The functioning and outlook of the Swedish bond market

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FINANSINSPEKTIONEN

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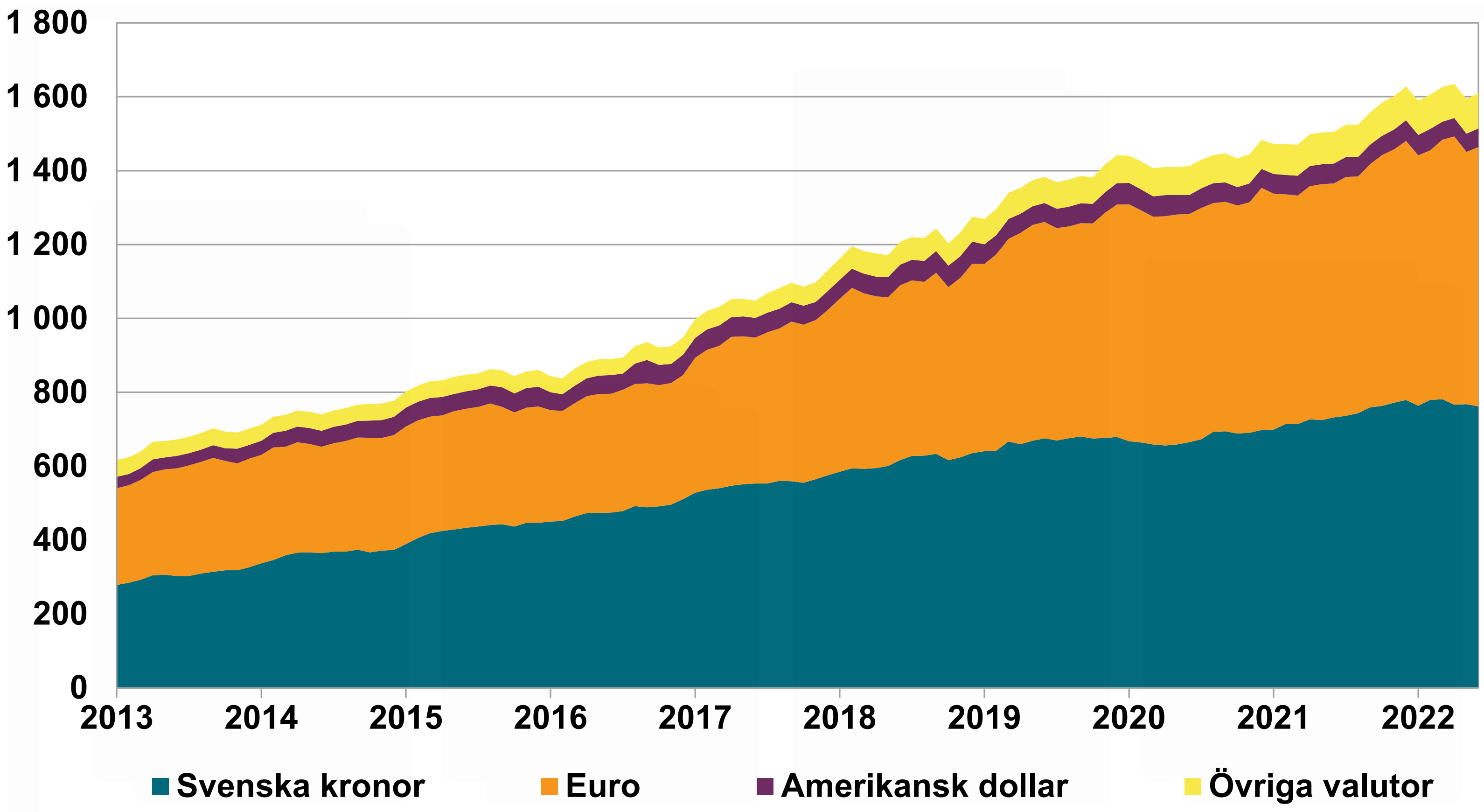
Twin Engines

Rapid increase in corporate bond issuance

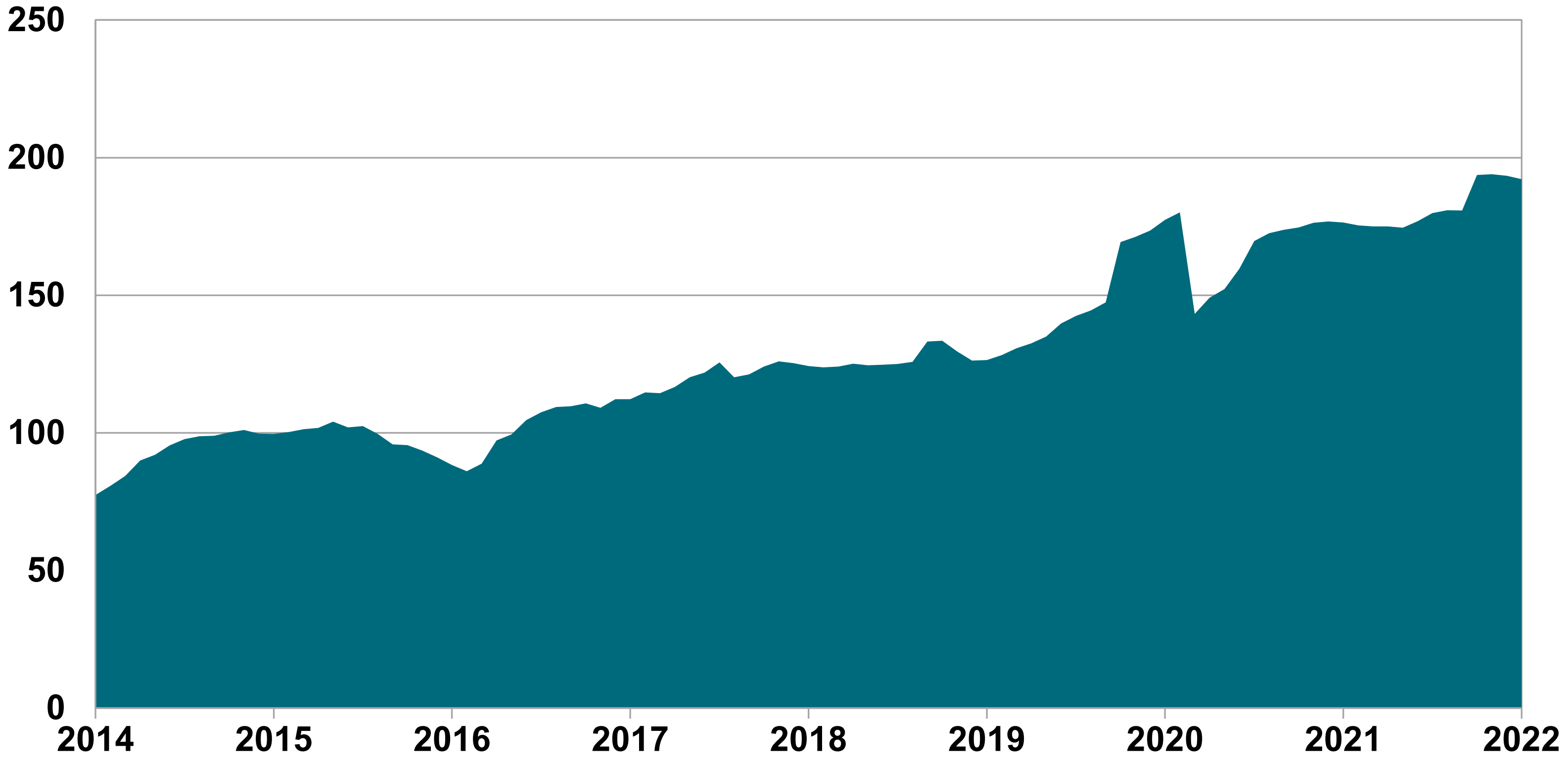
SEK Bill



Anm: Swedish corporate issuers. Outstanding nominal amounts of bonds and commercial paper by currency
Källa: SCB

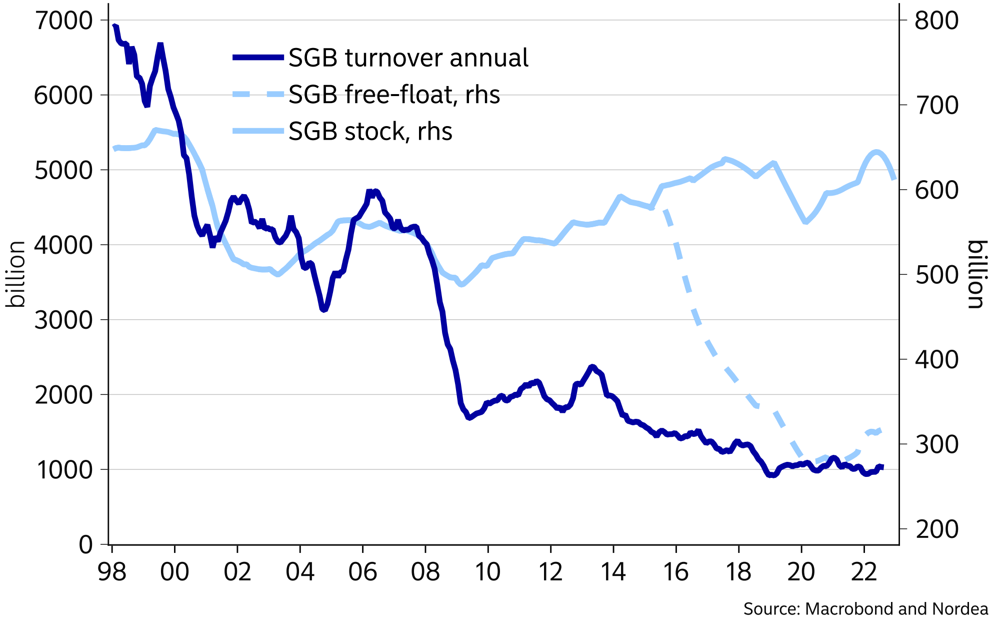
Rise in corporate bond funds AuM

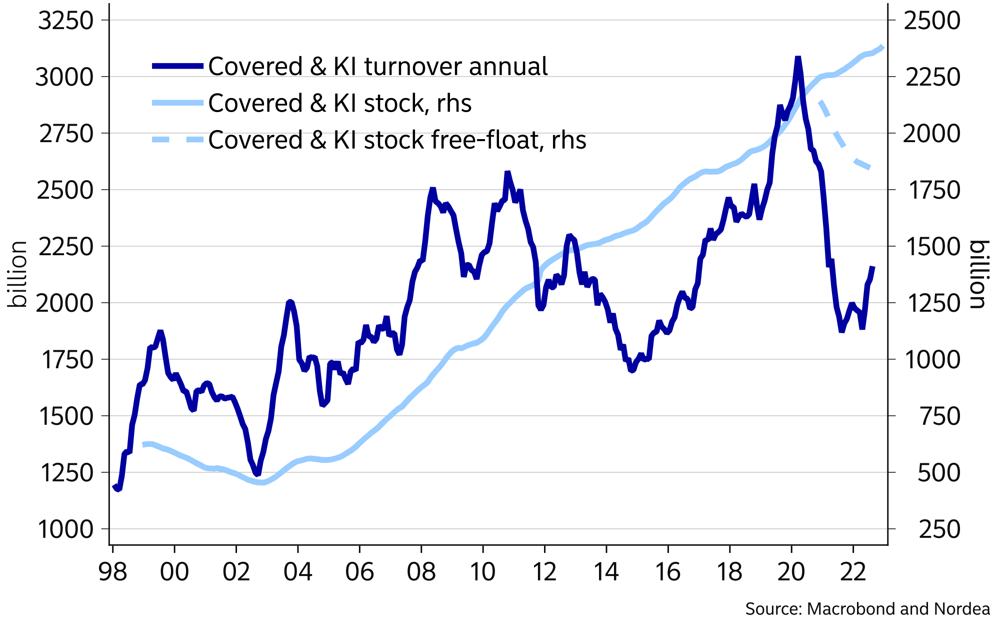
SEK billion



Source: Swedish investment fund association

Turnover and outstanding stock: SGB, covereds, KI





Note: SGB=Swedish Government Bonds; KI= Kommuninvest

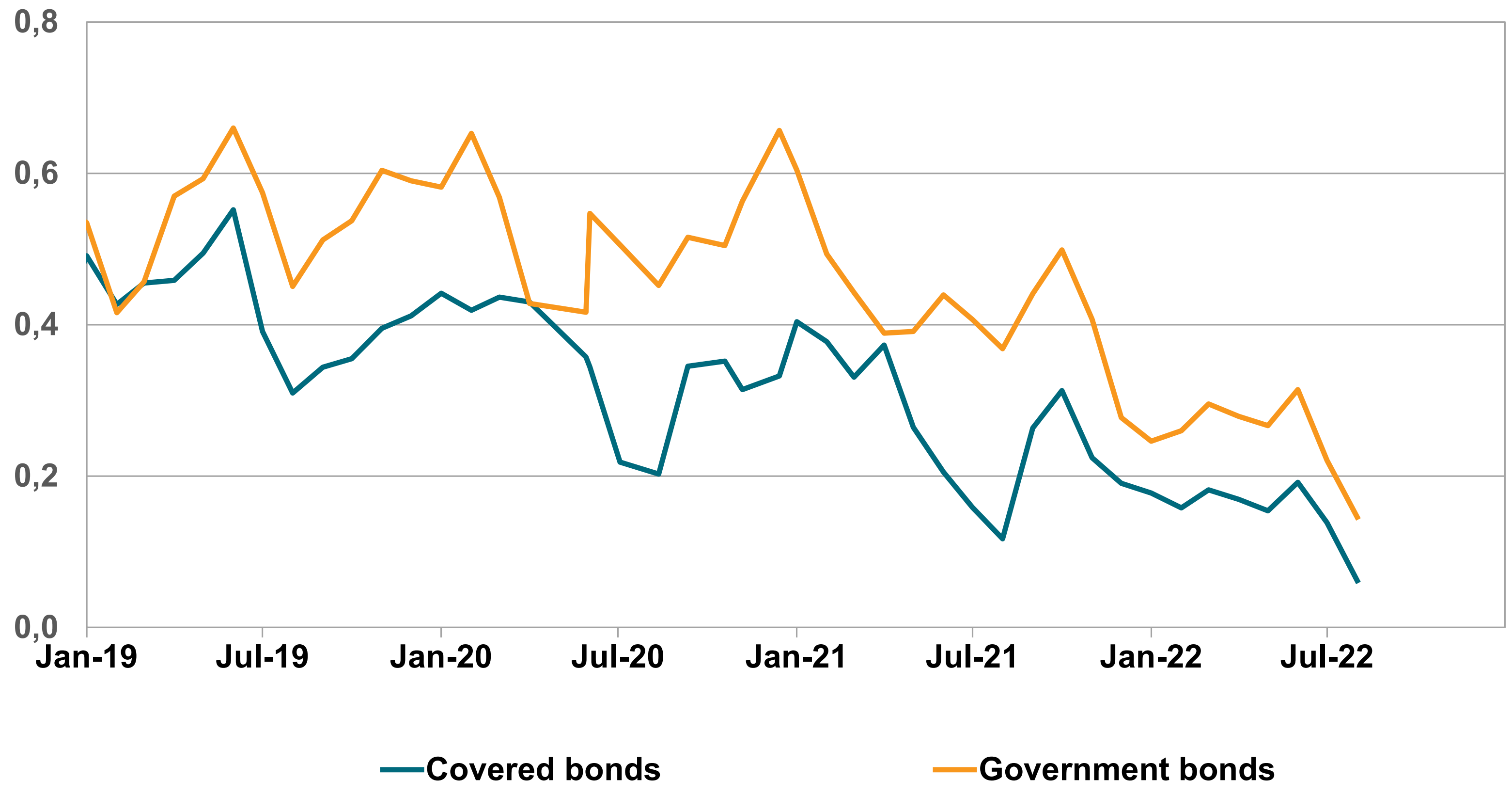
How much market liquidity is sufficient?

Re-allocate risk as required

End investors buying	Intermediaries	Issuers End investors selling

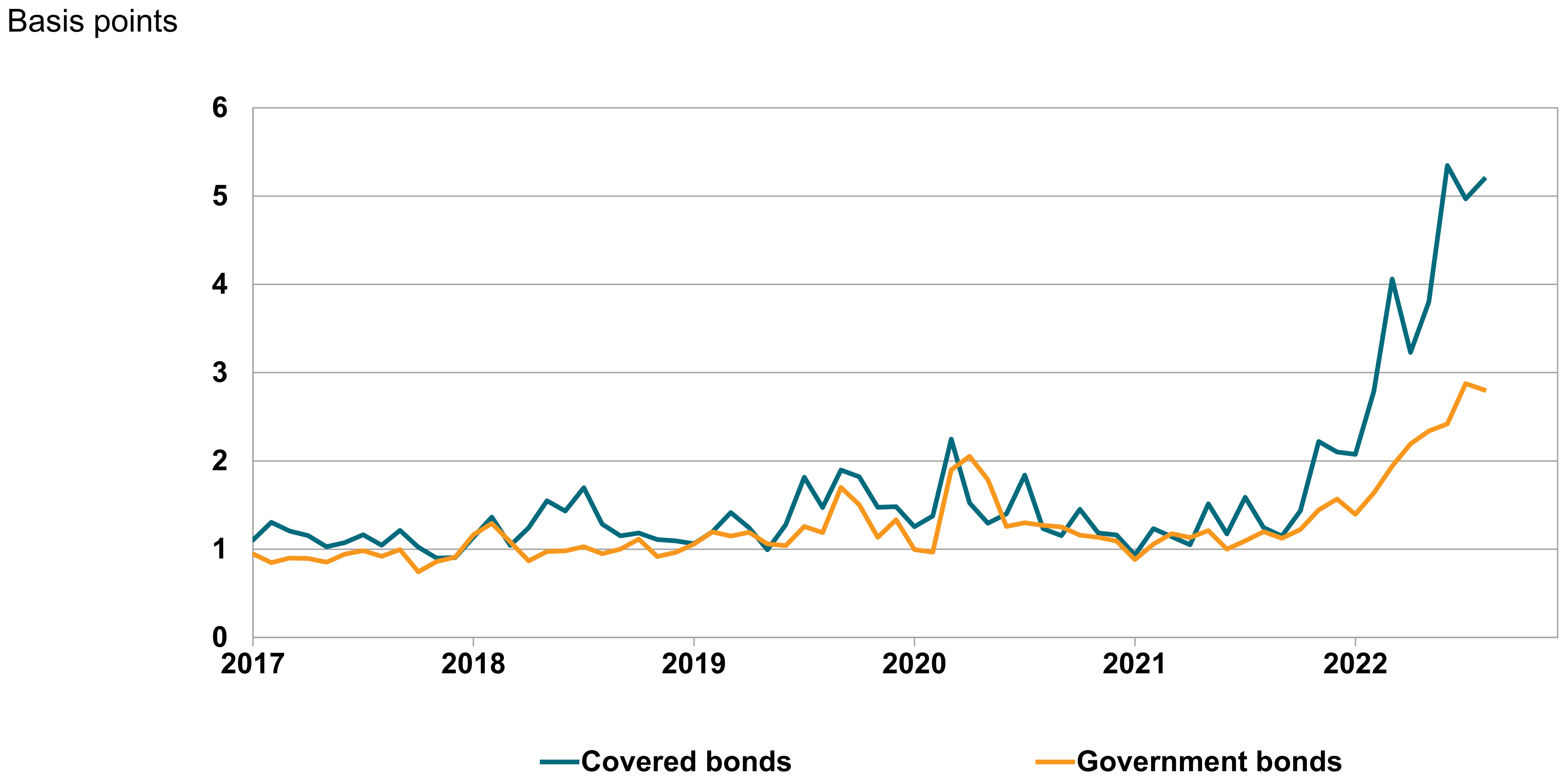
Market liquidity deteriorating

Normalised scale



Sources: FI’s own calculation, Refinitiv Eikon, Swedish National Debt Office and Svenska Handelsbanken Bond Indices.
Note: Liquidity measure as an aggregation of various individual indicators for covered bonds and nominal government bonds with benchmark status. Higher values correspond to higher liquidity. Two months’ moving average.

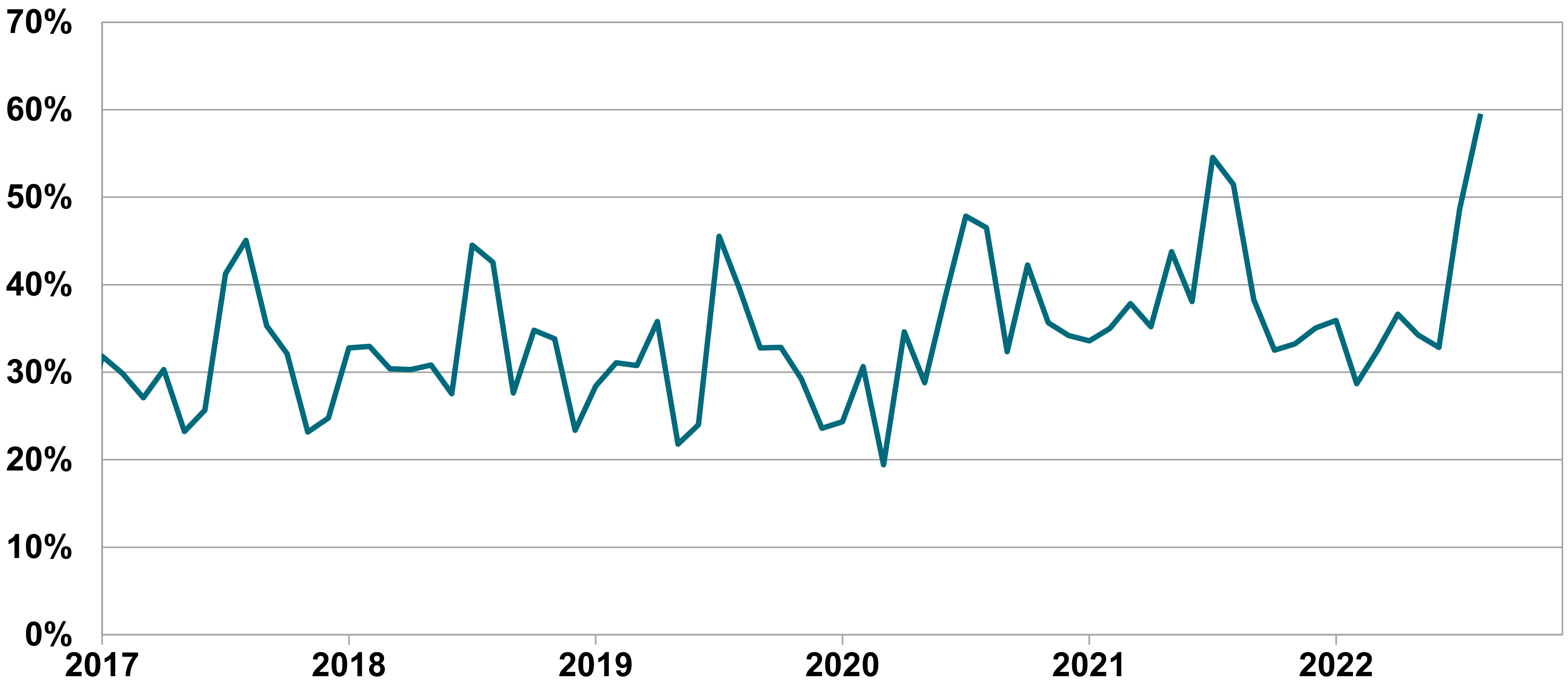
Yield impact (YI)



Source: FI's own calculation, Refinitiv Eikon, Swedish National Debt Office, and Svenska Handelsbanken Bond Indices.
Note: The yield impact in basis points (average per month) per transaction for covered bonds and nominal government bonds with benchmark status. Higher values correspond to lower liquidity.

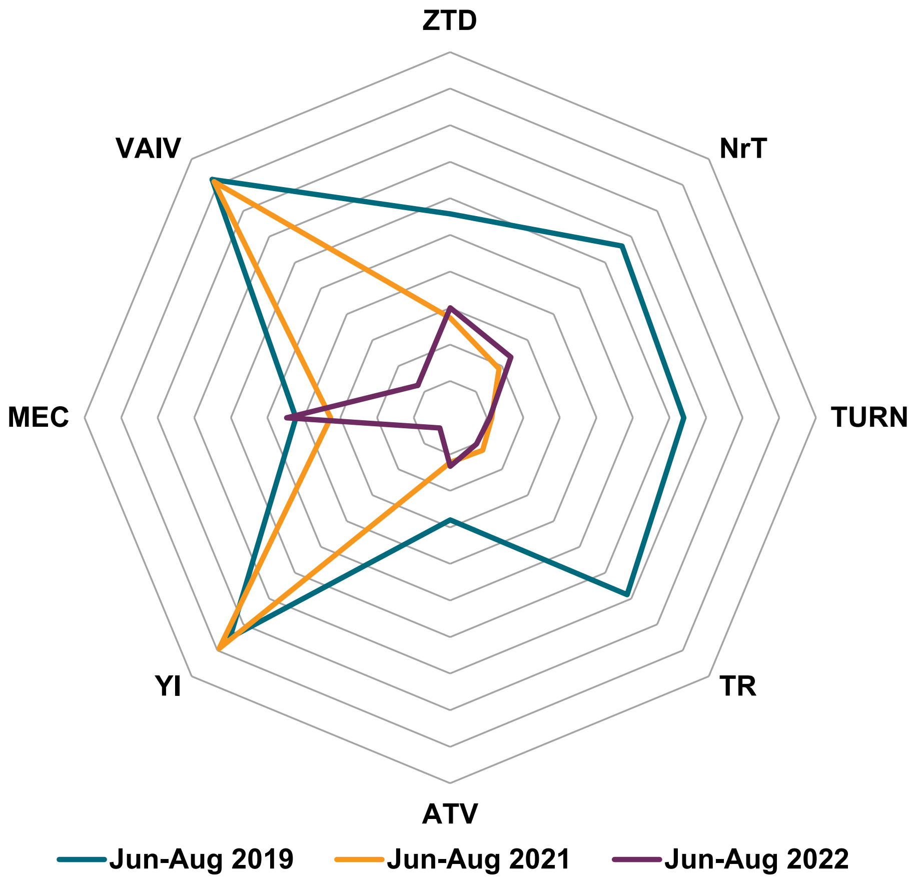
Zero-trading days (ZTD) covered bonds

Per cent



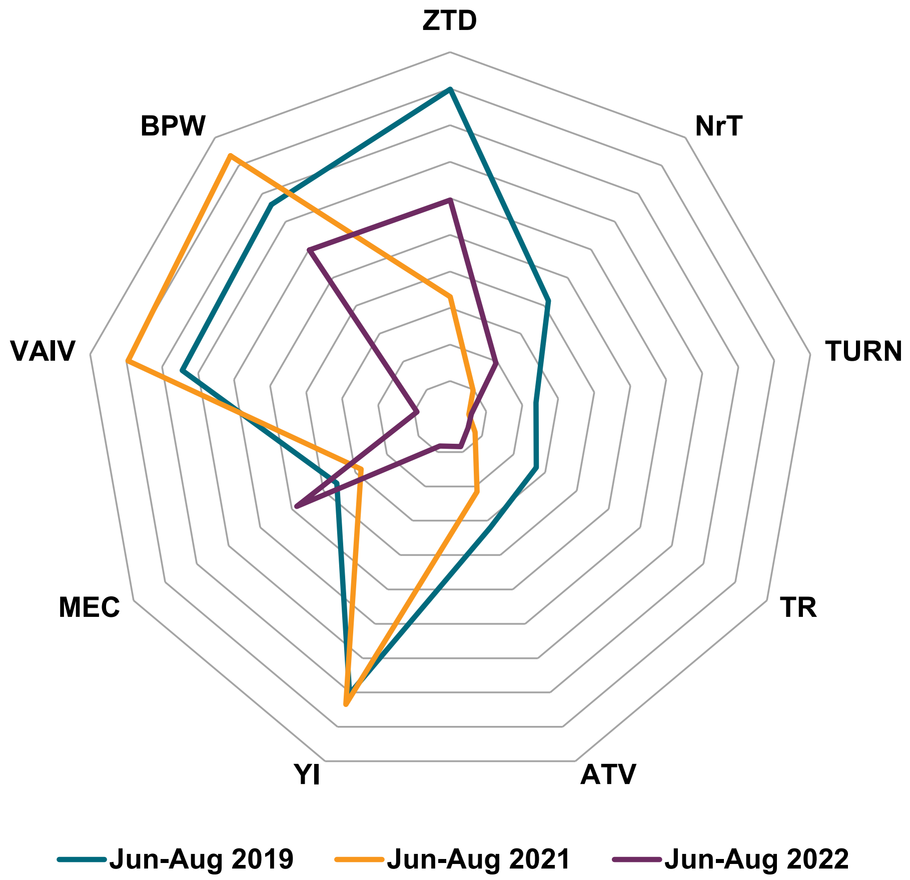
Source: FI's own calculation, Refinitiv Eikon, Swedish National Debt Office, and Svenska Handelsbanken Bond Indices.
Note: The percentage of zero-trading days (the average in each instrument group per month) for covered bonds and nominal government bonds with benchmark status. Higher values correspond to lower liquidity.

Covered bonds – combined liquidity measure



Source: FI’s own calculation
Note: Average of normalised monthly values for relevant indicators for covered bonds with benchmark status. Larger areas correspond to higher liquidity. The values closer to the outer edge of the diagram correspond to higher liquidity

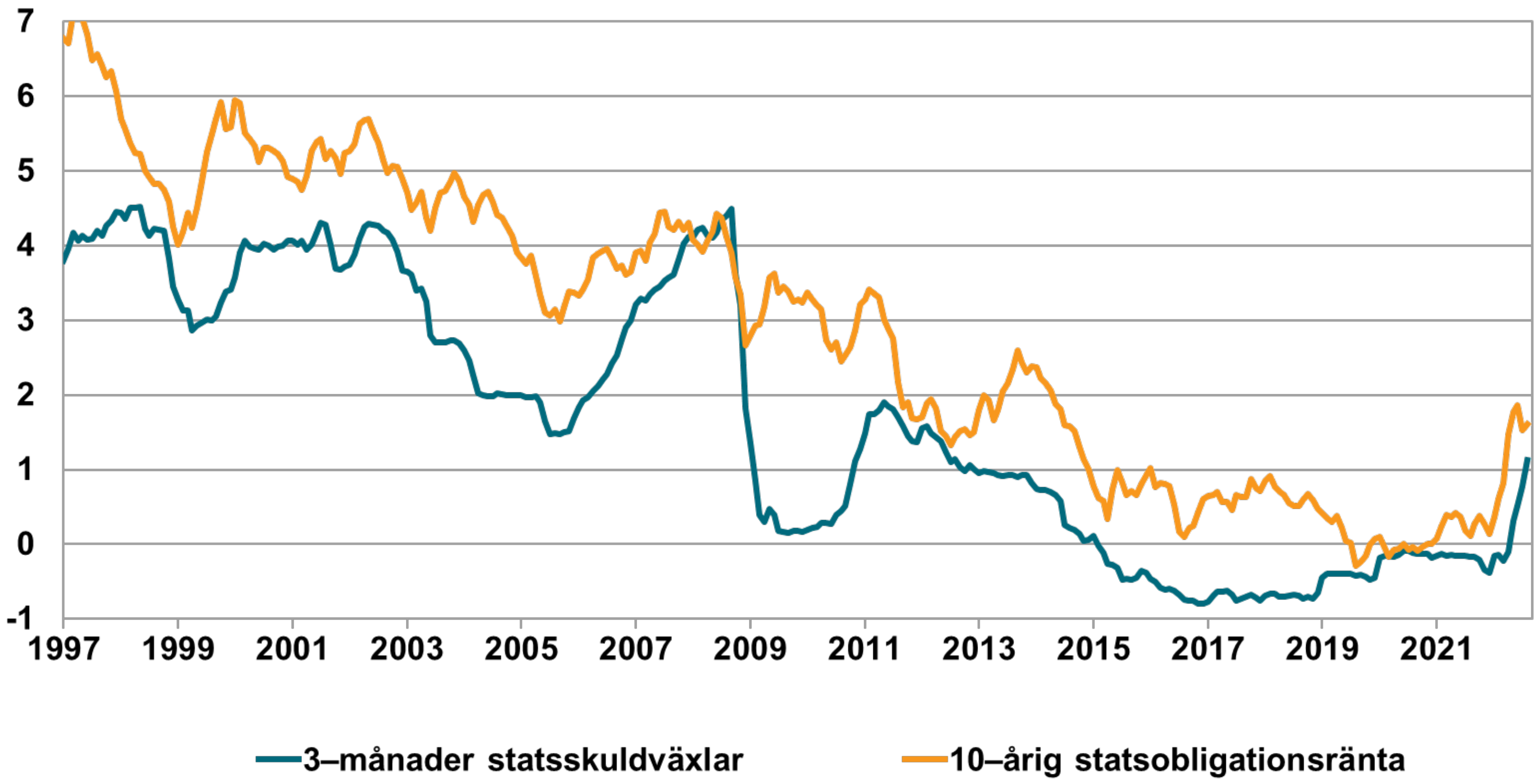
Government bonds – combined liquidity measure



Source: FI's own calculation
Note: Average of normalised monthly values for relevant indicators for covered bonds with benchmark status. Larger areas correspond to higher liquidity. The values closer to the outer edge of the diagram correspond to higher liquidity

A secular decline in interest rates over 25 years

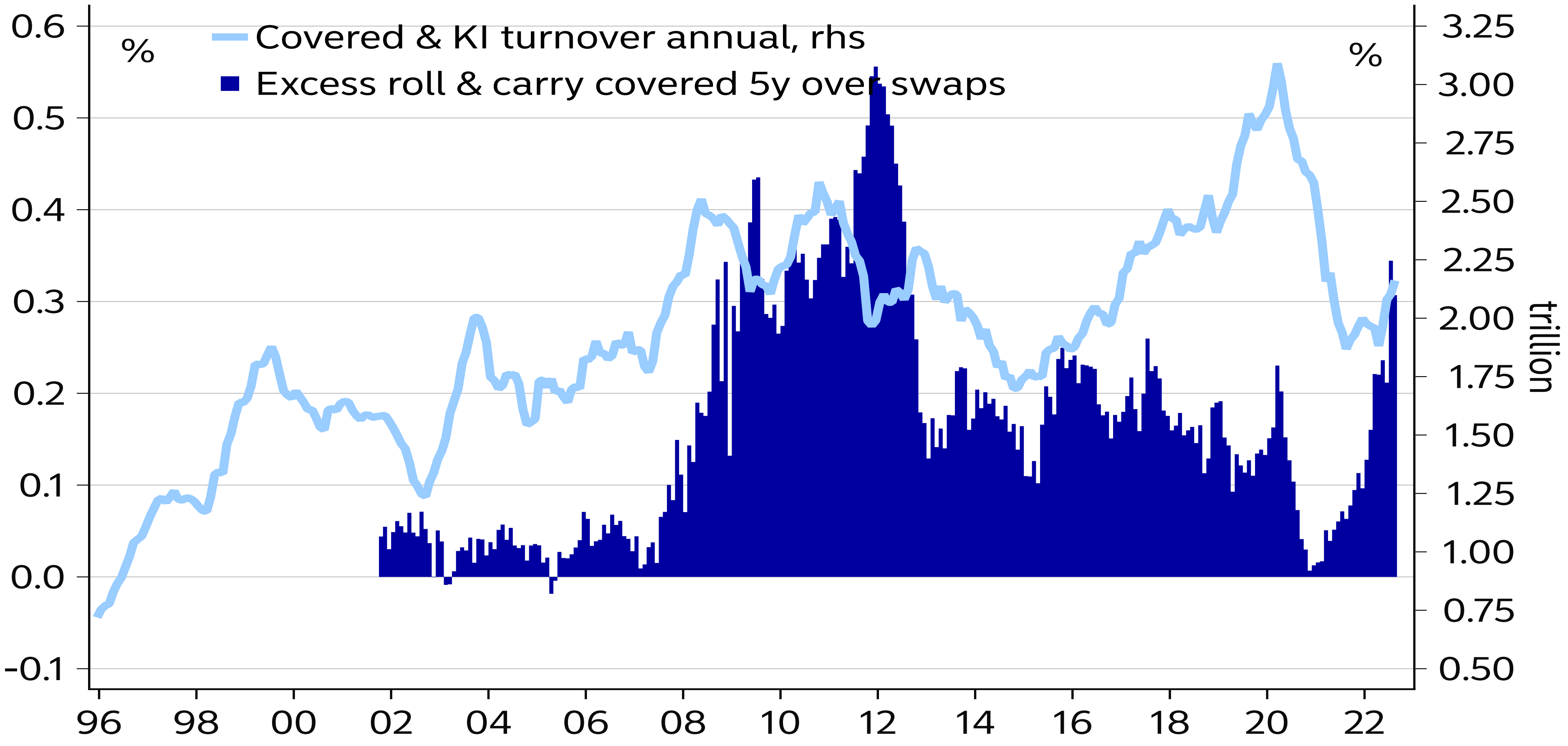
Procent



Source:: Riksbanken
Note. Data for period up to and including augusti 2022.

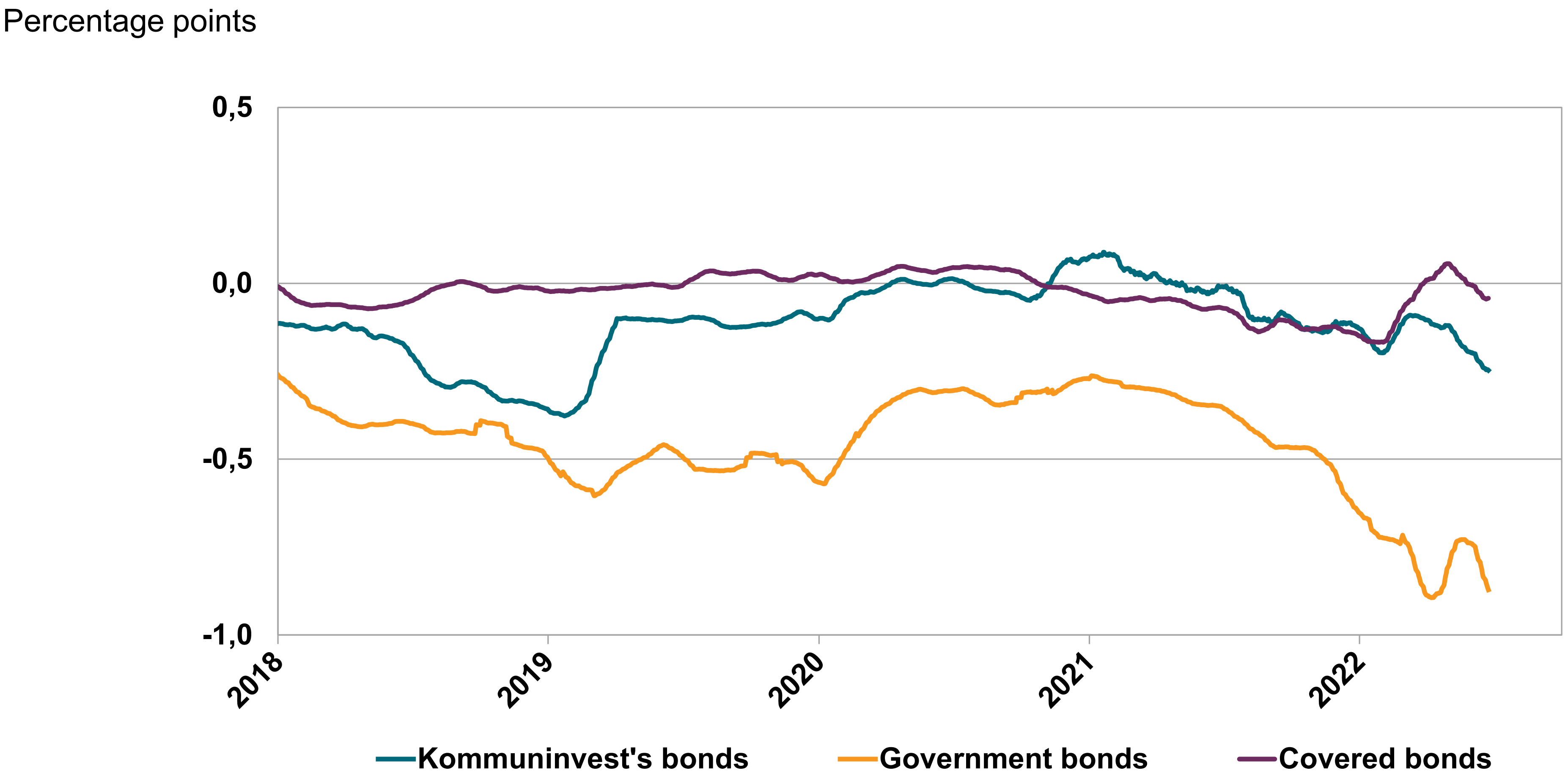
Roll and carry

Covereds: roll and carry in spread and turnover in cash market



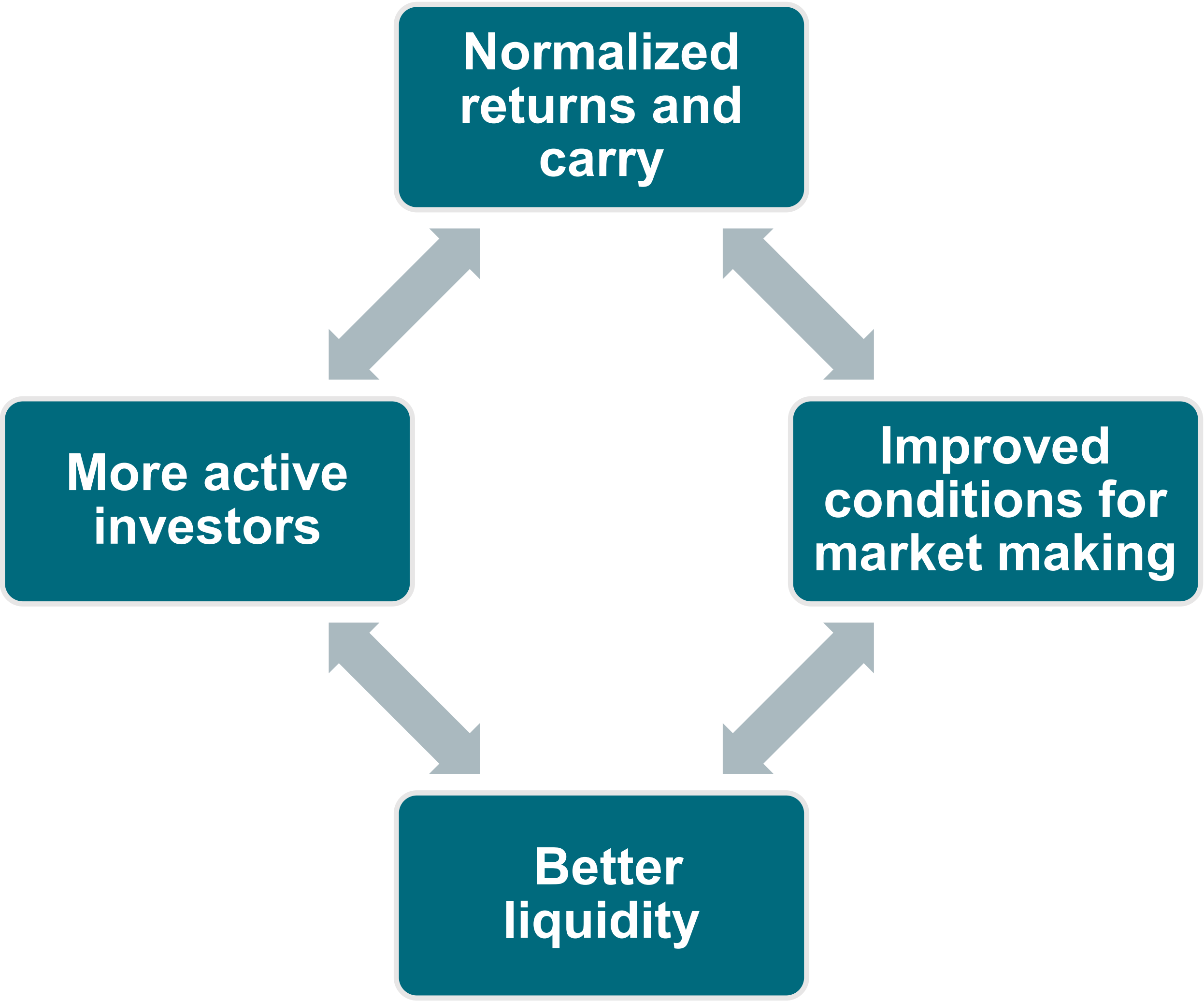
Source: Macrobond and Nordea

Spreads: first tightening and now?



Source: Refinitiv Eikon.
Note: Interest rate differentials calculated as the difference between the different bond categories and interest rate swaps in SEK with a maturity of 2 years.

A return to more liquid bond markets?



Bond markets and liquidity - concluding policy reflections

- Bond markets in Sweden are systemically important
- Well-functioning markets - primary and secondary – are key
- All market participants must be active in the development of the market, not least issuers
- Liquidity is important but more is not always more – ”lagom is bäst!”
- Market liquidity can be provided in several organizational forms
- Prudent liquidity management by bond fund managers reduces risk of market imbalances

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