

FI and FX Daily Brief: Temporary Scandies rebound

17.3.2025

Summary: SEK, NOK and EUR gained vis-à-vis USD and JPY on Friday as risk sentiment recovered to end the week. EUR/USD traded close to the 1.09 level and EUR/SEK fell towards the 11.00 level. Bond yields held steady with the 10Y US Treasury trading close to 4.30% and the 10Y German bond yield trading around the 2.90% level.

Majors FX: The big event this week for GBP FX is the Bank of England meeting on Thursday. We expect an unchanged decision, keeping the Bank Rate at 4.50%. We expect the market reaction to be rather muted but look out for any guidance on altering the gradual approach to cutting interest rates. Our bias is for a swifter cutting cycle than currently priced by markets, which could weigh on GBP FX. For now, German politics and global factors are the main driving force for EUR/GBP. We stay bearish.

Majors FI: The fiscal expansion could drive yields even higher in the near term despite the dramatic move we have already seen in February and early March. Last week, we closed our long position in Bunds, that we took on earlier this month. We took the trade on at 2.82%, and closed it at 2.87%, as we see some risk of the level breaking through 3% as supply worries could worsen in the near-term. Our bias, though, remains for lower yields over the next 12M as German term premia have reached elevated levels and markets are still to discount additional ECB cuts. This week, there will be a vote in the Bundestag (March 18) and Bundesrat (March 21) on the fiscal package that the CDU/CSU, SPD and Greens settled on last week. Furthermore, there is plenty of supply this week as Finland, Ireland, Germany, France and Spain are coming to the market. The net cash flow is negative given the supply and limited redemptions and coupons. This could add renewed pressure on Bunds. In the US, the 10Y UST yield continue to hover around our 12M target of 4.20%. We do not expect the FOMC to provide any clear direction for yields this week, although the door will remain open for a May cut. Any changes to QT, which could be unveiled at the meeting, will most likely have a modest impact, as a near-term tapering announcement already seems discounted by markets.

Scandies FX: The previous positive SEK momentum has abated and it increasingly looks like EUR/SEK troughed (for now) around 10.90. Last week was mostly spend consolidating around 11 and we expect more of the same in the coming week. We retain our tactically neutral near-term view on broad SEK, but as our short-term fair value models are currently indicating that the SEK looks a tad overbought across

crosses, we see scope for a slight SEK depreciation over the coming weeks. As for this week's domestic calendar, Thursday's Riksbank decision will be key. We expect an unchanged decision and a flat rate path, but are keen to listen in to the Board's assessment of the developments since their last meeting, including the inflation topside surprises. In terms of FX, a dovish surprise with the Riksbank opening for another cut should push EUR/SEK higher given current market expectations. If that door is firmly closed, the SEK will probably be supported, though the aforementioned fair value model suggests that the downside potential is relatively muted.

See [Reading the Markets Sweden, 14 March 2025](#), for more on the Riksbank and the SEK.

In Norway, we will pay attention to any news with respect to the central wage negotiations although it is not clear we will get a deal before the rate decision. For more information please see [Reading the Markets Norway, 14 March](#), where we also recommend to buy a 6M USD/NOK bullish seagull (cost neutral). The intuition behind this FX trade is simple. We think the long-term headwinds for NOK are set to return and we see the latest NOK rally offers an attractive opportunity to add some strategic short exposure. US recession risks have been priced considerably into the USD, and we think the energy complex will continue to struggle. In addition, we think the balance of risk for NOK-USD rates spreads is skewed to downside - but we stress that this trade is not a position on NB cutting in March. Finally, purely from our cross-asset regression model - based on relative rates, curve slopes, relative equity sector performances, oil and natural gas prices - USD/NOK seems oversold with our fair-value estimate of 11.13. The timing of the trade is very difficult and for that reason we opt for an option structure as an alternative to the spot-outright position.

Danish Banks tapped the central bank 1W repo facility for DKK15bn today - the first time since June 2022 the facility has been used. The move comes amid a tightening of liquidity conditions in the Danish money market and a recent surge in money market rates, e.g. the 3M EUR/DKK FX forward has climbed to -15bp on Friday - well above the -40bp policy rate spread. The net position is set to drop below DKK200bn this week for the first time since 2022 due to large corporate tax payments and fall further next week. Banks will likely continue to use the repo facility as long as liquidity conditions stay at these tight levels.

Scandies FI: We are up for a key week when it comes to short-term Norwegian rate outlook. Following last week's big inflation topside surprise markets have gone from pricing a 25bp Norges Bank 27 March rate cut as a certainty to now pricing it at a less than 50/50 likelihood. The ultimate decider is likely to be Thursday's Regional Network Survey where we in particular will pay attention to the capacity utilisation metric. Should this fall we think the short-end of the NOK curve offers a very appealing receive case. We therefore stand ready to receive NOK 1Y1Y vs EUR 1Y1Y should the Regional Network Survey confirm our base line case that rates are far too high for the rate sensitive parts of the economy.

Tactical views:

FX

EUR/USD - tactical upside potential - we seek strategic selling opportunities

EUR/NOK - look to fade CPI-induced drop, buy strategic topside exposure

EUR/SEK - Room for near-term bounce higher in SEK-crosses

EUR/GBP - strategic downside

USD/JPY - we favour the downside

EUR/DKK - to trade just below the central rate on strong DKK fundamentals

USD/CNY - tactical view neutral, strategic view bullish on trade war 2.0 in 2025

Fixed Income

Europe - We have taken profit on our Bund ASW-spread as we have reached our target, but the spread can go wider (Bunds underperform)

US - Long-end US rates have reached our 12M target. We see near-term risks as being tilted to the upside.

Sweden - We expect steeper curves primarily driven by the long end.

Norway - Look for opportunities to re-enter steepeners and receiver strategies, possibly on the Regional Network Survey released on Thursday

Denmark - We expect further performance in DGBs versus matching German government bonds.

Commodities/Energy

Oil - low and steady on benign supply conditions and trade war woes

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