



# Strategy Research Sweden: On the radar

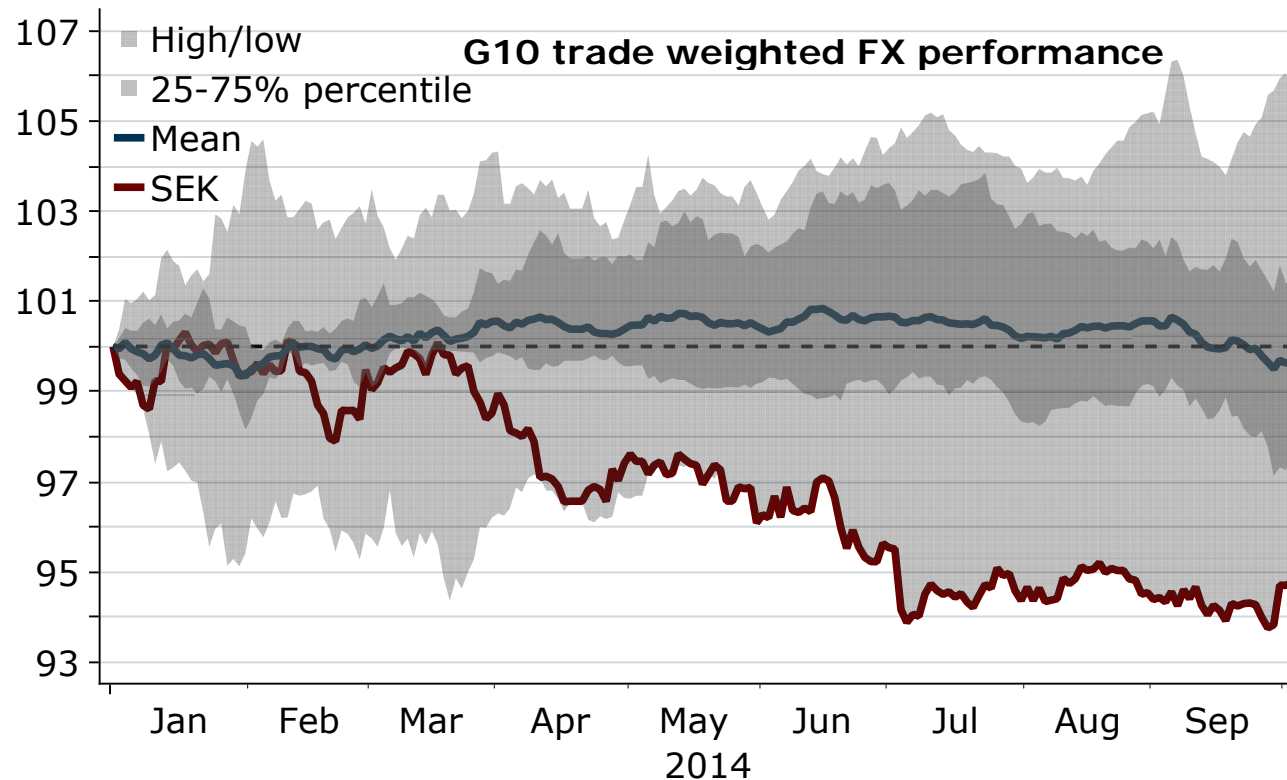
*This publication is a summary of interesting market related topics and observations that have been covered and discussed within the Strategy Research group, but not necessarily yet formalized in form of a specific view or trading idea...*

## **Themes in this edition:**

- **Key views & trades:** flirting with €-QE
- **Asset allocation:** “all trades are identical” syndrome fading...
- **EUR inflation:** inflation markets not buying the FX relief story
- **FX:** the surprising SEK strength
- **Riksbank:** FX intervention more likely than QE
- **SEK rate vol:** possible to sell SEK payers above UFR in ZC strategies
- **Regulation:** new SNDO guidelines marginally linker positive
- **Bond indices:** major changes towards year-end

6 October 2014

## Chart of the week: SEK FX bears took a beating last week after a solid year...



Source: Nordea Markets and Macrobond

*The quarter-end SEK strength early last week surprised markets and we outline a couple of reasons behind the move; including positioning, technicals, data and Norges Bank's FX decision (see more on page 6...)*

# Key views & trades: flirting with €-QE

*We will be out on the roads for our autumn 2014 roadshow over the coming weeks. Below are our key views, discussion topics and trades on the radar...*

## General view:

- There is a macro divergence currently, where the global manufacturing cycle is losing steam, while USA for domestic reasons has powered up. Sweden is in between these trends.
- Fed wants to hike 2015, but it is questionable how far they can go. The strong USD will make it hard for core PCE inflation to rise above 2%.
- ECB's two problems (credit and inflation) is turning into three (weaker growth), which makes "real" QE much more likely.
- The Riksbank must slash its repo rate path once again and historically 10 out of 13 times such moves have been combined with a rate cut. But the story can reverse in 2015.
- EURUSD has dropped due to short rates. An ECB QE premium would suggest further downside.

## Trades to watch

### Euro zone FI:

- 5s10s30s widener
- 5yr5yr vs USD3yr2yr tightener
- Get ready to sell bunds on "real" QE

### Swedish FI:

- 5s/10s forward steepener
- 1yr covereds good rate-cut bet
- 5yr covereds to stay supported vs swaps relative 2yr near-term, but watch US High Yield concerns
- SEK 5s/10s flattener vs 5yr USD receiver and 10yr EUR payer

### FX:

- EURUSD target below 1.20
- EURSEK briefly back to 9.30 on soft
- Riksbank, then drop
- USDSEK target 7.40-7.50
- EURNOK target 8.00

*These trades and views does not necessarily corresponding to the official views or trade recommendations by Nordea, but should rather be seen as the themes of discussion for the upcoming roadshow*

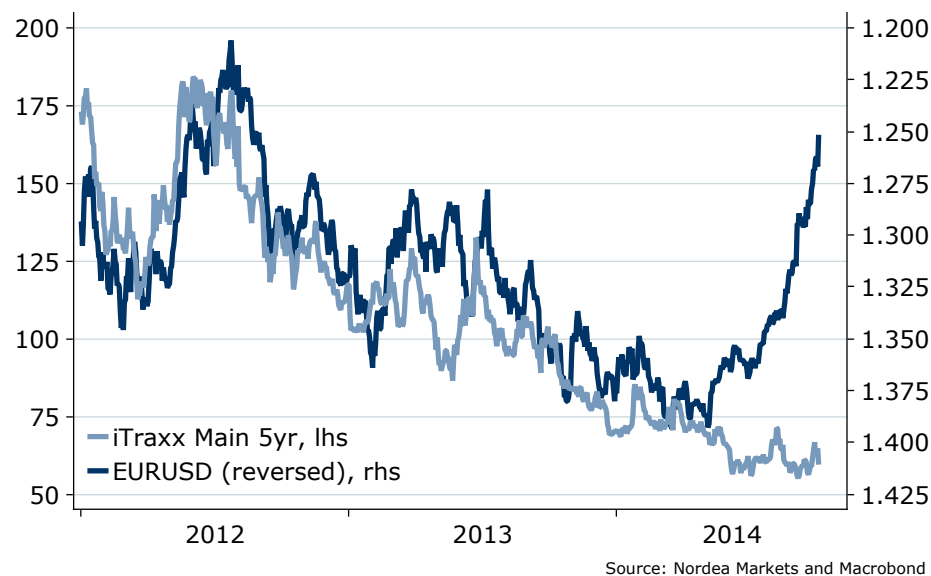
# Asset allocation: “all trades are identical” syndrome fading...



ECB has really managed to turn the trend around in EUR/USD, something that started after the June meeting, but accelerated after the September meeting.

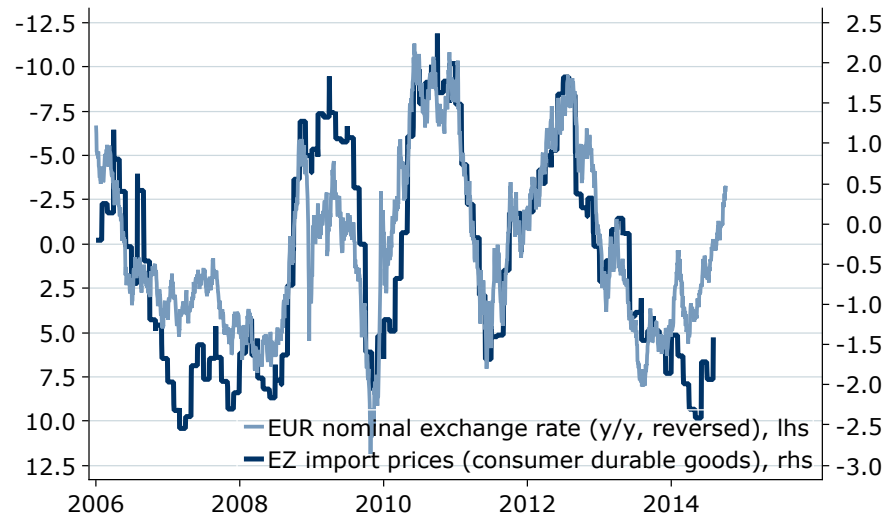
If it continues, it would be a convenient way for the ECB to create inflation, but it also raises several other questions, of which one is whether it will lead to any asset allocation implications, where for instance foreign investors reduce European exposure..?

The US high yield segment is another part of the market that has shown wobbly signs lately, which is something that could spill-over on the relatively illiquid credit market as a whole...



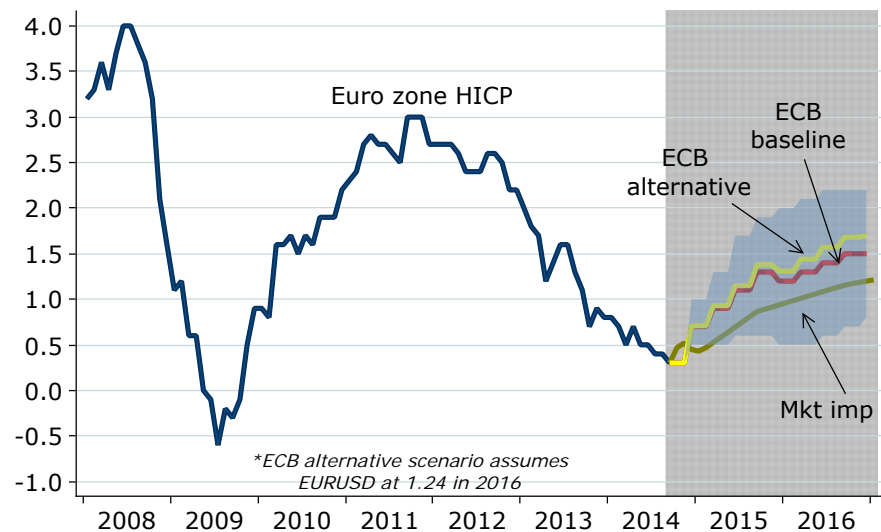
# EUR inflation: inflation markets not buying the FX relief story

Part of the EUR weakness since April should translate into higher inflation expectations (even if oil price & core HICP weigh in the other direction right now) ...



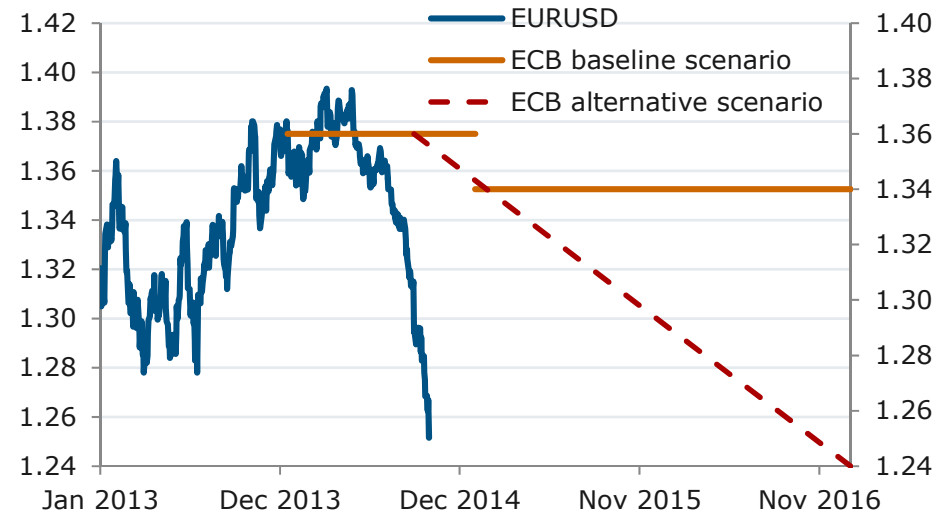
Source: Nordea Markets and Macrobond

... which in turn would raise the inflation projection by 0.2-0.3% in 2015 & 2016 (according to the ECB)



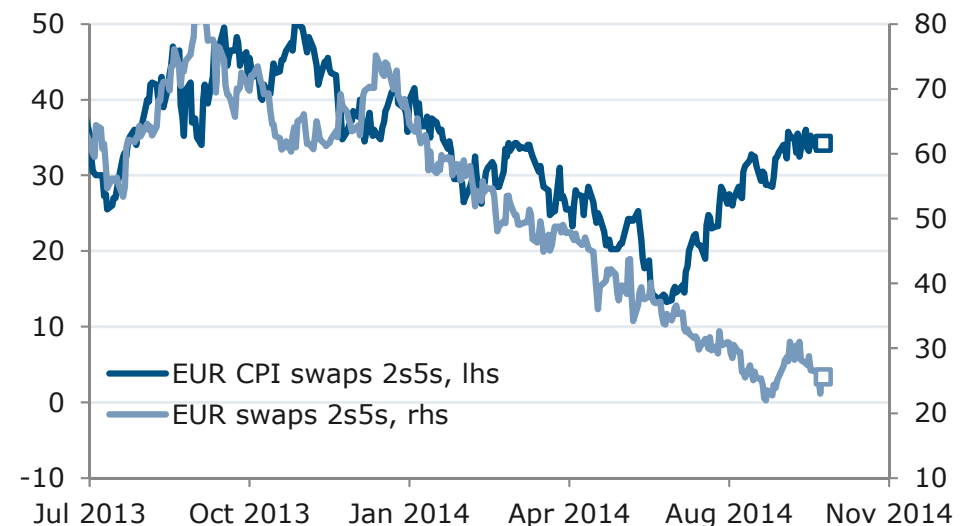
Source: Nordea Markets and Macrobond

... the ECB highlighted the FX in the Sep monthly bulletin, where they outlined the EURUSD alternative scenario of 1.26 in 2016



Source: Nordea & Bloomberg

So far, the FX weakness has done fairly little for short CPI swaps, which have been driven by disappointing spot readings. For more on this, see the comment in ["EUR Markets"](#)



Source: Nordea & Bloomberg

# FX: the surprising SEK strength

*EURSEK made a brisk move lower, from 9.22 to around 9.10, around quarter-end. We think that the drop is a combination of a couple of factors:*

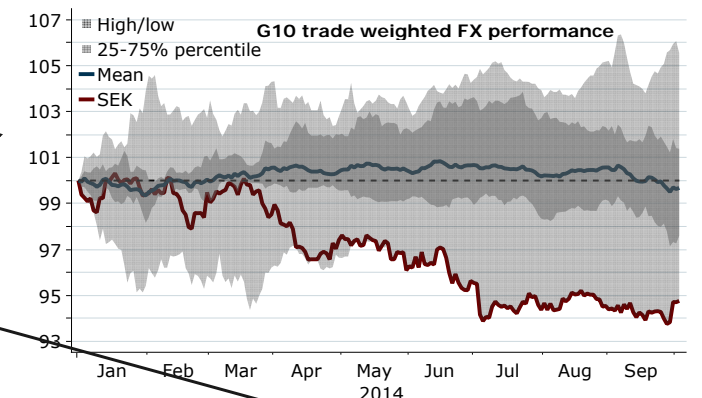
**Stretched positioning:** SEK is the worst performing G10 currency vs EUR this year and positioning turned increasingly short over the summer. The quick EURSEK reversal may partly be the result of a short-squeeze.

**Norges Bank FX purchases:** NOK will for the first time be bought by NB in October. It had been clearly announced previously but the timing was uncertain and resulted in NOK strength, which spilled over into SEK buying. As our NOK FX strategist, Ole-Hååkon Nielsen, has highlighted, there is only a weak correlation between EURNOK and NB's FX purchases over time. For more on this, see our Norwegian colleagues publication "[Norges Bank to buy NOK](#)".

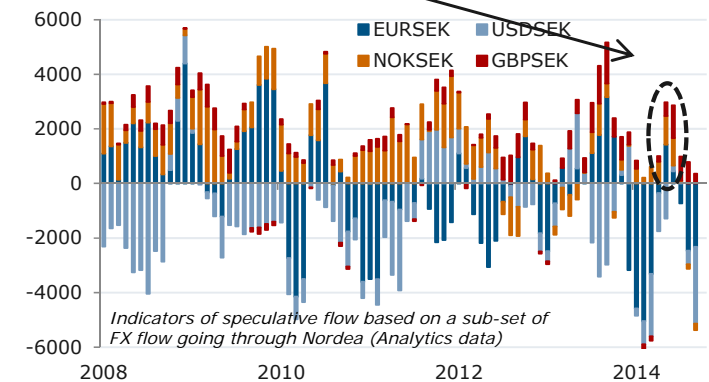
**Seasonality:** Over the past 10 quarters, EURSEK has had a tendency to weaken going into quarter-end (also holds for a longer data history).

**Technical:** EURSEK broke an important trend-line from the lows in April 2013 at around 9.1150.

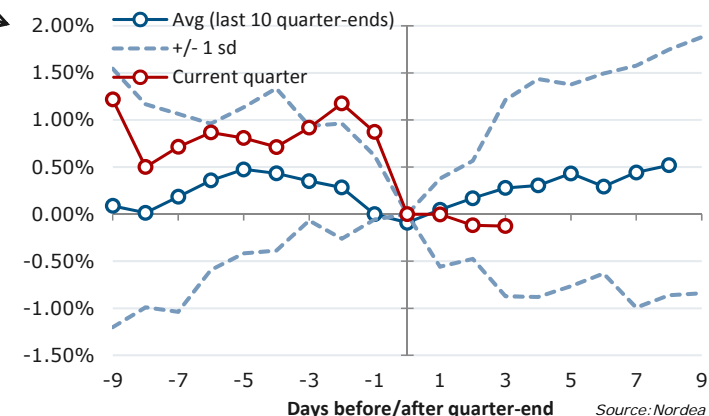
**Data:** The SEK strength was also partly driven by weak Euro zone CPI (Sep 30) and Swedish retail sales and PMI (Sep 29 & Oct 1) surprising on the upside.



Source: Nordea Markets and Macrobond



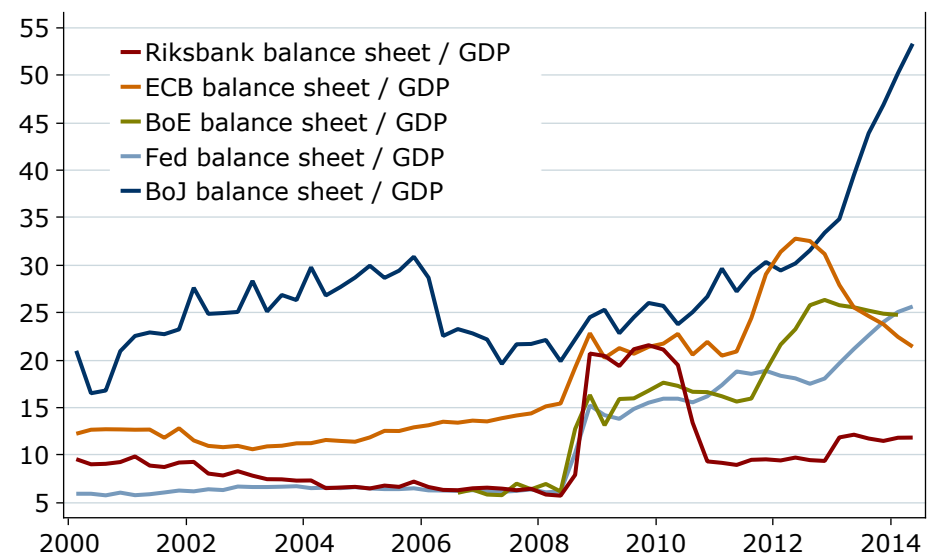
Source: Nordea



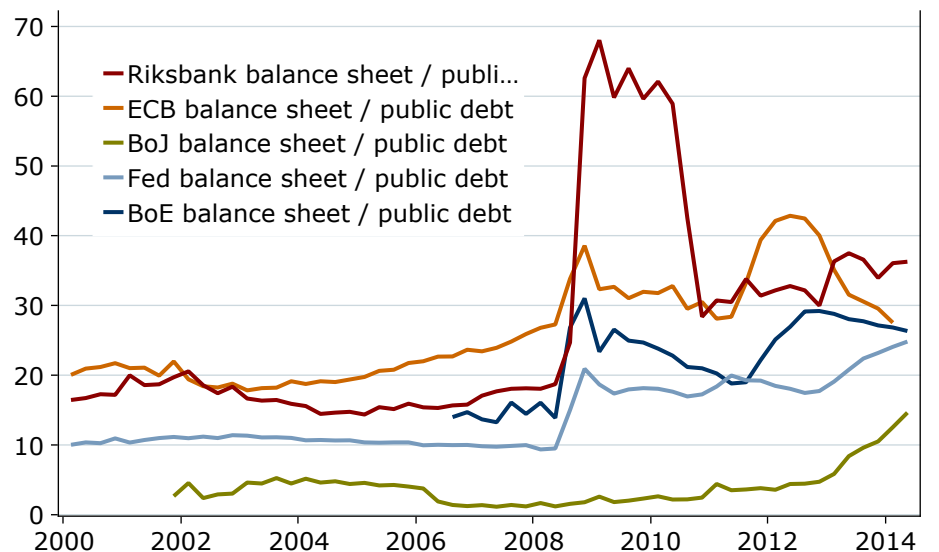
Source: Nordea

# Riksbank: FX intervention more likely than QE

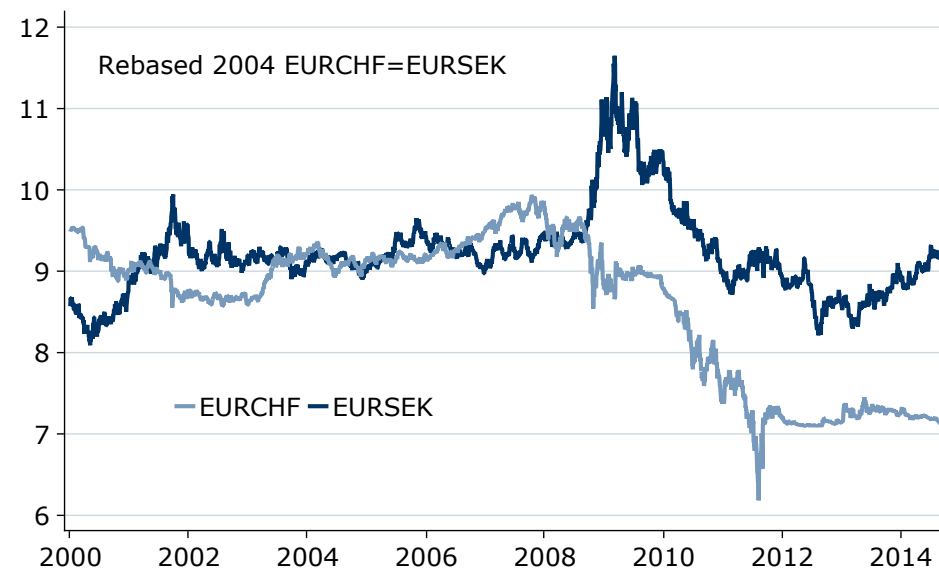
- **Boosting inflation rather than demand speaks for targeting FX rather than bond yields. Small govie bond market makes QE very difficult without involving private debt (covered). EURSEK would need to go south of 8.50 before any action could be expected from Rix**
- The small Swedish public debt is an indication that the Swedish economy is in less need of stimulus through lower bond yields than most economies with QE conducting CBs. It would be difficult or even impossible for the Riksbank to conduct QE through buying government bonds and any bond buying program would most likely need to be focused on covered bonds.
- However, there is no shortage of demand stemming from the household housing sector, and any future, unconventional monetary policy in Sweden is much more likely to be aimed at getting inflation higher and protecting the export industry through FX interventions.
- Comparing EURSEK to EURCHF, it seems as the SEK would need to strengthen significantly from current levels before FX interventions would be an option for the Riksbank.



Source: Nordea Markets and Macrobond



Source: Nordea Markets and Macrobond



Source: Nordea Markets and Macrobond



## SEK rate vol: possible to sell SEK payers above UFR in ZC strategies

- The SEK 10y swap rate has dropped massively, just like in the Euro zone, but not as much...
- If you look at the 10y point starting in 5y, one can note that the range with positive P/L in a zero-cost 1:2 payer spread is around 2.7% (the current fwd level) to 4.3%
- With the UFR at 4.2 %, this zero-cost strategy should be of some interest to those who are happy to receive SEK 10y swaps above the UFR and have a longer-term horizon in their asset / liability management.





## Regulation: new SNDO guidelines marginally linker positive

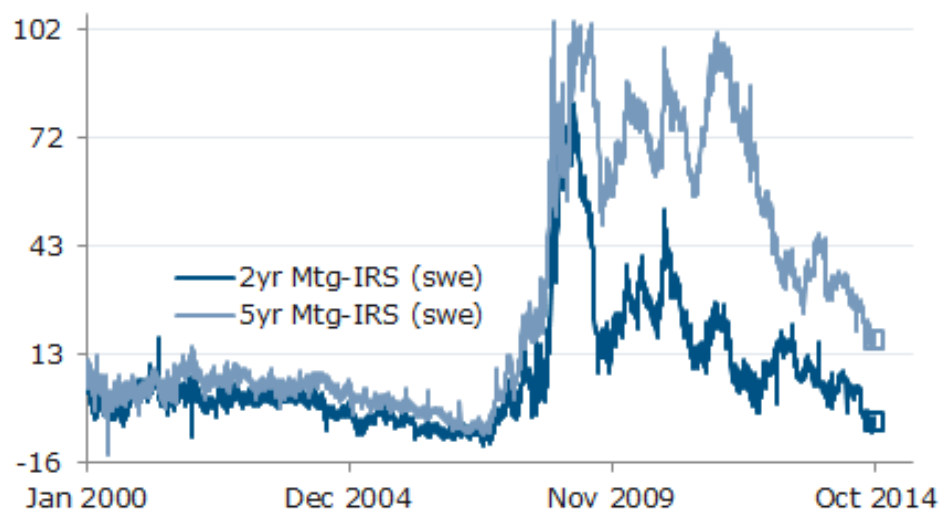
---

- Every year, around the end of September, the national debt office publishes its proposal for the guidelines that the government will decide on in November.
- The guidelines include targets for amounts to be borrowed in SEK denominated nominal debt, index-linked debt and foreign currency debt (typically expressed as percentages of total debt). Also, target intervals for the duration of debt and other strategic management issues (such as taking active positions in FX) may be addressed.
- On the 30th September, the debt office presented its proposal for this year. Main take-aways:
  - The use of foreign currency debt should be guided by the aim of maintaining a broad investorbase and keeping access to different funding currencies. Thus, the target of having 15 % of total debt in foreign currency would be scrapped and the guidelines are proposed to state that the foreign currency debt should be reduced and that by a maximum amount of 30 bn SEK / year. In practice, the debt office aims at reducing the debt by 20 bn SEK / year, which would roughly equal the redemptions of bonds and derivatives.
  - The calculations of duration and debt shares should be made easier by scrapping the internally developed measures and returning to the use of standard duration measures and nominal amounts. This will have no meaningful implication for the management of the debt, but according to debt office's calculations, the outstanding index-linked debt will be closer to the target with the new calculation measures, which (all else equal) will reduce the need to increase issuance. **Thus the proposed new guidelines must be considered marginally positive for Swedish index-linked.**

# Bond indices: major changes towards year-end



Source: Nordea, Macrobond & Bloomberg



Source: Nordea

Some major events in Swedish bond indices are expected in November and December. Most notably, SCBC 131, SGBi 3105 and SHYP 1577 will become shorter than one year and thereby excluded from indices. On November 13-14, SNDO will buy SEK 14.4bn of SGB 1052 and sell 10bn SEK of SGB 1047. For more, see [“OMRX index extension October”](#).

On the linker curve, the index change has been a theme since the summer (see last week's [“On the radar”](#)). That is not the case on the mortgage curve, and the index extension could result in further tightening of 5y covered bonds vs swaps. In particular, the index re-balancing should favor 1578 on the SHYP curve.

Estimated dates for index effects (market open)

	Volume (bn SEK)	Maturity	OMRX	Handelsbanken
Exclusions:				
SCBC 131	12.8	18 Nov 2015	12 Nov 2014	10 Nov 2014
RGKB 3105	23.8	01 Dec 2015	28 Nov 2014	10 Nov 2014
SHYP 1577	69.8	16 Dec 2015	10 Dec 2014	8 Dec 2014
Switches:				
1052 to 1047	14.4/10.0	--	17 Nov 2014	8 Dec 2014

Duration effects on indices if change made today

	SCBC 131	1052 to 1047	RGKB 3105	SHYP 1577
Mtg Bond All Index	+0.02y	--	--	+0.1y
T-Bond Index	--	+0.05y	--	--
Gov Debt Index	--	+0.03y	--	--
Total Bond Index	--	+0.01y	--	+0.5y
Total Market Index	--	+0.01y	--	+0.4y
Real Return Index	--	--	+0.9y	--
Mtg Bond Index	--	--	--	+0.4y

# Thank You!

---

Nordea Markets is the name of the Markets departments of Nordea Bank Norge ASA, Nordea Bank AB (publ), Nordea Bank Finland Plc and Nordea Bank Danmark A/S.

The information provided herein is intended for background information only and 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. This notice is not an exhaustive description of the described product or the risks related to it, and it should not be relied on as such, nor is it a substitute for the judgement of the recipient.

The information provided herein is not intended to constitute and does not constitute investment advice nor is the information intended as an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein has no regard to the specific investment objectives, the financial situation or particular needs of any particular recipient. Relevant and specific professional advice should always be obtained before making any investment or credit decision. It is important to note that past performance is not indicative of future results.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction.

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

Kristofer Eriksson  
[kristofer.eriksson@nordea.com](mailto:kristofer.eriksson@nordea.com)

Fredrik Floric  
[fredrik.floric@nordea.com](mailto:fredrik.floric@nordea.com)

Mats Hydén  
[mats.hyden@nordea.com](mailto:mats.hyden@nordea.com)

Mikael Sarwe  
[mikael.sarwe@nordea.com](mailto:mikael.sarwe@nordea.com)

Henrik Unell  
[henrik.unell@nordea.com](mailto:henrik.unell@nordea.com)

Alexander Wojt  
[alexander.wojt@nordea.com](mailto:alexander.wojt@nordea.com)