

Nordea weekly: Papers please, and how to trade them!

Marketing communication

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Nordea weekly

Article by Martin Enlund and Andreas Steno Larsen

Being short Fauci and his European counterparts has been a 100% hit ratio strategy throughout the pandemic and it remains the case in our view. The lockdownistas are back in the drivers seat. Here is how to trade it.

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Table 1. Our current convictions

Date	Direction	Trade	Rationale	Low	High*
21-nov	Receive GBP / Pay NOK	Buy SONIA Dec-22 +3m FUT versus paying NOK Dec-22 +3m FRA	Bank of England could refrain from hiking should article 16 be triggered, while NOK liquidity will remain supre tight through year-end		
07-nov	Short	GBP/USD	Brexit back in the limelight, while BoE acts as clowns		
04-nov	Receive	EUR/USD 2y1y xCcy (bor/bor)	USD liquidity has already peaked		
31-oct	Pay	USD 1y1y OIS	Fed priced too defensively given risk of (much) higher inflation		
31-oct	Flattener	USD 5s30s	Tapering, weak credit impulse and high inflation.		
18-jul	Long	MXN/PHP	A relative vaccine and food price bet		
28-mar	Long	USD/SEK	Virus seasonality, USD liquidity post debt ceiling and Fed taper		

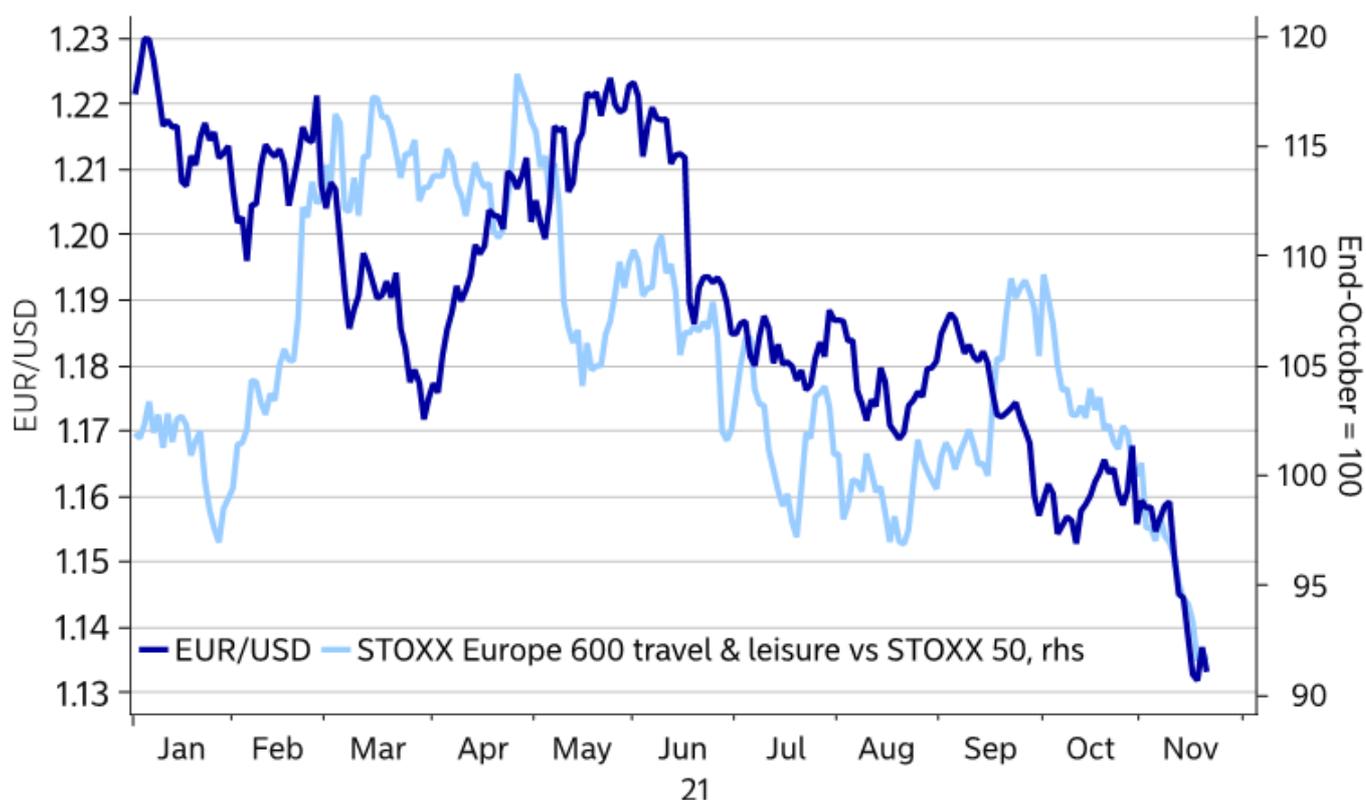
*Low to high conviction of trade

It used to be "two weeks to flatten the curve", but somehow it has developed to "imprison the unvaccinated (or worse)". Lockdownistas have been on parade also over the past week, with "papers please"-systems being implemented in many countries **to try to boost the injection rate**. Ireland has implemented a semi-lockdown with a midnight curfew. Austria has not only

decided to imprison the unvaccinated (albeit so far only in their homes), the entire country is now going back into a lockdown and a nationwide vaccine mandate is launched. **The vaccine is apparently so good that you need to force people in to taking it.** This is unlikely to work wonders for the lack of trust in the system.

Even Sweden has thrown in the towel, moving towards vaccine passports for large gatherings starting December 1. And if that's not enough, limits on restaurants, working from home-recommendation, and so on, will follow. In contrast, it seems as if the federal vaccine mandate for big private employers will be challenged in court, which may compromise the deadline 4 Jan. **This removes some of the risk of potential very weak non farm payroll reports in Q1 due to vaccine mandates**, and leaves us with a good risk/reward in paying 1y1y USD rates still, in particular now that Clarida is warning that tapering will be accelerated already in December. We expect tapering to be concluded earlier than June-22, also even if Biden and Yellen hand Lael Brainard a thanksgiving-chairmanship.

Chart 1. Predictable virus surge has weighted on lockdown-sensitive sectors (& EUR)



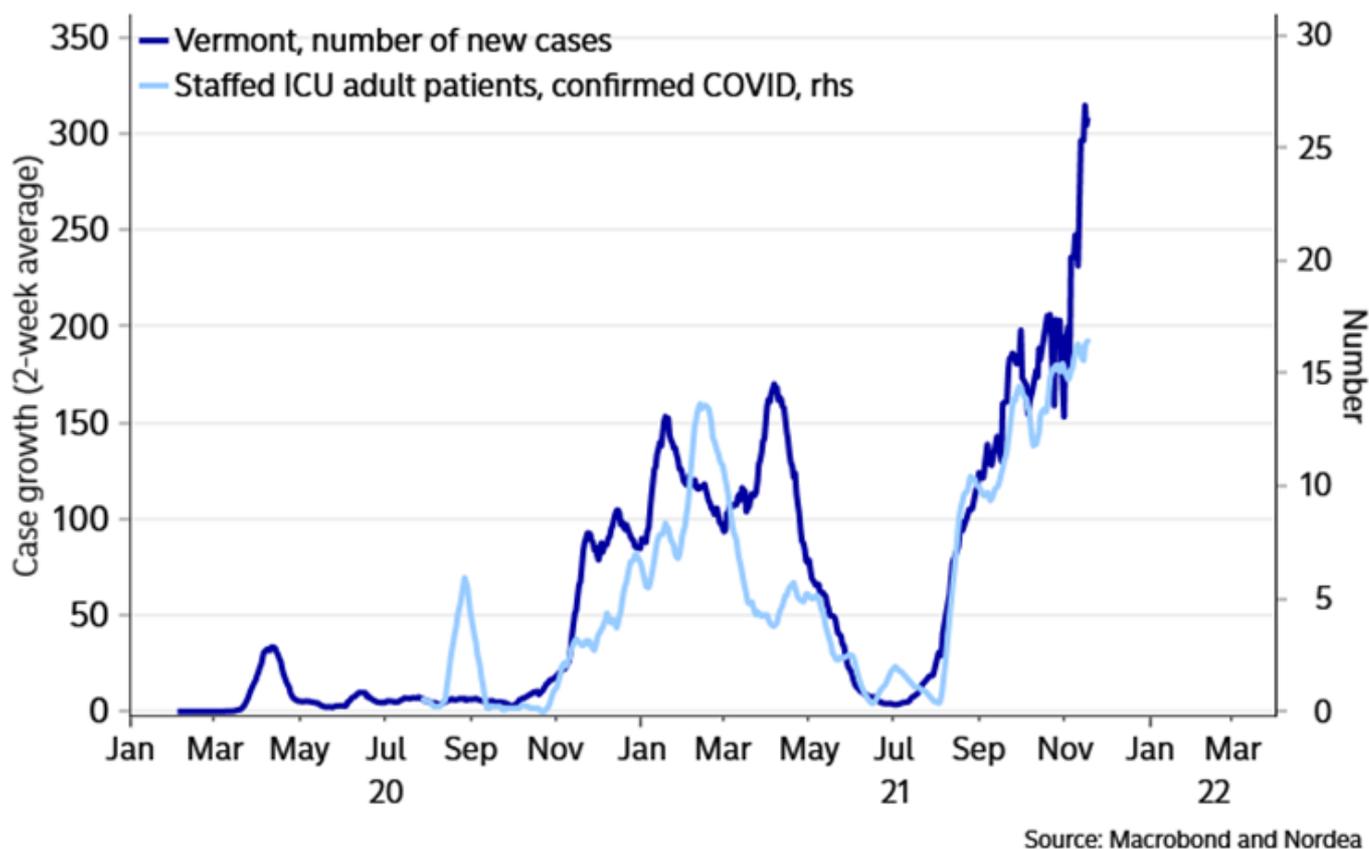
Source: Macrobond and Nordea

All of this was predictable. In August we warned of “plenty of alarmist media coverage” and that this could trigger the politicians’ logic, i.e. i) we must do something [about delta], ii) this is something, iii) therefore, we must do this...”. We went further in September we argued that new lockdowns should NOT be ruled out and that “the chosen path forward is vaccination mandates and booster shots forever”.

We are therefore not too impressed by the forecast record of Fauci and his colleagues (in July he stated that the US is on track to “crush the outbreak”, and that “you’re not going see the kind of

surges we've seen in the past" (if 62% of adults get at least one dose). Now you may say that delta has changed everything – and that Fauci was right at the time, **but the thing is that viruses mutate...**

Chart 2. A mega vaccination rate has not prevented rampant case growth in Vermont



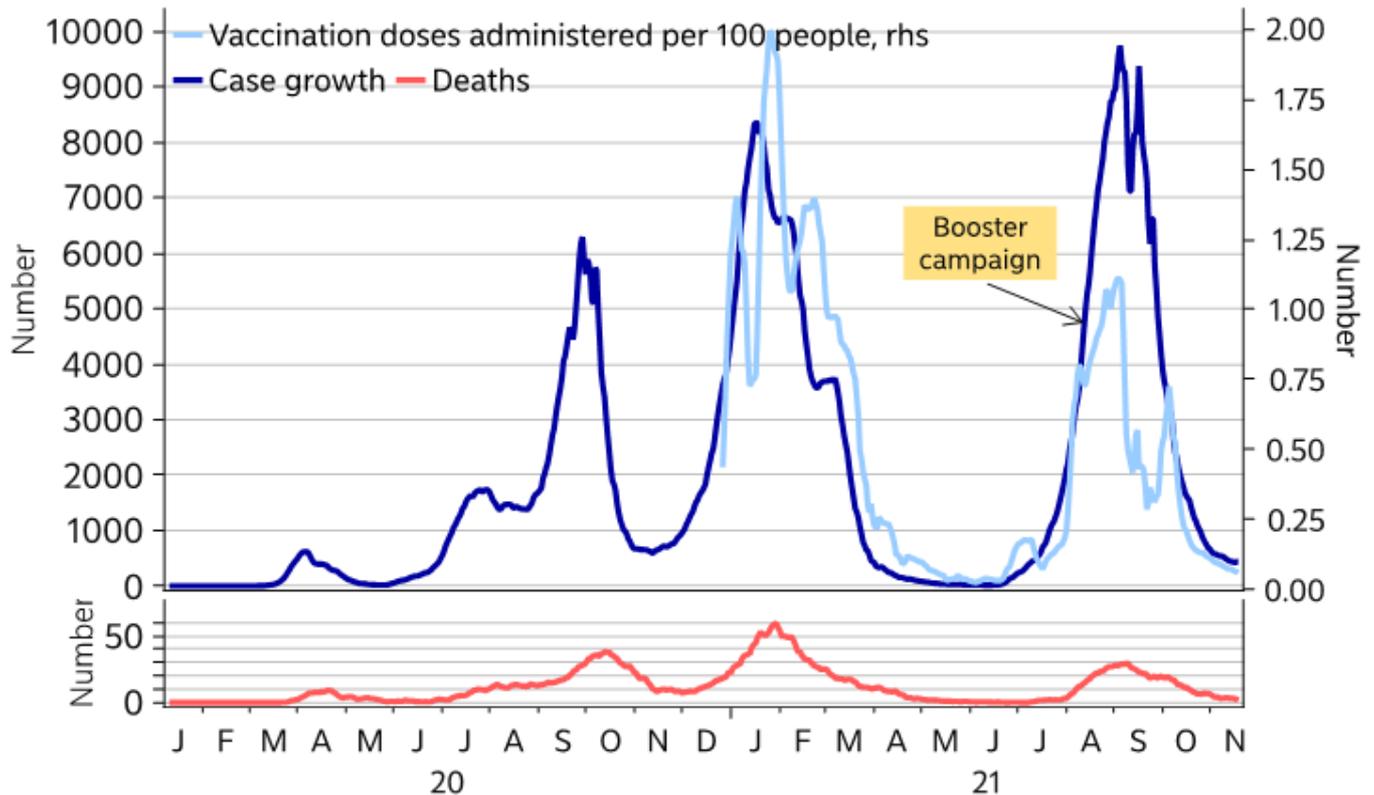
While a lot of people still appear to believe the vaccines block transmission, they clearly do not. Vermont – the most vaccinated state in the US – has seen case growth explode recently. This paper, for instance, finds “no discernible association between COVID-19 cases and levels of fully vaccinated”. What’s more, in a new paper on data from Israel’s national airport – an excellent data set – the authors conclude that Israel’s Green Pass system is inefficient in preventing infection spread (why is everything called green nowadays?), and that the relative protection from booster shot is 60% *at best* vs the unvaccinated (defined as those who have not been injected within the past six months). **With that in mind, if you want to prevent transmission it might make sense to lock up everybody, unvaccinated or not.**

We also urge you to take caution when interpreting right about every single official Covid-19 number across the globe. First, case growth is extremely distorted by political decisions and messages such as conflicting viewpoints on whether vaccinated needed to be tested or not.

Second, hospitalisation data cannot be fully trusted either as you count as a Covid patient if you have tested positive within 7-days of hospitalization, no matter whether you have a broken leg, a depression or severe Covid-19 symptoms. These “fake Covid-hospitalizations” account for 20-33% of all hospitalizations according to various studies, and this effect ought to be bigger this year than last year as the vaccine still works decently well against severe illness. Politicians sadly

look at these numbers without a deeper investigation, why this is all that matters for any market relevant research.

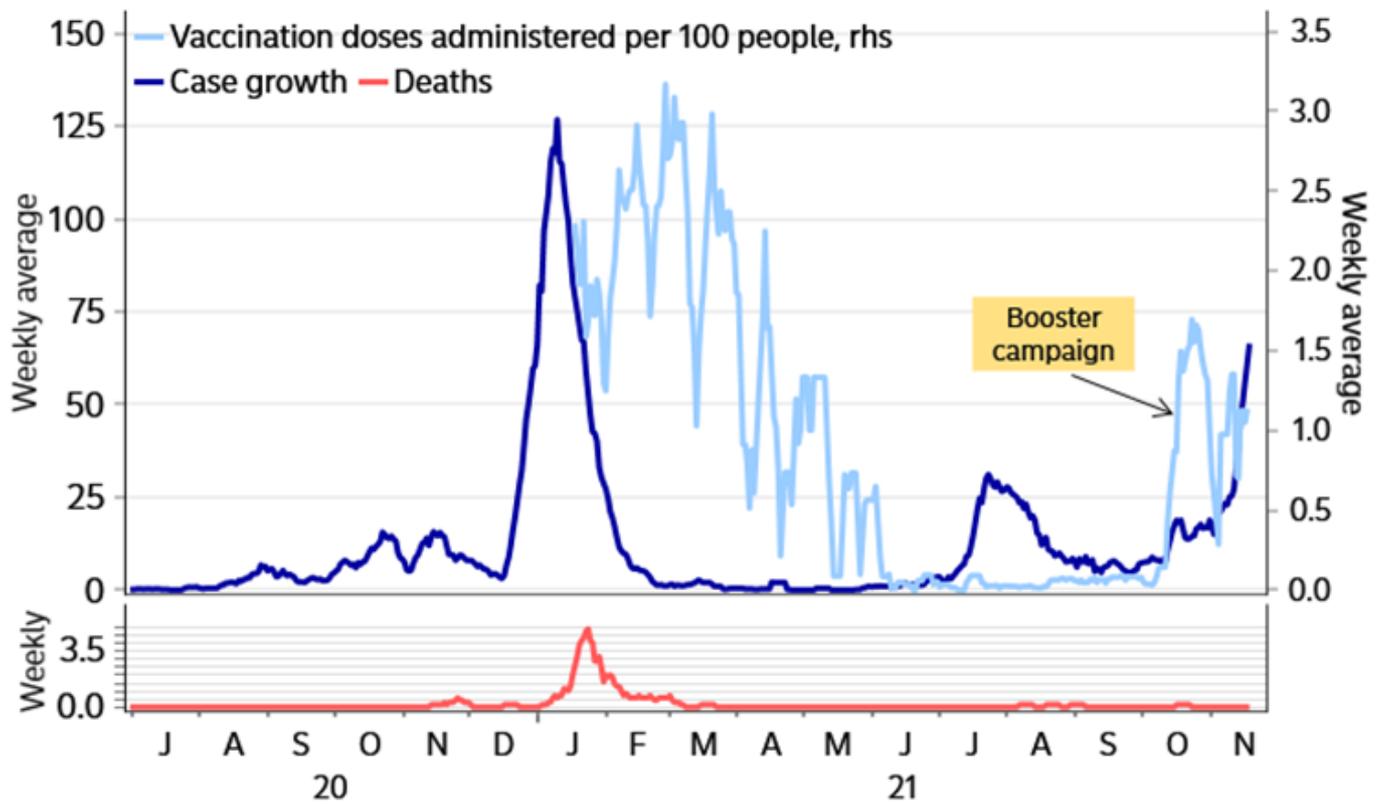
Chart 3. Israel's booster campaign may have led to more case growth



Source: Macrobond and Nordea

The authors also observed that **the positivity rate among vaccinated was significantly higher than for the unvaccinated during Israel's "aggressive booster campaign"**, suggesting that the booster shots made individuals more vulnerable to infection in the immediate weeks afterwards. This is not only supported from Israeli data. Gibraltar's experiences from a 99%+ vaccination rate also suggest that **case growth could accelerate even more as injection rates accelerate with the boosters...**

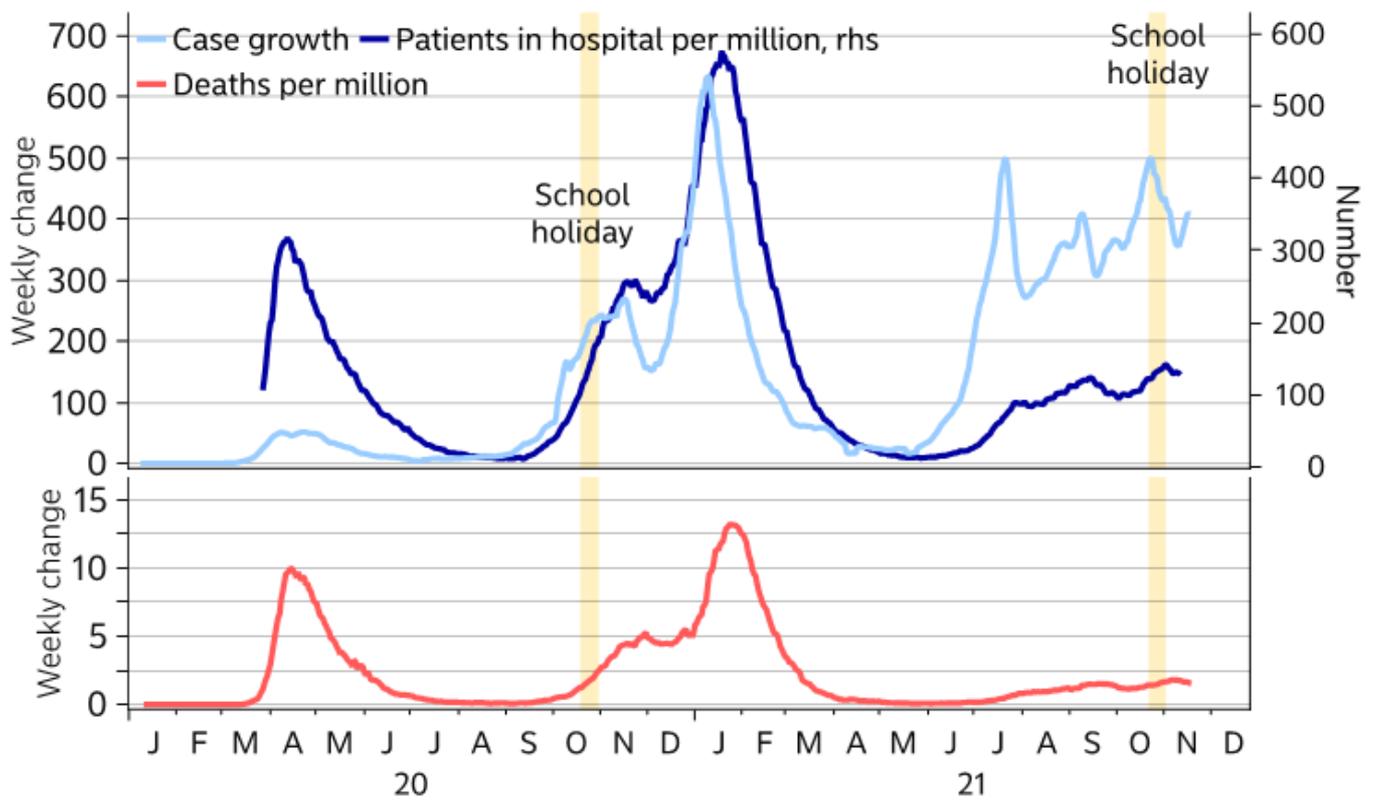
Chart 4. Gibraltar's booster campaign preceded the surge in case growth



Source: Macrobond and Nordea

Leaving aside the lessons from the Nuremberg trials such as bodily integrity, informed choice, the impact on civil liberties, and so on (because who cares?), lockdown policies, vaccine mandates and so on do carry costs. School closures can lead to children missing out on education, and with humans being social animals, locking them up or reducing socialising also carry costs even if these will not be visible in GDP figures. And as The Telegraph recently noted: “nearly 10,000 more people than usual have died in the past four months from non-Covid reason [in the UK]” (and no one knows why).

Chart 5. UK case growth picking up

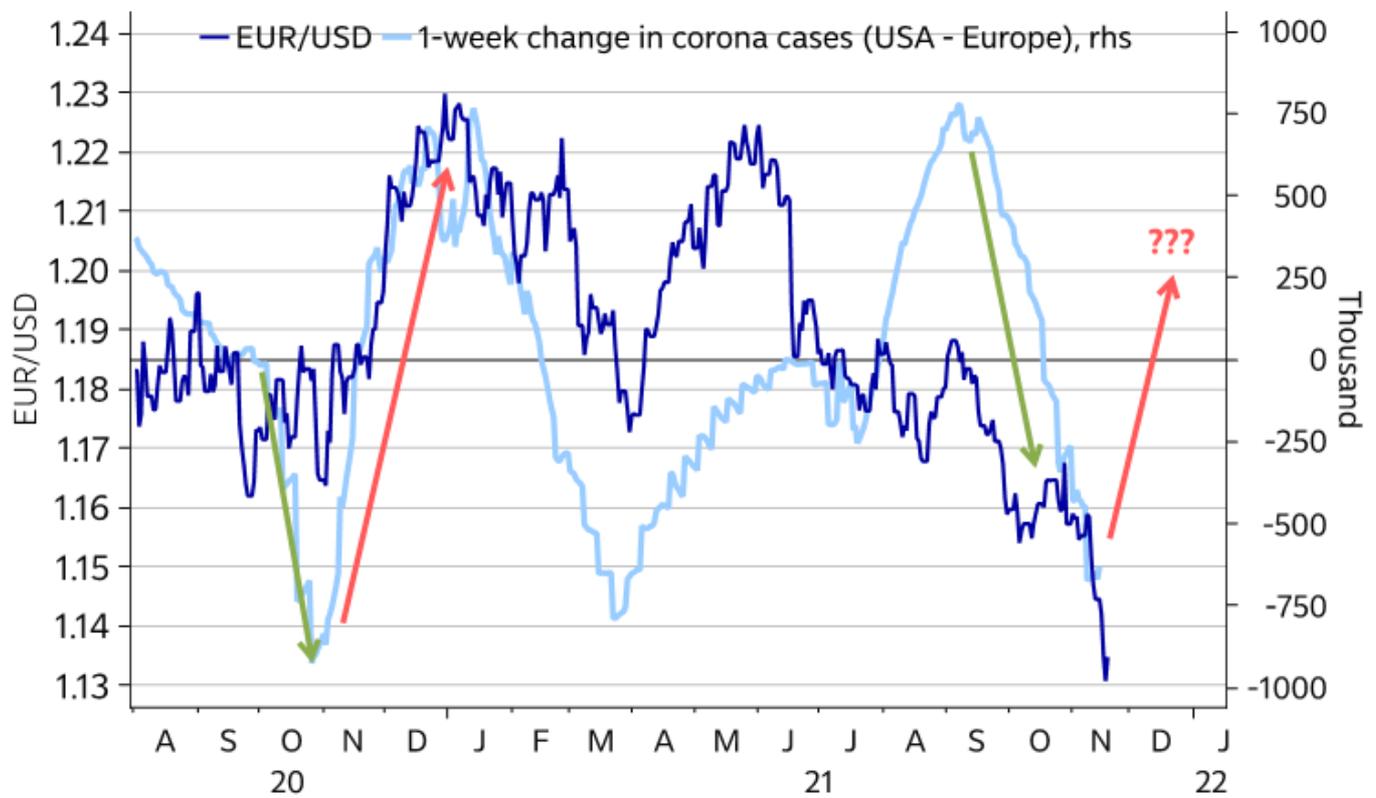


Source: Macrobond and Nordea

Speaking of which, UK case growth has actually been picking up recently, after the downdraft in early November. In 2020, case growth accelerated a couple of weeks after that same holiday – and it looks as if that may be unfolding this time around as well (perhaps the lull in case growth can be explained by the October school holiday). With the GBP under pressure due to Brexit risks given the potential invoking of [article 16](#), we think it's wise to keep your GBP shorts on. A new fight against the EU may come in politically handy when new unpopular lockdowns are likely to be implemented during this winter in the UK as well.

Buying the SONIA Dec-22 +3m future against paying rates in the NOK Dec-22 +3m FRA might be a good bet (more in NOK in a second).

Chart 6. US case growth went on a tear at this time of the year last year



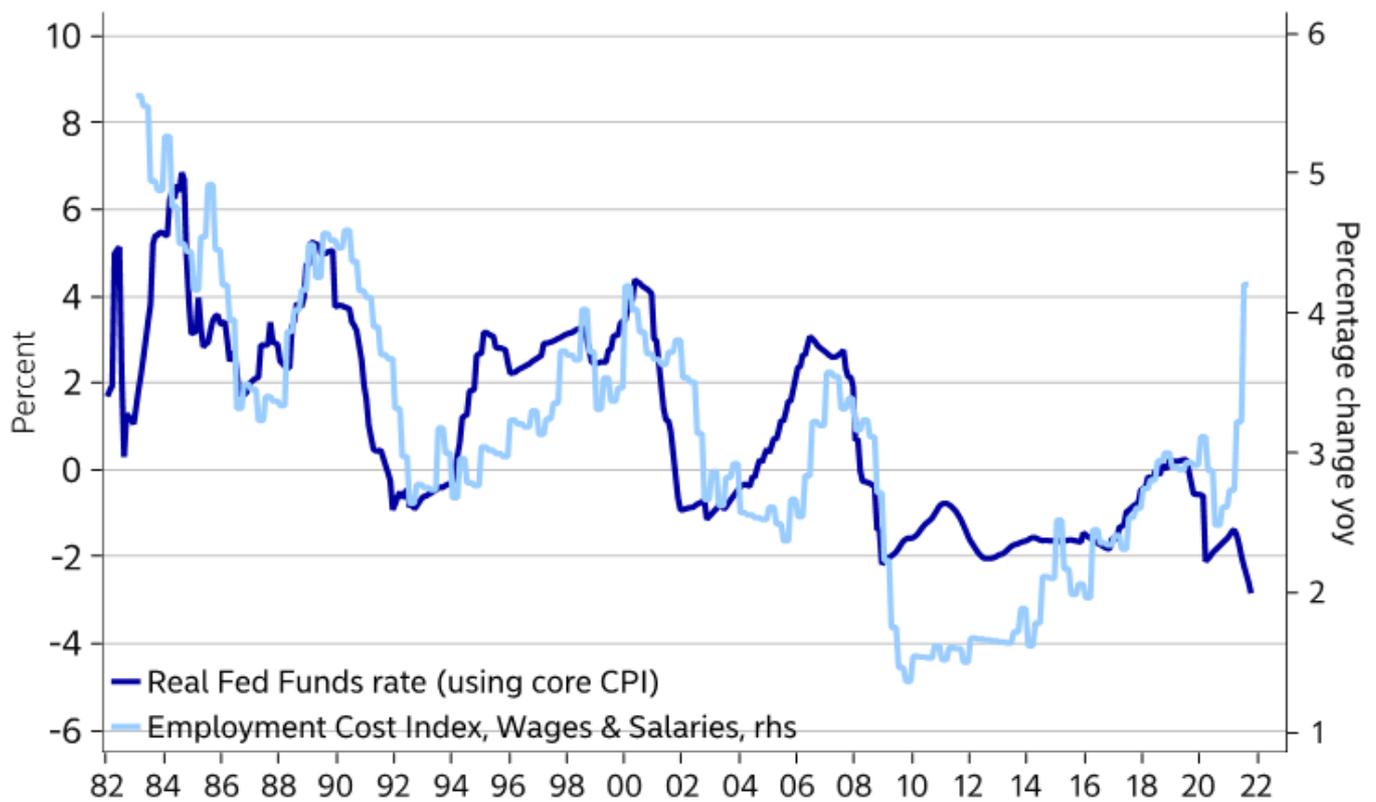
Source: Macrobond and Nordea

For all that, we want to remind you that last year US case growth went on a tear, and perhaps this will translate to the dollar losing its lustre in coming weeks... **Pfizer has asked the FDA to authorize booster shots**, a request which could be approved before Thanksgiving. So maybe a mega acceleration of US case growth should be expected given Israel's experiences...

At the same time though, we think that US real rates will be heading higher due to Fed tapering and its coming rate hikes. For instance, **the real Fed Funds rate ought to head to 4% based off its historical relationship with the ECI index** – though surging wages can be “explained away” by effects relating to the pandemic, and as things normalise (if they ever will) wage growth will fall back. Hence, expect “normalization” to be pushed back even further, with continued extreme demand for goods and weaker than usual demand for services this winter – a highly inflationary cocktail. Good thing that the St Louis Fed can tell you how to cook a cheaper and more protein rich Soybean-based Thanksgiving-meal now that they have given up controlling prices.

Chinese manufacturing is going to fire on all cylinders this winter as well, which may increase Natural Gas demand to ensure that air pollution promises are kept ahead of the Winter Olympics in February (if they are not cancelled, that is). This is likely to accelerate energy prices as long as Putin and Lukashenko seem more occupied with keeping the flow of Iraqis higher than the flow of Natural Gas.

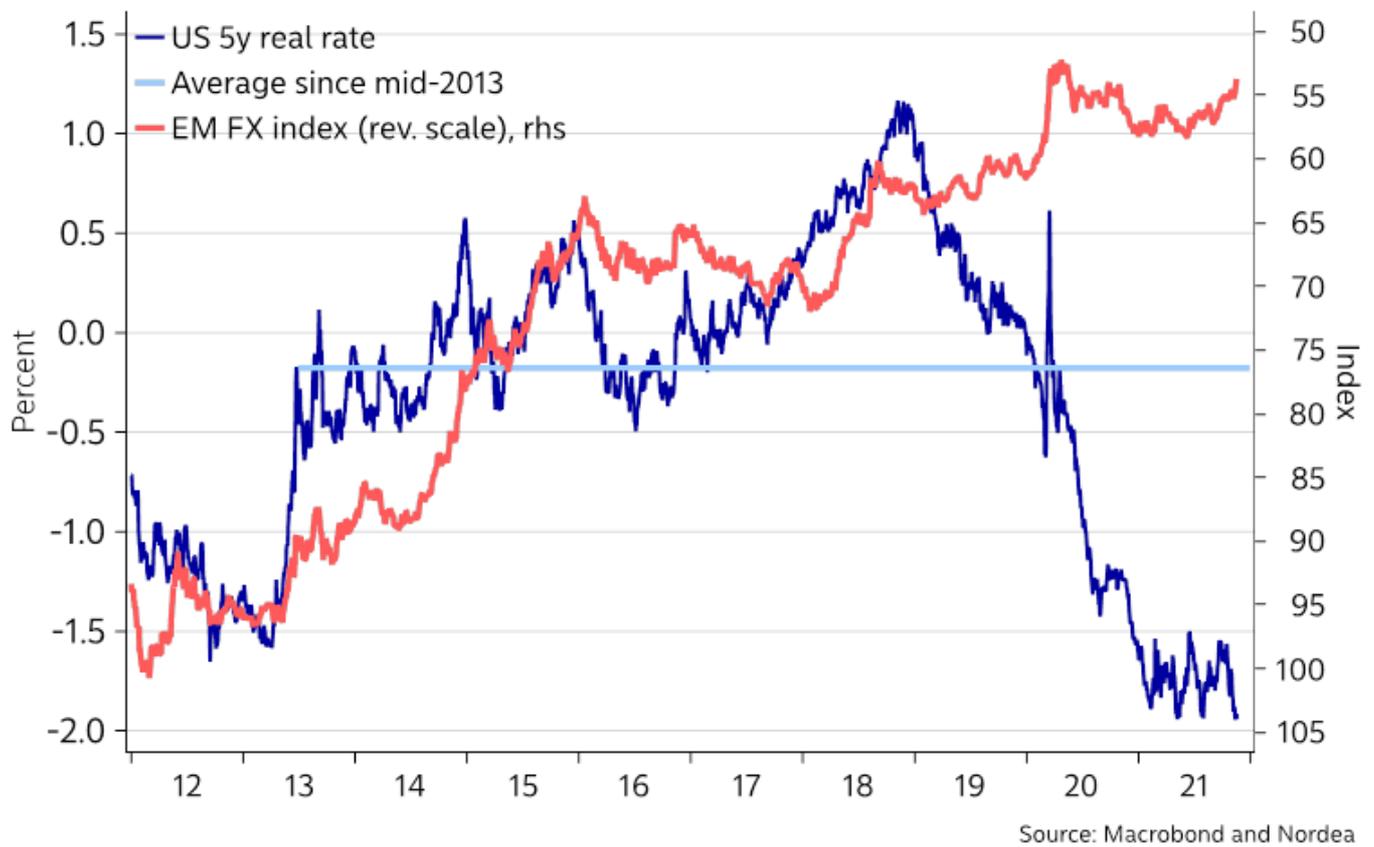
Chart 7. Superman, a ballistic missile, or the real Fed Funds rate?



Source: Macrobond and Nordea

When US real rates start to climb, we expect the USD to be underpinned in general – in particular vs “risky” EM currencies. This week also showcased how intra-EM contagion works, even if only Erdogan is following a path of rate cuts when inflation spikes. The TRY has been blown into smithereens accordingly (and we expect it to continue), while other high-beta EM currencies such as ZAR and MXN saw spill-over effects.

Chart 8. EM FX is already weak – what will happen when US real rates climb?

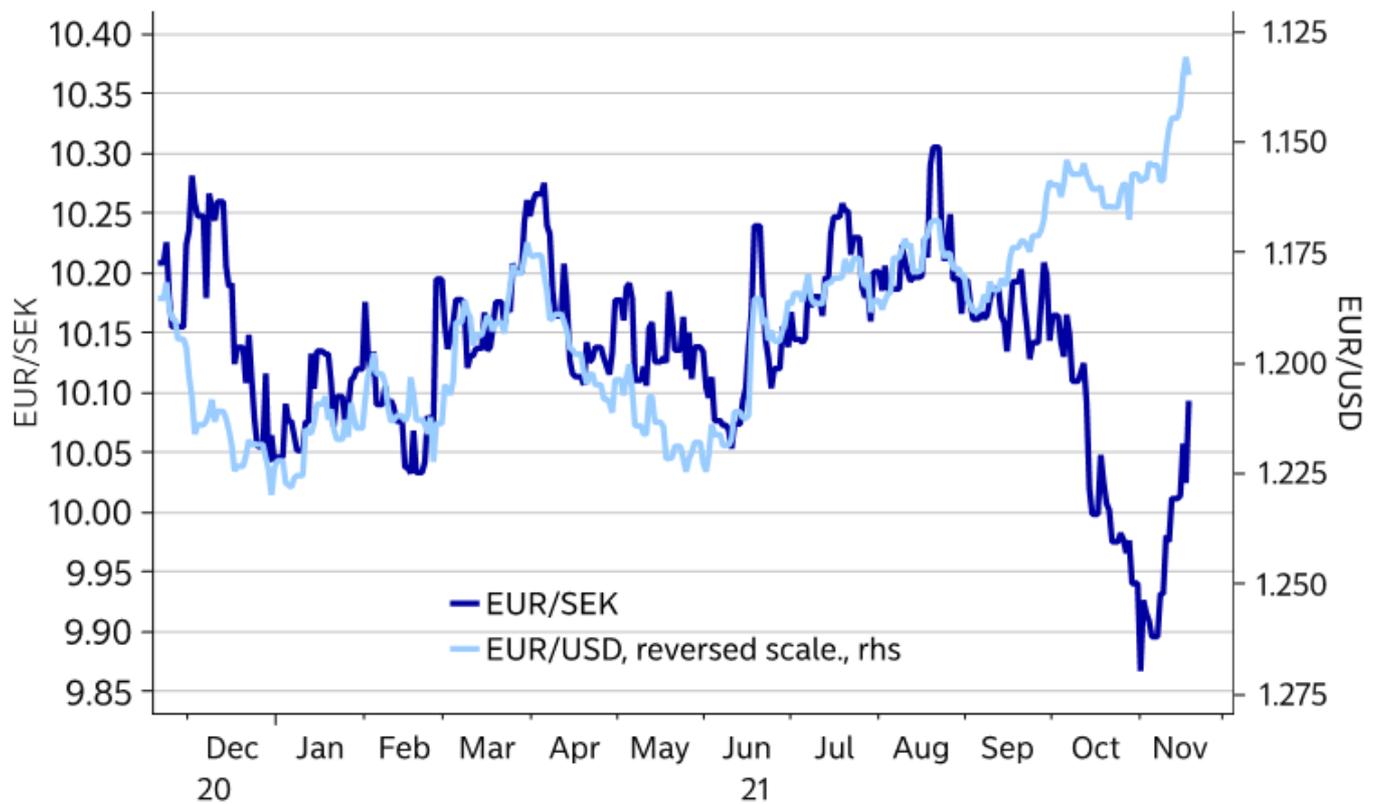


SEK: flip-flopping health agency augurs case surge

Sweden's Public Health Agency has flip-flopped in its testing policies. Why in god's name did they stop testing the vaccinated in November, when case growth went on an absolute tear that same month in 2020? Who knows! First, Sweden's Public Health Agency stopped recommending the vaccinated to test themselves (a recommendation which went live November 1. But as of December 1 the vaccinated SHOULD test themselves if they have cold symptoms. **The bottom line is that Swedish case growth will likely go ballistic** over the next several weeks (and boosters shots will likely give case growth... ..a boost).

The SEK has continued to correlate with EUR/USD in the expected way in November, and thank god for that. We earlier argued that the decorrelation in October reflected massive EUR-selling for a plethora of reasons. But as we have argued the USD will be positively reassessed, USD/SEK purchases will eventually spill over to a higher EUR/SEK – the more normal pattern.

Chart 9. EUR/SEK vs EUR/USD – back to the normal pattern



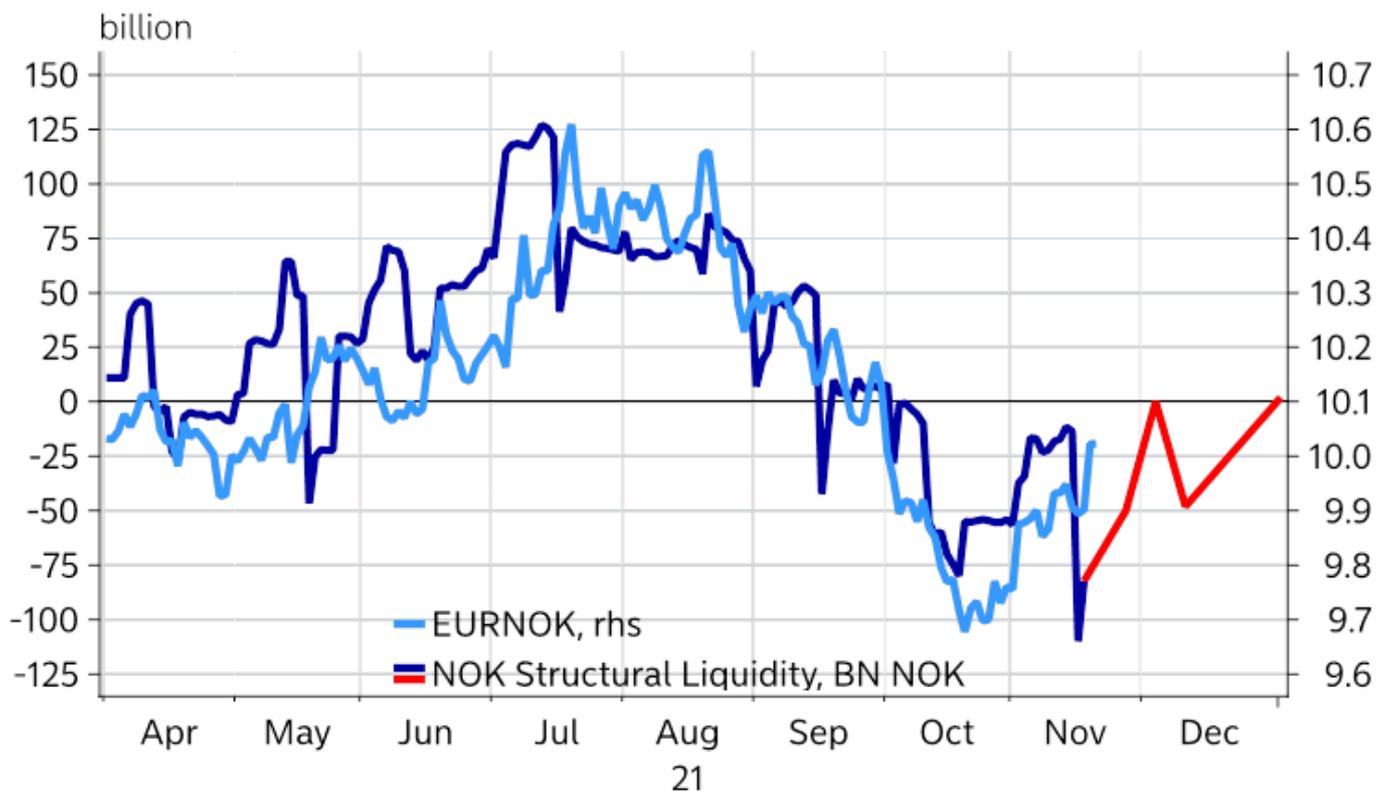
Source: Macrobond and Nordea

As for the upcoming Riksbank meeting, our rates team recommend receiving SEK rates vs EUR. SEK rates simply look a tad too lofty in our view, and the Riksbank might help cause a dovish repricing – which would be interpreted as bad news for the SEK.

NOK and DKK: Tight, tighter, tightest

We remain on DKK watch as intervention levels in EURDKK are closing in again. Our best guess is that DKK liquidity will err on the TIGHT side into New Year's with maximum DKK 150-160bn around turn, why a marked turn effect in DKK should be expected. We would not be surprised to see turn pricing materially more expensive than currently (as we have >200bn DKK in the system today), which should put (material) upwards pressure on the short end of EURDKK FX FWDs over the coming month.

Chart 10. NOK liquidity to remain super tight, but it is better to bet on it in NOK rates than NOK spot



Source: Nordea and Macrobond

The liquidity picture is a bit similar in NOK, but worse. In addition to stopping NOK purchases completely, Norges Bank has also shifted the liquidity outlook down by about 15bn at year-end. Their forecasts have constantly overstated actual liquidity since the larger-than-expected oil tax payment on 1 October, and this downgrade is probably a realisation of the fact that this extra October oil tax bill (about 45bn) will not be spent this year. The year-end down shift in the prognosis could also reflect that Norges Bank might have got signals that the December oil tax will end up higher than expected. The prognosis would have been even tighter (by about 13bn) if Norges Bank had not ended NOK purchases already now (announced on Thursday). Expect this tighter liquidity prognosis to pave the way for a higher Nibor into year-end!

In other words, expect expensive DKKs and NOKs into year-end, which is also why we like receiving GBP rates versus NOK rates as written above.

You can find our latest updated track-record attached below (latest update 30th of September 2021).

Conviction Tracking 30092021.pdf

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An overview of our main views on Global Macro/Rates/FX, current market drivers and ideas.

Weekly (Every Sunday)

NEXT ARTICLE

Turkey: TRY meltdown continues