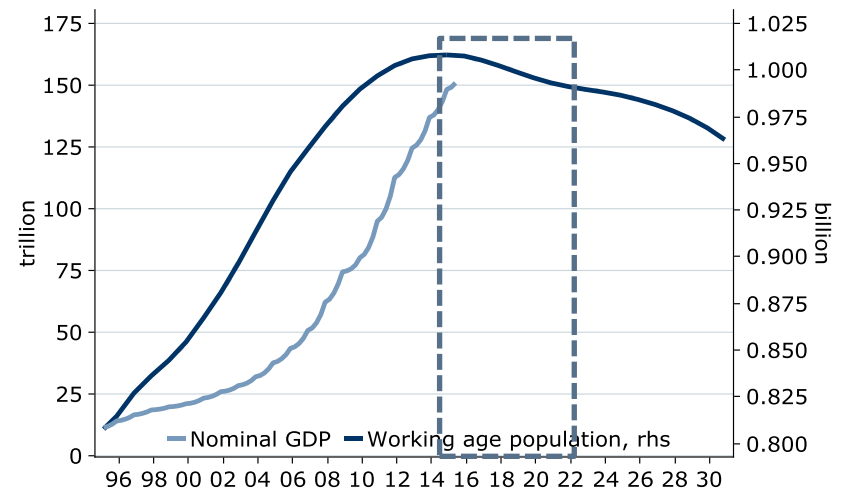
Why shouldn't Chinese productivity growth follow in the footsteps of Taiwan and Korea? If it does, then growth will slow. Furthermore, China's working-age population will peak this year. When Japan's population peaked in 1995, it became impossible to boost nominal GDP sustainably. Thirty years of stability WILL breed instability as a lot of assumptions are put into doubt... Maybe this is what's playing out?



Sources: Nordea Markets and Macrobond



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Thank You!

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