

# Nordea

## EUR rates

Wednesday morning call

Anders Svendsen  
Chief Analyst, Fixed Income Sales  
anders.svendsen@nordea.com  
+45 3333 1909 / +45 6122 4549

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# EUR rates: 75/25 for a hike going into the ECB meeting

*Shift long-end received positions vs 6s to €STR*

**Rates have moved sideways** during the past week in the run-up to this week's ECB meeting. A [Reuters story](#) this morning says that a high 2024 inflation projection could tip the balance in favour another rate hike tomorrow. September ECB is up 5bp this morning.

Going into the meeting, markets price:

- 19bp for Sep or 75/25 between a 25bp rate hike and unchanged rates.
- 27bp in total to peak which is Dec '23 or more than a full rate hike.
- 109bp rate cuts from peak to trough or out to 2y of which 65bp rate hikes are priced for '24 and of which 23bp is priced for '24H1

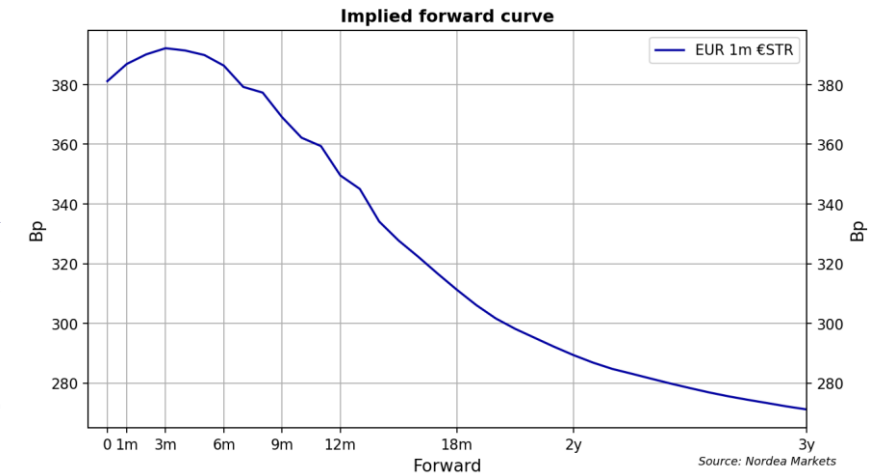
This week's meeting will obviously have impact on the fixings until the Oct meeting, but it may be just as important how new signals affect the curve.

- A dovish hike could move pricing of the first rate cut closer. The peak will have passed.
- A hawkish hold could still lead to lower pricing of Oct and Dec meetings.
- A hawkish hike would have a significant impact on the curve, lifting this year and '24.

**30y €STR/6s trade in negative territory** at -1bp. Long forwards are even more negative.

## Shift long-end rec positions vs 6s to €STR:

1. The received fixed rate is almost the same, while the paid floating rate is 9bp lower in €STR in the current €STR/6s spot break.
  2. However, given that the first 6m fixing on the Euribor swap is known, while the €STR fixings during the same period are only known at the end of the period, the shift requires a not too hawkish ECB.
  3. Negative implied fixings from 12y out are unlikely to be realized.
  4. 7bp carry + roll (6m annualised) weigh against the risks that long forwards become more negative before turning positive again. Long-end 3s6s have remained too low for a long time.
- Shift long-end received positions vs 6s to €STR or pay long-end €STR/6s as a standalone trade. The trade-off between paying spot or forward is that forwards are more deeply into negative territory, but does not provide the same carry positive carry as long spot-starting.



# EUR rates: Central views

*Risky central bank weeks ahead*

- **Outright** Front-end like 1y1y € at range-lows
  - *Momentum*: Higher, especially further out on the curve
  - *View*: Neutral ahead of risky central bank weeks
- **Curve Steeper**
  - *Momentum*: Steeper across the board on rising risk premia and anchored central banks. Holding on to range-highs.
  - *View*: steeper 2s5s and perhaps 2s10s. 10s30s to suffer in risk-off.
- **Curvature** the end of extreme?
  - *Momentum*: Higher belly. 5s and 10s underperform in rates up.
  - *View*: 2s10s to steepen more/flatten less than 10s30s
- **Tenor basis** E/E flattening, especially in the long end
  - *Momentum*: Flattening E/E. Some setback in rising 3s6s forwards
  - *View*: Pay Dec FRA/€STR as risk-off hedge with only small negative roll. Shift long-end received position vs 6s to €STR.
- **ECB Focus** shifting to the duration of high rates
  - *Momentum*: The Sep ECB meeting is priced at +19bp and almost a full hike is priced for Dec
  - *View*: Neutral. A hawkish ECB should open up for bets for more cuts in 2024 and 2025. We stick to our call for an unchanged decision tomorrow.

## Outright

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1y1y €	315.4		-75.3	-0.7	-1.0	-1.2
5y 6s	327.4		-25.1	-0.3	-0.2	-0.2
5y5y 6s	308.5		6.1	0.1	0.9	0.9
10y 6s	318.6		-9.8	-0.1	0.5	0.5
10y10y 6s	297.6		-8.0	-0.0	1.0	1.0
30y 6s	284.2		-8.2	-0.0	1.0	1.0

## Curves

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
2s5s 6s	-44.6		26.7	0.8	1.6	1.6
5s10s 6s	-8.8		15.4	0.8	1.6	1.6
5s30s 6s	-43.2		17.0	0.5	1.4	1.4
10s30s 6s	-34.4		1.6	0.1	1.1	1.1

## Flies/curvature

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
2s5s10s 6s	-35.8		11.3	0.4	0.5	0.6
10s15s20s 6s	11.5		3.3	0.6	0.6	0.3
10s20s30s 6s	16.6		-0.1	-0.0	0.5	0.4
5s10s30s 6s	25.6		13.8	0.5	0.1	0.0

## Tenor basis

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1y E/E	6.2		-9.0	-0.9	-1.0	-0.8
5y E/E	11.3		-16.3	-7.7	-10.4	-10.8
5y5y E/E	11.7		-0.1	-0.0	-2.3	-3.9
10y E/E	11.5		-9.3	-3.5	-6.2	-7.1
5y5y 3s6s	-3.0		-2.5	-0.4	-1.6	-1.9
10y 3s6s	2.0		-2.6	-0.9	-2.9	-3.2
10y5y 3s6s	-15.8		-1.5	-0.3	-1.4	-1.6
30y 3s6s	2.0		-2.6	-0.9	-2.9	-3.2

Timestamp: 12Sep2023. Source: Nordea Markets

\* Note: All structures are received positions. Carry and roll is annualised 3m for 3s, 6m for 6s and €STR. Vol is 50d rlzd.

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## Outright

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1y €	381.5		-8.1	-0.2	0.0	0.1
1y 3s	394.1		-11.8	-0.3	-0.1	0.0
1y 6s	402.7		-9.1	-0.3	-0.4	-0.3
2y €	349.1		-30.0	-0.4	-0.6	-0.6
2y 3s	363.6		-44.5	-0.6	-0.9	-0.9
2y 6s	372.0		-51.8	-0.8	-1.1	-1.1
5y €	305.0		-5.8	-0.0	0.3	0.3
5y 3s	321.0		-21.6	-0.2	-0.0	-0.0
5y 6s	327.4		-25.1	-0.3	-0.2	-0.2
10y €	300.5		1.8	0.1	0.9	0.9
10y 3s	316.6		-7.1	-0.0	0.6	0.6
10y 6s	318.6		-9.8	-0.1	0.5	0.5
20y 6s	309.7		-9.0	-0.0	0.8	0.8
30y 6s	284.2		-8.2	-0.0	1.0	1.0
1y1y €	315.4		-75.3	-0.7	-1.0	-1.2
2y2y €	273.8		-15.3	-0.1	0.3	0.3
4y2y €	275.6		5.6	0.1	1.0	1.1
6y2y €	290.7		8.3	0.2	1.2	1.3
8y2y €	309.2		9.7	0.2	1.2	1.2
10y2y €	324.3		5.6	0.2	1.1	1.1
3y3y €	273.6		3.6	0.1	0.9	1.0
6y3y €	295.1		8.5	0.2	1.2	1.3
9y3y €	320.9		7.1	0.2	1.1	1.1
5y5y 6s	308.5		6.1	0.1	0.9	0.9
10y5y 6s	323.2		-2.8	0.1	0.9	0.9
15y5y 6s	267.9		-14.0	-0.1	1.1	1.1
20y5y 6s	218.4		-7.1	0.0	1.4	1.4
25y5y 6s	193.9		-2.6	0.1	1.5	1.5
10y10y 6s	297.6		-8.0	-0.0	1.0	1.0
20y10y 6s	206.8		-5.0	0.1	1.4	1.4

Timestamp: 12Sep2023. Source: Nordea Markets

## Curves

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1s2s €	-32.3		-21.9	-0.7	-1.2	-2.1
2s3s €	-23.0		9.9	0.7	1.4	1.5
2s5s €	-44.1		24.2	0.8	1.6	1.8
2s5s 6s	-44.6		26.7	0.8	1.6	1.6
5s10s €	-4.5		7.6	0.4	1.2	1.3
5s10s 6s	-8.8		15.4	0.8	1.6	1.6
2s10s €	-48.6		31.8	0.7	1.6	1.7
2s10s 6s	-53.4		42.1	0.9	1.7	1.7
5s20s 6s	-17.7		16.1	0.6	1.4	1.4
5s30s 6s	-43.2		17.0	0.5	1.4	1.4
10s20s 6s	-8.9		0.8	0.1	0.9	0.9
20s30s 6s	-25.5		0.8	0.1	1.5	1.6
10s30s 6s	-34.4		1.6	0.1	1.1	1.1
1y fwd 10s30s 6s	-33.3		0.7	0.0	1.1	1.2
1y1y/2y3y €	-42.0		66.3	1.4	2.3	2.9
2y2y/4y2y €	1.8		21.0	0.7	1.4	1.7
4y2y/6y2y €	15.1		2.6	0.1	1.0	0.8
6y2y/8y2y €	18.6		1.5	0.1	0.3	-0.2
8y2y/10y2y 6s	9.6		-3.8	-0.2	-0.3	-0.2
7y3y/10y2y 6s	12.9		-3.5	-0.1	-0.3	-0.4
3y3y/6y3y €	21.4		4.9	0.2	1.0	0.9
6y3y/9y3y €	25.8		-1.4	-0.1	-0.5	-0.9
4y4y/8y4y 6s	22.8		0.3	0.0	0.4	0.1
5y5y/10y5y 6s	14.7		-8.9	-0.3	0.0	-0.1
10y2y/12y3y 6s	-7.8		-9.9	-0.7	0.5	0.9
12y3y/15y5y 6s	-52.0		-7.0	-0.3	0.8	1.0
10y5y/15y5y 6s	-55.3		-11.2	-0.5	1.0	1.2
15y5y/20y5y 6s	-49.6		6.9	0.4	0.1	-0.0
20y5y/25y5y 6s	-24.5		4.5	0.3	0.0	-0.2
10y10y/20y10y 6s	-90.9		3.0	0.1	0.5	0.5

Timestamp: 12Sep2023. Source: Nordea Markets

# Flies/curvature

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1s2s3s €	-9.3		-31.8	-1.3	-2.1	-3.5
2s3s4s €	-9.5		0.6	0.0	-0.4	-0.8
3s4s5s €	-5.9		4.5	0.7	1.6	1.5
2s5s10s €	-39.6		16.6	0.8	0.8	1.0
2s5s10s 6s	-35.8		11.3	0.4	0.5	0.6
1y fwd 2s5s10s 6s	-19.9		18.3	0.8	1.7	2.7
2y fwd 2s5s10s 6s	-10.0		7.7	0.6	1.3	2.1
5s10s15s 6s	-10.1		13.3	0.8	1.6	1.6
10s12s15s 6s	1.3		1.7	0.6	-0.6	-1.0
5s10s20s 6s	0.1		14.6	0.8	1.1	1.0
10s20s30s 6s	16.6		-0.1	-0.0	0.5	0.4
5s10s30s 6s	25.6		13.8	0.5	0.1	0.0
2s10s30s 6s	-19.0		40.5	0.7	1.2	1.2
10s15s20s 6s	11.5		3.3	0.6	0.6	0.3
12s15s20s 6s	10.2		1.4	0.3	-1.3	-1.5
15s20s25s 6s	3.3		-1.5	-0.4	0.5	0.6
20s25s30s 6s	-1.5		-0.4	-0.2	0.9	1.0
1y1y/2y1y/3y1y €	-29.6		16.0	0.4	0.7	1.3
1y1y/2y3y/5y5y €	-64.0		48.7	1.3	2.1	3.0
2y2y/4y2y/6y2y €	-13.3		18.4	0.4	0.9	1.7
4y2y/6y2y/8y2y €	-3.5		1.1	0.0	1.0	1.2
6y2y/8y2y/10y2y €	3.5		5.6	0.2	1.1	0.4
8y2y/10y2y/12y3y 6s	17.4		6.1	0.2	-1.4	-2.0
10y2y/12y3y/15y5y 6s	44.2		-2.9	-0.1	-0.2	-0.2
3y3y/6y3y/9y3y €	-4.4		6.4	0.2	1.5	1.6
6y3y/9y3y/12y3y 6s	22.8		10.2	0.5	-1.5	-2.4
9y3y/12y8y/25y5y 6s	58.3		-24.4	-0.9	-0.0	0.6
5y5y/10y5y/15y5y 6s	70.0		2.3	0.1	-0.4	-0.8
10y5y/15y5y/20y5y 6s	-5.7		-18.0	-0.7	1.1	1.5
15y5y/20y5y/25y5y 6s	-25.1		2.3	0.1	0.0	-0.0

Timestamp: 12Sep2023. Source: Nordea Markets

# Tenor basis

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1y E/E	6.2		-9.0	-0.9	-1.0	-0.8
2y E/E	9.0		-16.2	-3.0	-4.6	-4.6
3y E/E	10.3		-17.0	-5.5	-8.1	-8.3
4y E/E	11.0		-17.9	-7.1	-9.9	-10.2
5y E/E	11.3		-16.3	-7.7	-10.4	-10.8
10y E/E	11.5		-9.3	-3.5	-6.2	-7.1
15y E/E	10.9		-6.5	-2.4	-5.1	-6.3
20y E/E	9.4		-5.6	-2.1	-4.5	-5.7
30y E/E	7.3		-5.3	-1.8	-4.2	-4.8
5y5y E/E	11.7		-0.1	-0.0	-2.3	-3.9
10y5y E/E	9.4		-1.7	-0.3	-2.4	-4.5
15y5y E/E	3.3		-0.7	-0.1	-1.4	-2.0
2s10s E/E	2.5		6.9	1.2	0.6	-0.6
10s30s E/E	-4.2		4.0	1.8	2.3	3.0

Timestamp: 12Sep2023. Source: Nordea Markets

	Rate	50d range, -1w, last	Carry+roll	Cvx-adj (c+r)/v	+50d z-score	+PCA misprice
1y 3s6s	8.6		2.7	0.2	-0.9	-0.7
2y 3s6s	8.4		-7.3	-0.8	-2.0	-1.8
5y 3s6s	6.3		-3.5	-1.1	-3.4	-3.6
10y 3s6s	2.0		-2.6	-0.9	-2.9	-3.2
15y 3s6s	-3.1		-2.2	-1.0	-3.2	-3.4
20y 3s6s	-6.2		-1.7	-0.7	-3.6	-3.9
30y 3s6s	-8.6		-1.5	-0.5	-2.5	-2.8
5y5y 3s6s	-3.0		-2.5	-0.4	-1.6	-1.9
10y5y 3s6s	-15.8		-1.5	-0.3	-1.4	-1.6
15y5y 3s6s	-18.8		0.3	0.1	-0.9	-1.3
20y5y 3s6s	-15.6		0.3	0.1	-0.8	-1.2
25y5y 3s6s	-15.6		0.3	0.1	-0.8	-1.2
2s10s 3s6s	-6.4		4.7	0.6	0.9	0.4
10s30s 3s6s	-10.6		1.1	0.6	0.6	0.5

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Nordea Bank Abp, Satamaradankatu 5, FI-00020 NORDEA, Finland, domicile Helsinki, Business ID 2858394-9

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