



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...

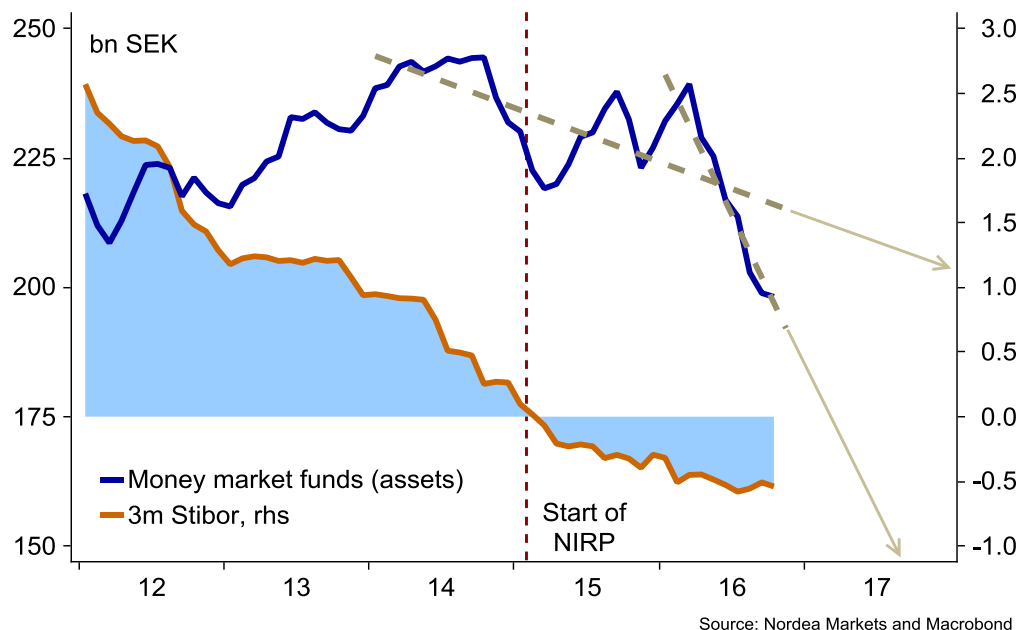
Themes in this edition:

- **Sweden:** what to expect of households' deposits (1 of 2)
- **Sweden:** what to expect of households' deposits (2 of 2)
- **Linkers:** our CPI forecast implies a steeper inflation curve

30 November 2016

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Chart of the week: outflows from money-market funds likely to continue in 2017



Negative interest rates are the likely driver behind the outflows from money-market funds. This trend is likely to continue in 2017 and is a cause for the surge in deposits at banks.

Trades on the radar

Strategy view on direction and curve: We still have a near-term bearish bias to global bonds. Although Swedish 5-10y curve should have a flattening bias over the medium term, an uptick in bond yields will likely make it steeper near-term. Covered bonds supported by less supply, but may be vulnerable on major uptick in yields.

	Trade idea	Date	Comment
New	Linkers: BEI steepener (SGBi 3108/3104)	30-Nov-2016	This publication.
Active	Country spread: pay SEK 10y swap, receive 10y EUR	18-Nov-2016	<u>SEK rates: higher long-end SEK rates relative other markets...</u>
Active	Front-end: receive Mar-17 FRA	18-Oct-2016	<u>Northern Lights Sweden: Riksbank is pulled back in</u>
Active	Direction: short 10y SGB bond future Dec16	23-Aug-2016	<u>Global : are FI markets too complacent?</u>
Remove	Long-end: In SEK swaps, pay 5y5y, receive 10y5y	06-Sep-2016	<u>SEK rates: relative value in the long-end</u> The pricing of the 5,10 and 15y points on the SEK curve no longer sticks out compared to EUR. Although we like flatteners over the medium term, we see near-term steepening risk and with little relative value left we remove this trade after +11bps performance.

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The list of trade ideas is up-to-date around the date of publication. The column "Date" shows the publication date in which the trade idea was initially listed. It does not necessarily reflect our view on the optimal entry date. When a trade is removed from the list, it will be marked accordingly. Obviously, the date of removal/publication does not necessarily reflect our view on the optimal exit date.

Sweden: what to expect of households' deposits (1 of 2)

- Since Riksbank's repo rate and short-term market rates went negative in early 2015, deposits have surged at Swedish banks. The reason is obvious: households receive a 0 % interest rate while many risk-free alternatives (such as money-market funds) offers negative interest rates.
- The future development of deposits is of significant interest since more deposits reduce the need for banks to fund lending in other ways (such as issuing covered bonds). In this article we try to look at the trends and box-in a ball-park number of "excess deposits" for 2017. In order to do this, we run through a number of potential drivers of deposits in 2017.
- **Households' disposable income growth.** Although most forecasters expect a slight decrease in income next year, the change is very small. Income has grown between 3.5 and 4 % for the recent years (wage increase 2.5-3%, population increase 1-1.5%), and the trend is not expected to change much next year. Thus the impact from change in income should not change the growth in deposits.
- **The level of interest rate.** Higher interest rate tends to increase savings and thus increase deposits, all else equal. The level of short-term interest rate is not expected to change much next year and thus in deposits should not change due to change in interest rate.
- **The level of interest rate on other alternatives with similar risk.** The negative interest rate policy (NIRP) by the Riksbank that started in early 2015 has reduced the interest rate earned at for example money market funds. Roughly 40bn SEK has been withdrawn from money market funds since the start of NIRP in a seemingly accelerating phase (see chart 2). **Based on extrapolated trends from 2015 and this year, we assume deposits to increase with ~40bn in 2017 as a consequence of continued outflows from money-market funds.**

Chart 1 – deposits from households at Swedish MFIs

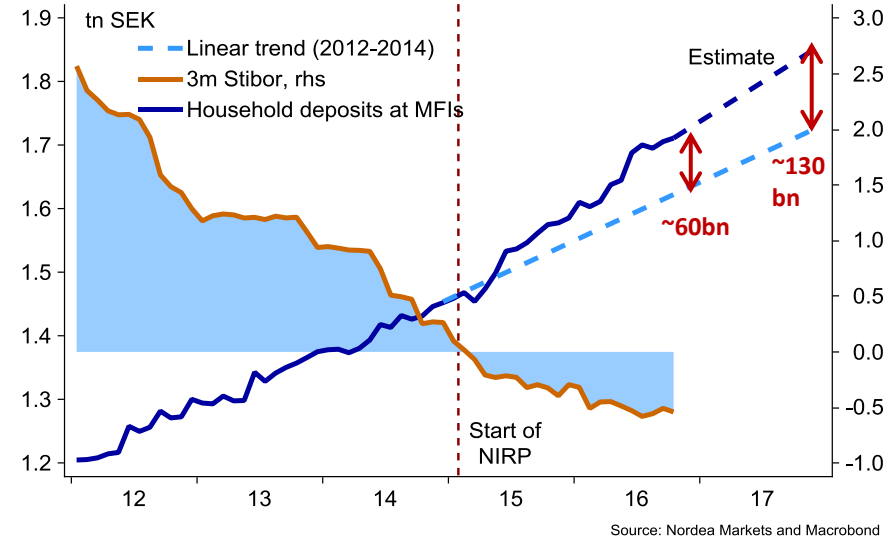
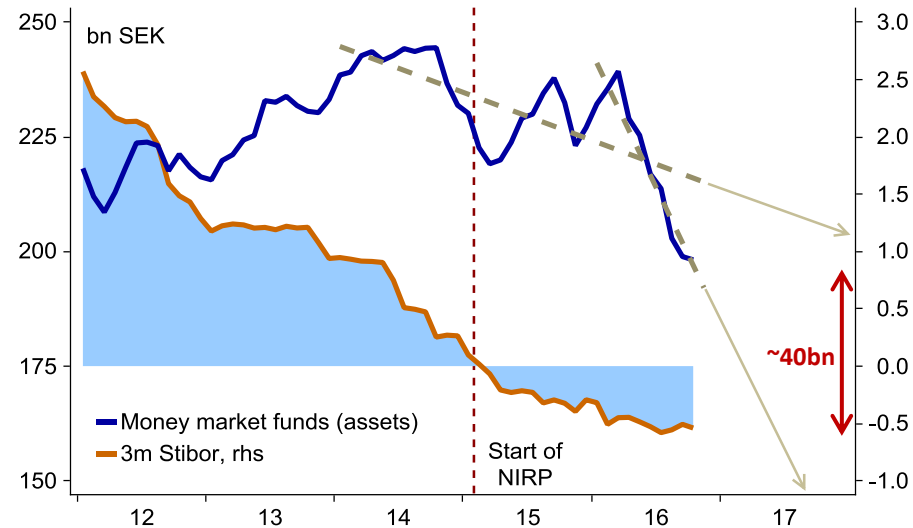


Chart 2 – net assets at SEK money market funds (ex collective pensions)



Sweden: what to expect of households' deposits (2 of 2)

- Tax account.** The interest rate received when depositing money at the tax authority has been +0.56% for the last couple of years. This has created a massive flow of cash into government's coffers, and has reduced the borrowing need for the Debt Office. The interest rate on the tax account will be set to zero next year and thus at par with the rate that households receive on the bank deposit accounts. **We thus expect that the balance at the tax account will be reduced next year by at least 30bn SEK** (see chart 3 that shows the tax account balance for both households and corporations) and that a corresponding amount will be deposited at banks instead.
- If we assume that the "excess deposits" by end 2016 is rolled into 2017 (~60bn) and add the flows from money-market funds (~40bn) and tax accounts (~30bn), **"excess deposits" by end 2017 will be ~130bn SEK.**
- Obviously the numbers above are very rough estimates. A number of BIG uncertainties surround them. How will corporates react to the change in the interest rate at the tax account? Our assumption of 30bn in outflows is on the low side. The flow into risky assets has stalled since 2015 (see chart 4). If households decide to increase their risk, this could lead to outflows from deposits at banks and must be considered a downside risk to our guesstimate. If the deposit rate would be set to a negative number, this could change behaviour significantly and would likely lead to outflows from deposits. On the other hand, there could be demographic factors at play that drive the increase in deposits: people that close in on retirement is likely reducing the risk in their savings (leading to inflow in deposits at banks) and they are also likely downsizing their houses and apartments (thus realizing profits on decades of house price rally, leading to increased deposits). Such demographic factors would likely be persistent into 2017 and thus continued to increase deposits.

Chart 3 – balance at tax account. Both households and corporations

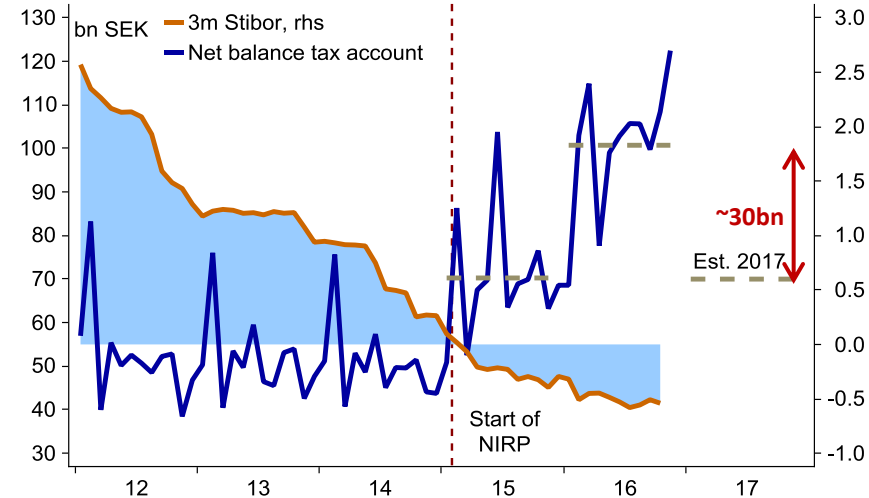
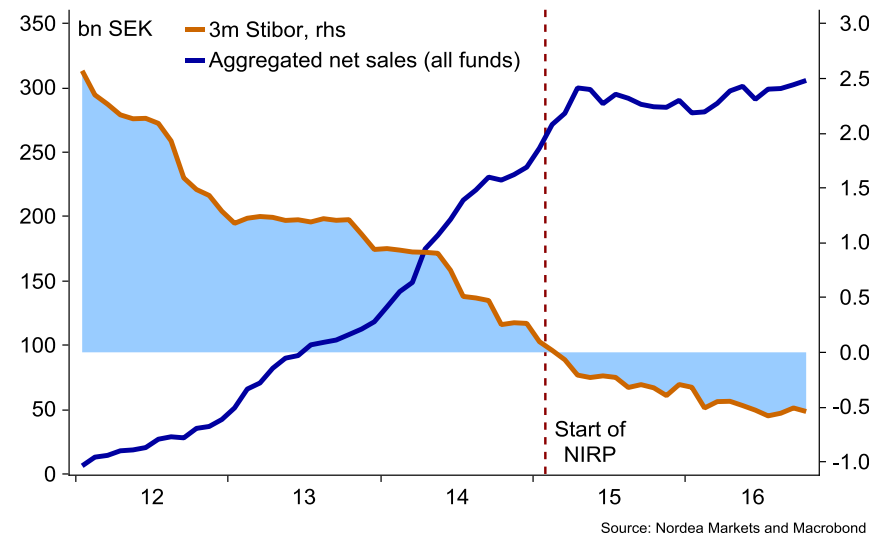


Chart 4 – net flows into all type of mutual funds

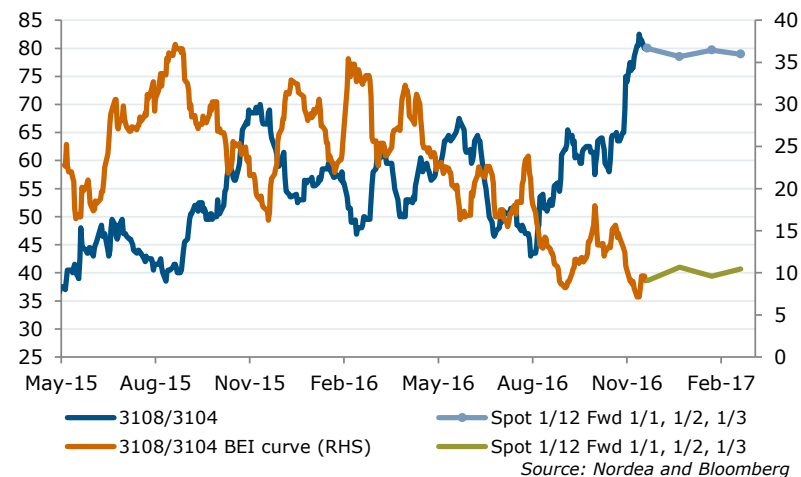


Linkers: our CPI forecast implies a steeper inflation curve

- The current steepness of the SGBi real yield curve is far from fully reflected in the nominal curve. Hence the break-even inflation (bei) curve currently is very flat.
- Bei curve flatness is reasonable when spot inflation is high and/or if inflation is expected to be high in the near term. This is certainly not the story told by Nordea's inflation forecast. Monthly inflation rates for November at +0.04%, December at 0.25% and January at *minus* 0.6% do not justify a historically flat bei curve.
- Although flatness is characteristic for the full 2019/2032 bei curve (SGBi 3110/3111 bei), ***we prefer putting on a 2022/2028 bei steepener***
- The lion part of the small steepness in the bei curve is located to the short-end Jun 2019/ Dec 2020: the SGBi 3110/3102 bei curve is marked at 18 bps mid screen.
- Pricing of SGBi 3102 in the SNDO's market maker switch facility is skewed to favour buybacks of the bond. This measure was recently taken by the SNDO well ahead of actual buybacks will be offered in order to reduce the volume from SEK 36bn to some SEK 20bn, before the bond loses its benchmark status in December 2019.
- Hence SGBi 3108 (Jun 2022) seems to be a good starting point for a bei steepener. Moving out to SGBi 3104 (Dec 2028) increases bei by 10bps only.
- The Riksbank so far has avoided SGBi 3111 (Jun 2032) in their SGBi QE purchases, while SGBi 3104 has been bought on several occasions.
- Thus any potential tilts of the nominal/index-linked relative QE volumes in the December 21 Riksbank announcement should not have any adverse impact on the SGBi 3108/3104 bei position
- Carry is slightly negative on a three-month horizon: minus 1.5 bps based on Nordea's inflation forecast.



Inflation	Oct-16	Nov-16	Dec-16	Jan-17
CPI m/m	0.34	0.04	0.25	-0.64
CPI y/y	1.18	1.39	1.50	1.19
Index	318.00	318.12	318.92	316.86
CPIF y/y	1.40	1.61	1.69	1.45
			Forecast date:	2016-11-15



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Distribution of recommendations (last quarter)

Recommendation	Distribution	Definition
Buy	16.3%	Recommendation to buy
Sell	8.7%	Recommendation to sell
Hold	2.9%	Recommendation to hold
Other	72.1%	Recommendations that include buying and/or selling more than one financial instrument

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Author(s)	Date issued	Recommendation	Valid until
Jerk Matero, Mats Hydén	3/9/2016	Buy KI 1708 (ISIN: SE0003787985) Pay fixed in SEK sw ap maturity 12Aug2017	9/9/2016
Jerk Matero, Mats Hydén	4/18/2016	Break-even inflation tightener Buy SGB 1053 (ISIN: SE0002829192) Sell SGBi 3111 (ISIN: SE0007045745)	8/18/2016
Jerk Matero, Mats Hydén	5/25/2016	Short belly in 2/5/10y barbell Buy SGB 1051 (ISIN: SE0001811399)	9/25/2016
Jerk Matero, Mats Hydén	5/25/2016	Buy KI 2012 (ISIN: SE0005705621) Sell Shyp 1584 (ISIN: SE0003174838)	9/25/2016
Jerk Matero, Mats Hydén	6/21/2016	Buy Sw ed 186 (ISIN: SE0004270007), pay SEK FRA Mar18 (ISIN: SE0006734547)	9/21/2016
Jerk Matero, Mats Hydén	8/16/2016	Sell KI 2012 (ISIN: SE0005705621)	
Jerk Matero, Mats Hydén	8/16/2016	Buy Shyp 1584 (ISIN: SE0003174838) *** close *** Break-even inflation tightener	
Jerk Matero, Mats Hydén	8/16/2016	Sell SGB 1053 (ISIN: SE0002829192) Buy SGBi 3111 (ISIN: SE0007045745)	
Jerk Matero, Mats Hydén	8/23/2016	Short Sw edish 10y bond (ISIN: SE0008290845)	12/31/2016

Recommendation changes in the past 12 months

Author(s)	Date issued	Recommendation	Valid until
Jerk Matero, Mats Hydén	8/25/2016	View on when to roll bond future positions. Sept2016 & Dec2016 bond futures on SGBs with tenors 2y,5y and 10y (6 contracts involved). ISINs: SE0007975552, SE0007975578, SE0007975594, SE0008290829, SE0008290837, SE0008290845	9/16/2016
Jerk Matero, Mats Hydén	9/6/2016	Sell SGB 5y future Dec16 (ISIN: SE0008290837), buy Bobl 5y future Dec16 (ISIN: DE0001135440)	10/6/2010
Jerk Matero, Mats Hydén	9/6/2016	SEK sw ap flattener 5y5y/10y5y: pay fixed 5y5y, receive fixed 10y5y	12/31/2016
Jerk Matero, Mats Hydén	9/15/2016	*** close *** Buy KI 1708 (ISIN: SE0003787985) Pay fixed in SEK sw ap maturity 12Aug2017	
Jerk Matero, Mats Hydén	9/15/2016	*** close *** Short belly in 2/5/10y barbell Buy SGB 1051 (ISIN: SE0001811399) Buy SGB 1052 (ISIN: SE0002241083) Sell SGB 1047 (ISIN: SE0001149311) Buy SGB 1059 (ISIN: SE0007125927)	
Jerk Matero, Mats Hydén	9/15/2016	*** close *** Sell SGB 5y future Dec16 (ISIN: SE0008290837), buy Bobl 5y future Dec16 (ISIN: DE0001135440)	
Jerk Matero, Mats Hydén	9/23/2016	SEK 5/10y flattener (paying fixed rate in SEK 5y benchmarksw ap, receiving fixed rate in SEK 10y benchmarksw ap)	3/31/2017
Jerk Matero, Mats Hydén	9/23/2016	Receiving fixed rate in SEK 5y5y forward starting sw ap, paying fixed rate in USD 5y5y forward starting sw ap	1/31/2017
Jerk Matero, Mats Hydén	9/23/2016	Bond sw itch: value in selling K2002 (ISIN: SE0008040786) and buying K2012 (ISIN: SE0005705621)	10/30/2016

Recommendation changes in the past 12 months

Author(s)	Date issued	Recommendation	Valid until
Jerk Matero, Mats Hydén	10/10/2016	"We see more value in": SGBi 3110 (ISIN:SE0006758736) SGBi 3102 (ISIN:SE0000317943) SGBi 3108 (ISIN: SE0004211084)] SGBi 3104 (ISIN:SE0000556599) "Than in": SGBi 3109 (ISIN:SE0005703550) SGBi 3112 (ISIN:SE0008014062)	11/10/2016
Jerk Matero, Mats Hydén	10/18/2016	Receive SEK FRA March 2017 (ISIN: SE0007587175)	11/8/2016
Henrik Unell, Jerk Matero	10/27/2016	A bought payer sw aption 5 year starting in 3 years	
Jerk Matero, Mats Hydén	11/1/2016	*** close *** Sell Sw ed 186 (ISIN: SE0004270007), Receive SEK FRA Mar18 (ISIN:SE0006734547)	
Alexander Wojt, Jerk Matero, Mats Hydén	11/2/2016	Pay 1y1y SEK vs EUR	
Alexander Wojt, Jerk Matero, Mats Hydén	11/2/2016	Receive EUR 1y1y vs 1y vs pay 2y2y vs 2y (vol w eighted, i.e. roughly 2:1 dv01)	
Jerk Matero, Mats Hydén	11/18/2016	*** close *** "We see more value in": SGBi 3110 (ISIN:SE0006758736) SGBi 3102 (ISIN:SE0000317943) SGBi 3108 (ISIN: SE0004211084)] SGBi 3104 (ISIN:SE0000556599) "Than in": SGBi 3109 (ISIN:SE0005703550) SGBi 3112 (ISIN:SE0008014062)	
Jerk Matero, Mats Hydén	11/18/2016	Pay fixed rate in SEK 10y sw ap, receive fixed in EUR 10y sw ap	1/10/2017
Jerk Matero, Mats Hydén	11/30/2016	Go long BEI SGBi 3104 (ISIN:SE0000556599), go short BEI SGBi 3108 (ISIN: SE0004211084)	2/28/2017
Jerk Matero, Mats Hydén	11/30/2016	*** close *** SEK sw ap flattener 5y5y/10y5y: receive fixed 5y5y, pay fixed 10y5y	

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