

# Global Strategy

## G10 Weekly

Global Alpha Strategy, 11 May 2012

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- SEK bears roaming the streets!
- Riksbank doesn't care about (the lack of) inflation
- And then there were none – Japan's energy issue

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### Chart of the Week

Historically, weak Swedish IP should go together with a weaker krona.



### G10 Heat Map

Ccy	Tactic	Strategic direction	Strategic 12m	Nordea Carry Index
EURUSD	↘	↘	1.10	→
USDJPY	→	↗	85.00	→
EURGBP	→	→	0.75	→
AUDUSD	→	↘	0.90	→
EURCHF	↗	↗	1.25	→
USDCAD	→	↗	1.05	→
NZDUSD	→	↘	0.75	→
EURSEK	→	→	8.95	→
EURNOK	→	→	7.50	→
USDSEK	↗	↗	8.14	→
AUDNZD	↗	↘	1.20	→
AUDJPY	↗	↗	1.20	↗
USDZAR	↘	↘	7.30	→
GBPCAD	↗	↘	1.55	→
EURSGD	↘	↘	1.37	→
NOKSEK	↗	↘	1.19	→
NZDNOK	↘	↘	5.11	→

# Key Focus

## SEK bears roaming the streets!

Yesterday we yet again derived our bearish stance on equities and the overall profit cycle. Today we take a deeper look at the SEK. Notably, we are short the SEK making us biased. But, the fact that we have three recommended trades in SEK makes us rather convinced (or stubborn).

We have recommended selling SEK versus the EUR, NOK and the USD - all trades are now deep in the money. Our reasoning is based on the fact that Sweden is still a very high beta country. Hence, our GDP is highly correlated to the European (see fig 2) and as we still think that European growth is already in a deep recession, the cyclical pattern of the trade weighted index could come back in force. Thus, making the correlation between e.g. industrial production (or for that matter PMI) and the TCW index to pick up yet again, as it has so many times before in history (see fig 1).

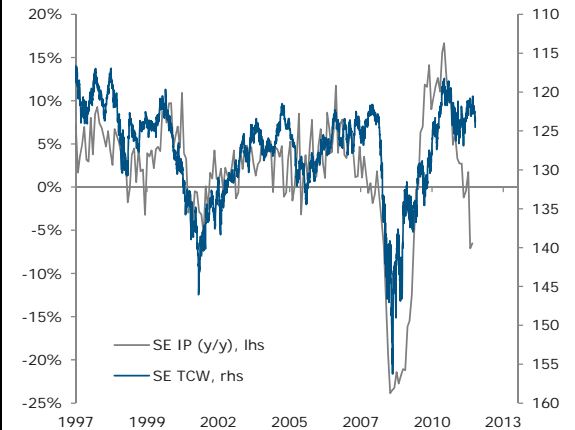
The USD leg is derived from our risk off conclusion and for more on this please see yesterday's 'Just a Thought'. However in terms of NOK, the story is different. When we look at the trend trajectory in the labor markets it is hard not to come to the conclusion that Norway is really in a period of stellar outperformance (see fig 3). This leads our economists to the view that Norges Bank will in fact raise rates whilst the Riksbank will cut rates. A rare event indeed and if anything a prime opportunity to be long NOKSEK. We move the TPs in EURSEK and NOKSEK to 9.15 and 1.23, respectively.

## The Riksbank doesn't care about (the lack of) inflation

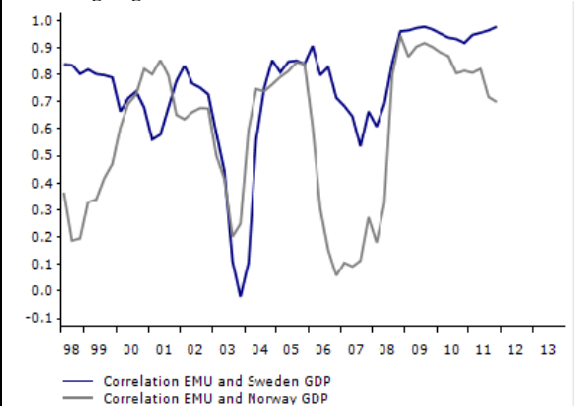
Swedish inflation slowed to 1.3% in April from 1.5% in March and the underlying inflation dropped to 1.0% vs. last month's 1.1%. CPIF has now been well below the Riksbank's 2% target for no less than 16 consecutive months (see fig 4) and the latest monetary policy update from April suggests that CPIF will remain below 2% until January 2014, i.e. the Riksbank will continue to miss their target for another 20 consecutive months (since 1998, CPIF has a sub 2% hit ratio of 71% and the average underlying inflation is 1.65). So, 36 months in a row with underlying inflation well below 2% clearly tell us one thing; The Riksbank doesn't give a darn about inflation for the time being and the majority of the board is obviously more concerned about the fact that household lending still grows in a more rapid pace than nominal GDP and disposable income. There are signs however that banks are tightening lending standards and we think that the intense lending spree that has occurred over the last decade is about to end simply because domestic banks have entered the path of self-regulation.

### Chart of the Week

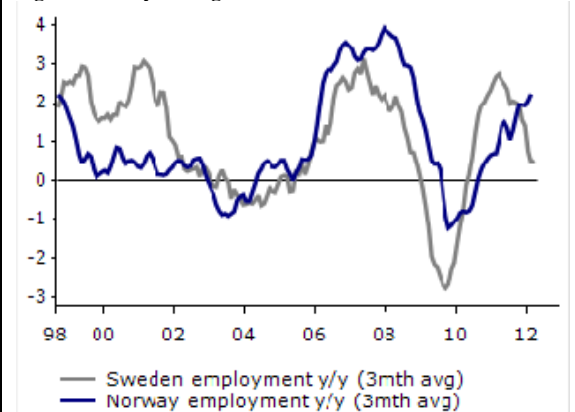
**Fig 1 – Historically, weak Swedish IP should go together with a weaker krona.**



**Fig 2 – The high correlation between Swedish and EZ GDP is a risk going forward.**



**Fig 3 – Norway having a healthier labor market.**



## Key Focus

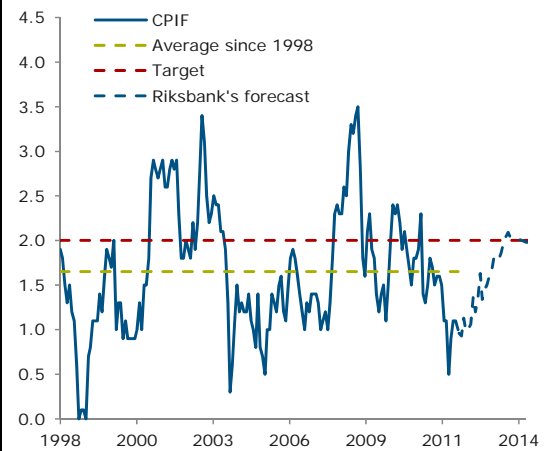
We also have to consider that the Riksbank, at least in our opinion, is far too positive about the state of the domestic as well as the global economy. In particular, we believe that their assessment that European GDP will grow somewhat over the course of 2012-2013 is rather bold considering the ominous development in non-negligible parts of Europe. If (when) Alpha's negative call on Europe will prove to be correct, a downward revision on Swedish GDP, inflation, employment etc. will be inevitable and the Riksbank will eventually have to bite the bullet and cut the Repo rate further and more than the 45bps that the fixed income markets currently discount. This is one of the reasons of why we like Swedish risk in general terms as it is one of the few fixed income markets left that actually would provide some value in case of a continuation of the Euro zone meltdown.

### And then there were none – Japan's energy issue

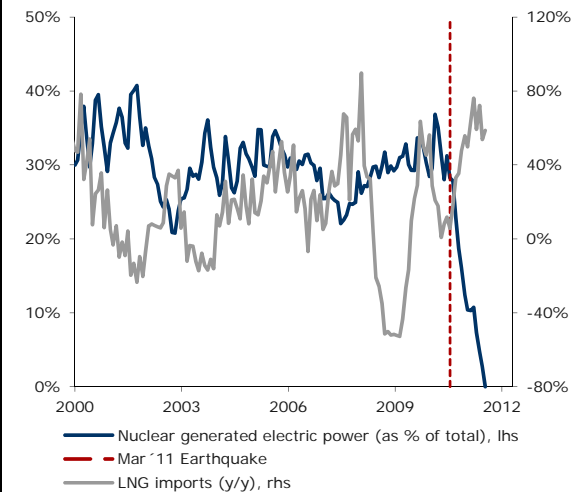
Japan's last operating nuclear reactor was halted for maintenance less than a week ago, and with few domestic natural resources energy will now be imported to cover the shortage. There is a major public opinion against nuclear-derived energy and the closure of the plant was met with celebration on the streets of Tokyo. However, the energy problems may prove particularly challenging in the coming months, as the summer period usually is when most energy is needed in the industry (see fig 6). Indeed, this is a long term concern for the country as the political process to get the plants started is bureaucratic and poised to upset voters.

Next week Japan publishes Q1 growth figures and our models are in line with consensus of a rise to 0.9% q/q. Short term, we maintain our long JPYNOK position which has enjoyed a healthy gain over the week but in the long term we see USDJPY trading significantly higher.

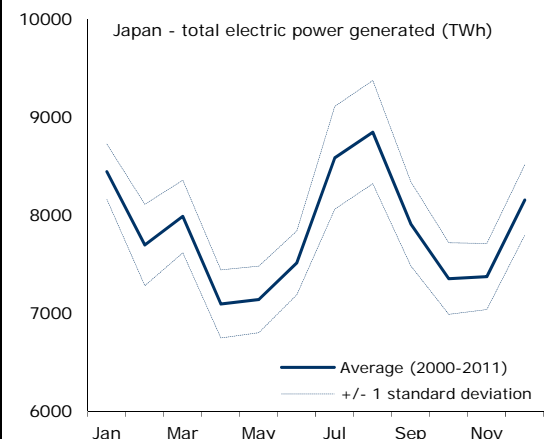
**Fig 4 – 36 months in a row with CPIF below target.**



**Fig 5 – No operating nuclear reactors translate into rising energy imports.**



**Fig 6 – Electricity demand peaking in the summer, putting additional pressure on energy imports.**



# Tactical Trading FX

## Moving T/P in SEK shorts

As momentum finally seems to be building up for the greenback the model has gained some decent traction over the last week, no new trades added. Instead, we have moved T/P in NOKSEK and EURSEK as we see further downside potential for the Swedish krona.

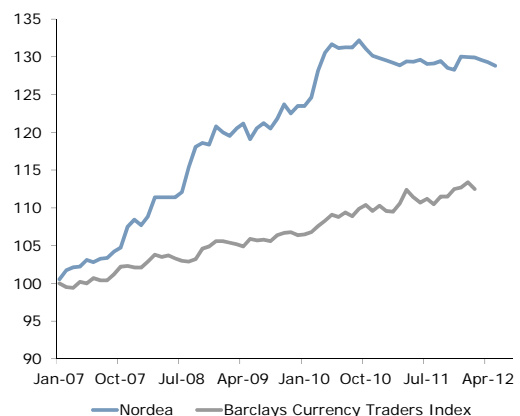
## Open Trades

Cross	Long / Short	Current	Initial	Take Profit Level	Stop Loss Level	Date	In the Money
EUR	SHORT	12935	14177	12	138	03-Aug-11	8.76%
AUDNZD	LONG	12799	12600	134	122	19-Aug-11	158%
EURCHF	LONG	12012	12054	125	1195	03-Feb-12	-0.35%
GBPCAD	LONG	16183	15873	165	156	23-Mar-12	195%
EURSGD	SHORT	16199	16532	16	1689	04-Apr-12	2.01%
SEK	LONG	6.9552	6.7780	7	6.67	10-Apr-12	2.61%
NOKSEK	LONG	11851	11750	123	1155	16-Apr-12	1.06%
NZDNOK	SHORT	4.6025	4.6970	4.55	4.769	19-Apr-12	2.01%
EURSEK	LONG	8.9963	8.8975	9.15	8.815	25-Apr-12	1.20%
JPYNOK	LONG	7.3395	7.1560	7.5	6.98	02-May-12	2.56%

## Track Record (since 1/1-2007)

Since Trades Activated	
# Days Down	358
# Days Up	835
Average Days in Trade	15
Average USD Down	-27205
Average USD Up	53713
Ratio Win/Lose (days)	2.3
Gain to Loss Ratio (USD)	2.0
Max Monthly Down (%)	-2.06
Max Monthly Up (%)	3.54
Marked-to-Market	
Monthly Information Ratio	0.39
Weekly Information Ratio	0.20
Daily Information Ratio	0.10
Information Ratio	1.35
% Losing Months	32%
Realized P/L	
Sharpe Ratio	1.16

## Portfolio return vs a Beta Currency Index



Year	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OKT	NOV	DEC	Year Return
2007	0.53	1.21	0.39	0.09	0.88	-0.30	0.45	0.12	0.83	0.54	2.75	0.95	8.44
2008	-0.75	1.18	2.52	0.00	0.00	0.00	0.69	3.34	2.65	0.53	-0.22	2.40	12.34
2009	-0.77	-0.48	0.95	0.67	-2.07	1.46	0.67	-0.71	1.32	1.89	-1.21	0.99	2.72
2010	0.00	1.12	3.54	2.40	1.11	-0.51	0.12	-0.03	0.94	-1.13	-0.91	-0.33	6.34
2011	-0.30	-0.31	-0.35	0.51	-0.03	0.25	-0.57	0.06	0.32	-0.89	-0.26	1.75	0.20
2012	-0.06	-0.06	-0.35	-0.28	-0.46								-1.21

# Nordea G10 Alpha Carry Index FX

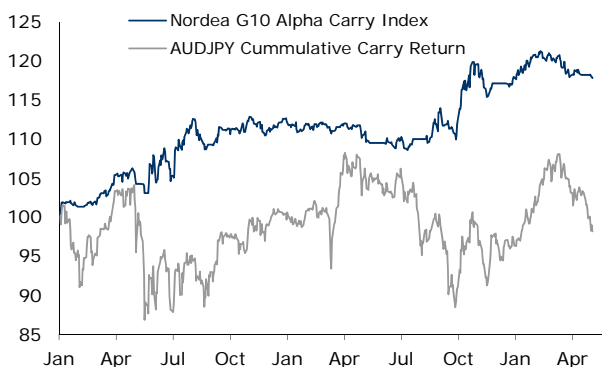
## Rolling into AUDJPY

Over the week Nordea G10 Alpha Carry Index rolled into long AUDJPY, exposure is 33% of total index notional, performance has over the last week been -0.42%.

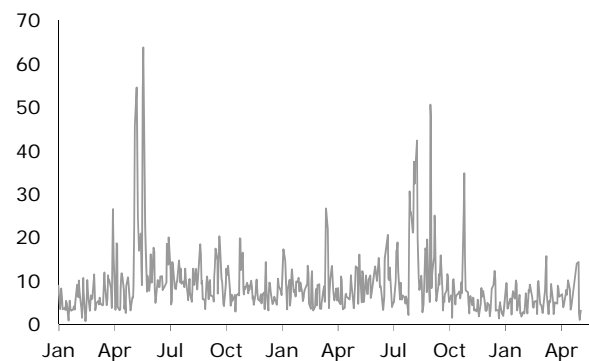
## Index strategy

Nordea G10 Alpha Carry Index is seeking value from investing in high yield currencies by funding in low yield currencies. The index buys maximum three high yield currencies and sells maximum three low yield currencies. The index is long carry only if i) risk aversion is appropriate and ii) momentum is in favor, otherwise exposure is flat, suggesting carry is never to be reversed. Weights are updated on daily basis (Swedish business days). The index strategy has been optimized and back tested using 9 years of data, including about 2500 trading days. Results of the back tests are presented below.

**Performance of Nordea G10 Alpha Carry Index since start in 2010 in comparison with an unfiltered carry strategy, here we have taken AUDJPY, the G10 currency pair that has had the greatest rate differential over the time period considered.**



**Evolution of correlation based risk index since start in 2010, the Nordea G10 Alpha Carry Index exits all positions when this index spikes.**



### Performance since Jan 2010

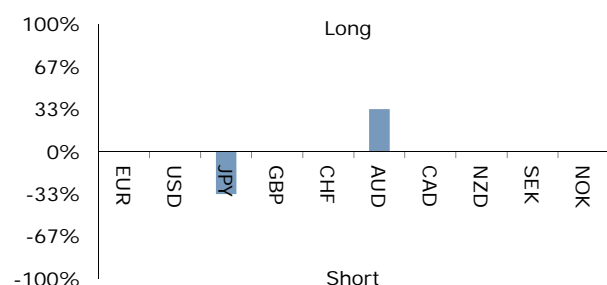
Cumulative Return	18.2%
Annualized Return	7.8%
Annualized Volatility	8.2%
Information Ratio*	0.96
Max Weekly Drawdown	-3.1%
Max Monthly Drawdown	-3.8%

### Results from back test 2002-2010

Annualized Return	9.3%
Annualized Volatility	5.6%
Information Ratio*	1.66
Max Monthly Drawdown	-3.1%
Max Quarterly Drawdown	-1.9%
Profitable Months	69%

\* Information Ratio is calculated as annualized return over annualized volatility.

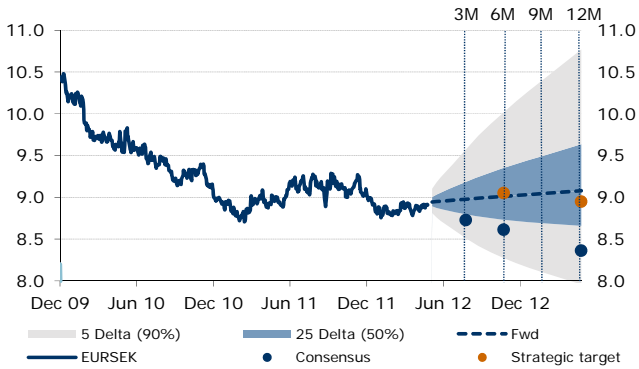
### Current positioning



# Strategic Monitor FX

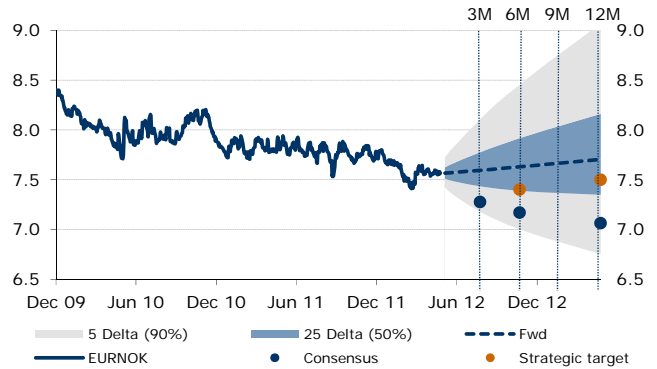
In the graphs below we display our strategic targets together with consensus and forward price. To visualize volatility and skew we plot the 5 delta and 25 delta strikes. These can be seen as the boundaries for the future spot price implied by options with 90% respectively 50% probabilities.

## EURSEK



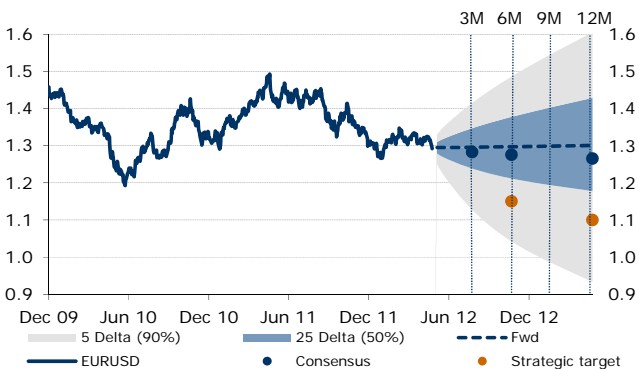
	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	8.7280	8.9783	9.1856 / 8.7978	9.5702 / 8.5117
6M	9.0500	8.6126	9.0125	9.3512 / 8.7327	10.015 / 8.2750
12M	8.9500	8.3626	9.0797	9.6356 / 8.6588	10.769 / 7.9574
24M	--	8.2304	9.1634	--	--

## EURNOK



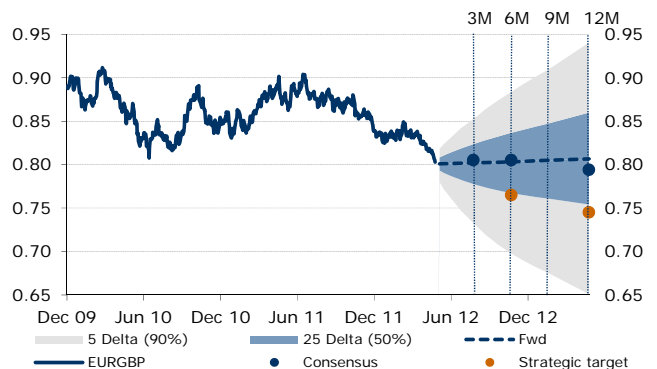
	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	7.2761	7.5940	7.7761 / 7.4338	8.1056 / 7.1800
6M	7.4000	7.1704	7.6289	7.9152 / 7.3882	8.4498 / 7.0027
12M	7.5000	7.0637	7.7030	8.1613 / 7.3487	9.0661 / 6.7529
24M	--	7.0063	7.8023	--	--

## EURUSD



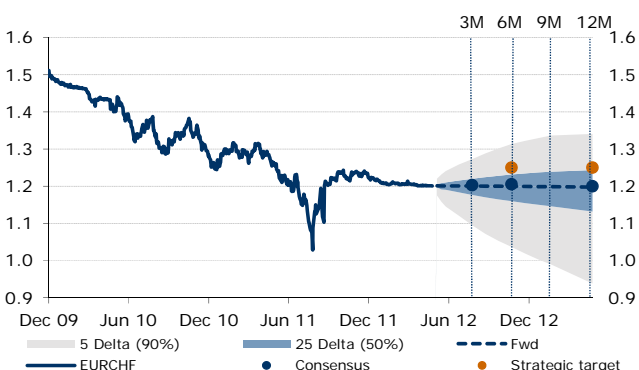
	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	1.2830	1.2958	1.3468 / 1.2386	1.4141 / 1.1280
6M	1.1500	1.2753	1.2972	1.3773 / 1.2118	1.4855 / 1.0427
12M	1.1000	1.2652	1.3007	1.4287 / 1.1780	1.6052 / 0.9331
24M	--	1.2531	1.3047	--	--

## EURGBP



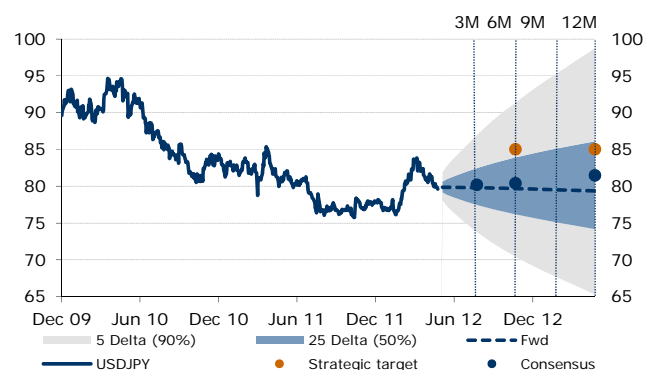
	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	0.8052	0.8019	0.8235 / 0.7778	0.8525 / 0.7327
6M	0.7650	0.8052	0.8033	0.8366 / 0.7672	0.8837 / 0.6977
12M	0.7450	0.7941	0.8068	0.8599 / 0.7542	0.9406 / 0.6508
24M	--	0.7841	0.8113	--	--

## EURCHF



	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	1.2029	1.2005	1.2197 / 1.1769	1.2729 / 1.0953
6M	1.2500	1.2054	1.1996	1.2319 / 1.1598	1.3135 / 1.0367
12M	1.2500	1.2000	1.1978	1.2433 / 1.1319	1.3406 / 0.9380
24M	--	1.2045	1.1938	--	--

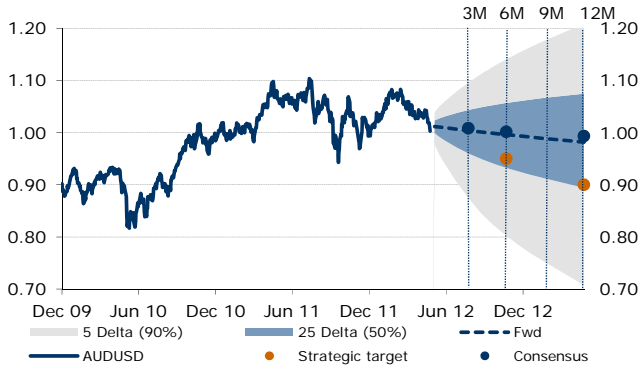
## USDJPY



	Strategic target	Cons	Fwd	25 delta	5 delta
3M	--	80.1746	79.7957	82.444 / 77.477	86.941 / 73.790
6M	85.0000	80.3800	79.6865	83.907 / 76.187	91.353 / 70.455
12M	85.0000	81.4578	79.3620	86.112 / 74.164	98.767 / 65.286
24M	--	83.4068	78.8616	--	--

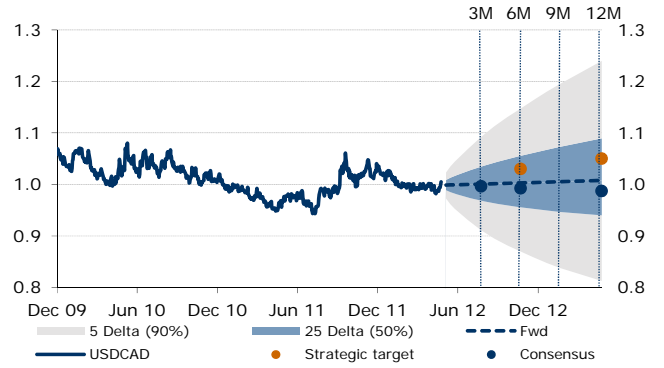
# Strategic Monitor FX

## AUDUSD



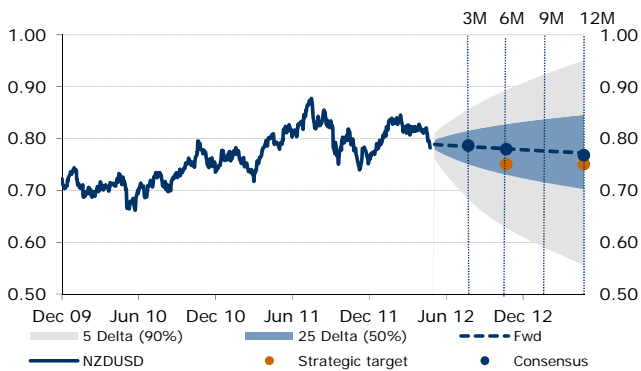
	Strategic target	Cons	Fwd	25 delta	5 delta
<b>3M</b>	--	1.0084	1.0040	1.0433 / 0.9604	1.0956 / 0.8745
<b>6M</b>	0.9500	1.0016	0.9962	1.0569 / 0.9327	1.1404 / 0.8022
<b>12M</b>	0.9000	0.9934	0.9819	1.0746 / 0.8942	1.2091 / 0.7074
<b>24M</b>	--	0.9779	0.9640	--	--

## USDCAD



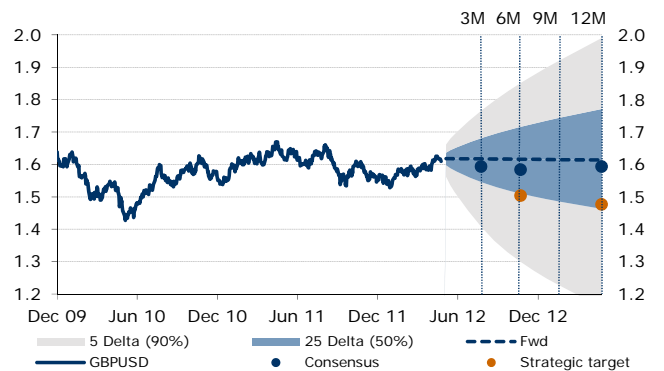
	Strategic target	Cons	Fwd	25 delta	5 delta
<b>3M</b>	--	0.9962	1.0006	1.0346 / 0.9683	1.0923 / 0.9110
<b>6M</b>	1.0300	0.9922	1.0029	1.0551 / 0.9556	1.1472 / 0.8698
<b>12M</b>	1.0500	0.9871	1.0078	1.0895 / 0.9399	1.2398 / 0.8125
<b>24M</b>	--	0.9761	1.0146	--	--

## NZDUSD



	Strategic target	Cons	Fwd	25 delta	5 delta
<b>3M</b>	--	0.7860	0.7844	0.8151 / 0.7502	0.8559 / 0.6831
<b>6M</b>	0.7500	0.7791	0.7801	0.8279 / 0.7299	0.8932 / 0.6279
<b>12M</b>	0.7500	0.7675	0.7719	0.8455 / 0.7019	0.9510 / 0.5554
<b>24M</b>	--	0.7563	0.7622	--	--

## GBPUSD



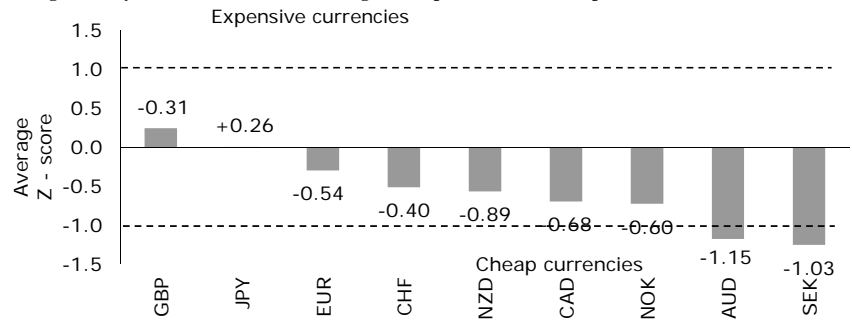
	Strategic target	Cons	Fwd	25 delta	5 delta
<b>3M</b>	--	1.5934	1.6169	1.6806 / 1.5457	1.7646 / 1.4077
<b>6M</b>	1.5033	1.5838	1.6160	1.7156 / 1.5101	1.8504 / 1.2993
<b>12M</b>	1.4765	1.5932	1.6134	1.7709 / 1.4628	1.9902 / 1.1584
<b>24M</b>	--	1.5981	1.6092	--	--

# Fair Value FX

## Sudden moves pushing currencies out range

The market has moved rapidly during the past week and some currencies have moved out of fair value range. In particular, AUDUSD and USDSEK are highlighted by the model having moved particularly much during the week.

Fig 1 - Misalignment against USD. The dotted lines show +/- 1 z-score levels where currencies are considered significantly over- or undervalued. Changes from previous week on top of bar.



## Fair value heat map

Misalignment against USD. The heat map shows the deviation of spot vs fair values (yearly z-scores in brackets). Coloring according to z-scores.

Model	EUR	GBP	AUD	JPY	CHF	CAD	NZD	SEK	NOK
Macro	-0.28% (-0.15)	0.27% (0.18)	-3.63% (-1.80)	1.29% (0.51)	-1.17% (-0.38)	-1.94% (-0.78)	-2.49% (-0.72)	-3.72% (-1.50)	-0.21% (-0.09)
PPP - CPI	-1.43% (-0.35)	0.27% (0.08)	-4.38% (-1.22)	-0.09% (-0.01)	-5.07% (-0.75)	-1.11% (-0.30)	-2.86% (-0.41)	-2.56% (-0.46)	-5.08% (-0.85)
PPP - Real rate	-0.44% (-0.09)	0.03% (0.01)	-4.68% (-1.12)	-0.11% (-0.02)	-6.12% (-0.99)	-3.81% (-0.76)	-3.86% (-0.50)	-8.99% (-1.49)	-2.17% (-0.40)
PPP - PPP	-0.78% (-0.16)	1.55% (0.28)	-5.01% (-1.03)	-1.20% (-0.26)	-5.54% (-1.11)	-1.23% (-0.29)	-3.32% (-0.44)	-3.17% (-0.60)	-5.08% (-0.91)
Vol - VIX	-7.01% (-1.81)	0.73% (0.37)	-2.20% (-0.65)	-2.07% (-0.66)	-7.25% (-1.09)	-0.71% (-0.34)	-2.35% (-0.58)	-6.36% (-1.65)	-4.97% (-1.23)
Vol - ATM (1M)	-3.41% (-0.95)	0.68% (0.41)	-6.39% (-1.93)	-1.55% (-0.76)	-3.18% (-0.38)	-2.46% (-1.26)	-6.18% (-1.15)	-5.49% (-1.34)	-3.52% (-0.85)
Vol - RR (10 delta)	-3.41% (-0.88)	0.70% (0.43)	-5.49% (-1.56)	-0.77% (-0.35)	-3.94% (-1.20)	-2.06% (-0.63)	-4.99% (-1.03)	-4.16% (-0.95)	-2.43% (-0.65)
Consensus (12m)*	2.11% (0.46)	1.08% (0.37)	--	2.01% (0.30)	2.01% (0.13)	-1.80% (-0.48)	--	-5.48% (-0.39)	-5.44% (-0.42)
CDS - CDS (5y)	-1.46% (-0.40)	1.70% (0.61)	-3.44% (-0.56)	-2.29% (-0.48)	-1.03% (-0.22)	0.86% (0.62)	-3.05% (-0.50)	-3.07% (-1.18)	-3.08% (-0.90)
CDS - Risk free rate	-0.73% (-0.34)	-0.28% (-0.28)	-0.46% (-0.24)	1.26% (0.33)	-2.32% (-0.68)	-2.68% (-2.64)	0.34% (0.17)	-3.83% (-3.20)	-4.40% (-2.06)
Average	-0.95% (-0.29)	0.68% (0.25)	-3.74% (-1.17)	0.17% (0.01)	-2.24% (-0.51)	-1.69% (-0.69)	-2.92% (-0.56)	-4.21% (-1.25)	-3.19% (-0.72)
Fair Value	EURUSD 1.30	GBPUSD 1.60	AUDUSD 1.04	USDJPY 80.0	USDCHEF 0.91	USDCAD 0.99	NZDUSD 0.80	USDSEK 6.68	USDNOK 5.70

\* Consensus Economic Inc. and Nordea Analytics

Very Rich	Z-score > 2
Rich	1 < Z-score < 2
Neutral	-1 < Z-score < 1
Cheap	-2 < Z-score < -1
Very Cheap	Z-score < -2

Z - score = (current FX spot - current fair value) / stdev, i.e. how many standard deviations the spot is from the fair value. In the calculations, the non-USD currency is used as base.

## The models

Using a set of regression models the long term fair values of G10 currencies are estimated. The models are split into five different categories found below. The framework is not associated with our forecasts or trading, but rather a stand-alone model.

**Macro:** Uses macroeconomic indicators such as industry production and money supply to calculate fair values.

**Purchasing Power Parity:** Is based on the relative price levels and interest rates of the two countries.

**Vol:** Estimates fair values by means of volatility proxies such as implied vol, risk reversal and VIX.

**Consensus:** Twelve month forecasts are used as input variables to generate fair values.

**CDS:** To capture the overall riskiness of a country CDS spreads are used both as stand-alone variables and in a real rate framework.

# SEK Forward Monitor

Below we display the recent evolution in FX forwards and the implied cross currency basis for USDSEK and EURSEK over different tenors. Basis calculations are based on STIBOR and LIBOR/EURIBOR fixings.

## USDSEK

The front end of the USDSEK forward curve has shifted up over the recent weeks. As seen in fig 3 much of this front end movement has originated from movements in the cross currency basis.

Fig 1. The USDSEK forward term-structure expressed in pips/day.

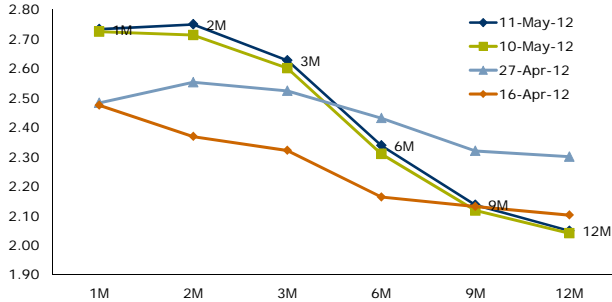


Fig 2. Current USDSEK forward term-structure (pips/day) and its composition of rate differential and cross currency basis.

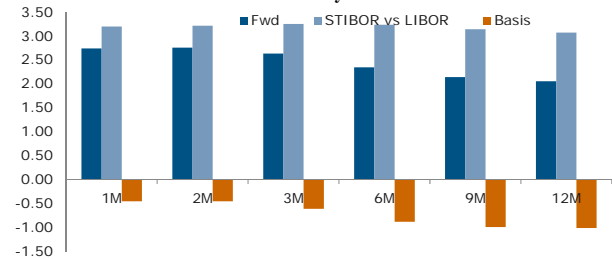


Fig 3. The term-structure of implied USDSEK 1-12M cross currency basis (bps) in using STIBOR and LIBOR fixings.

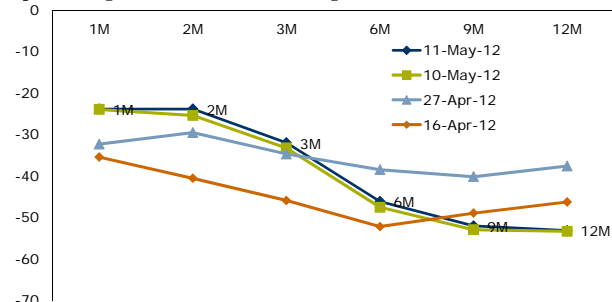
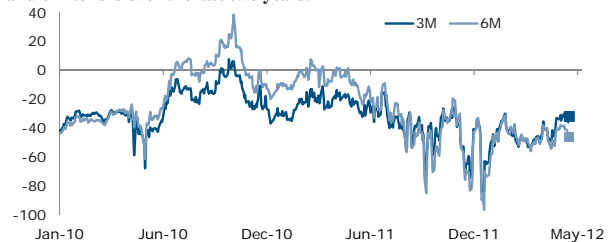


Fig 4. Movements in USDSEK implied cross currency basis (bps) for the 3M and 6M tenors over the last two years.



## EURSEK

The EURSEK term-structure remain somewhat elevated compared with a month ago, especially the 2M and 3M points seem expensive as seen in fig 5. Looking at the basis curve, fig 7, the kink on the 3M tenor somewhat suggests why so is the case.

Fig 5. The EURSEK forward term-structure expressed in pips/day.

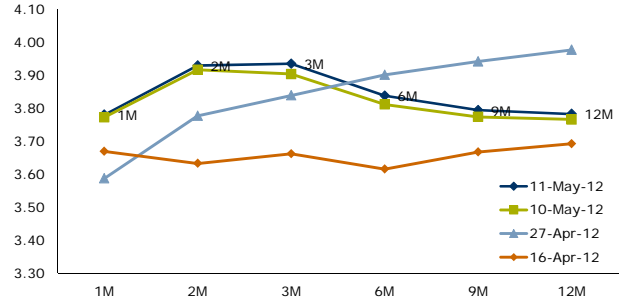


Fig 6. Current EURSEK forward term-structure (pips/day) and its composition of rate differential and cross currency basis.

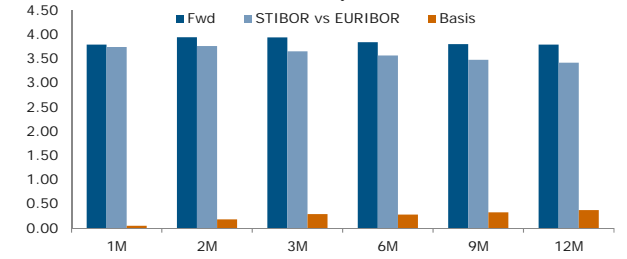


Fig 7. The term-structure of implied EURSEK 1-12M cross currency basis (bps) using STIBOR and EURIBOR fixings.

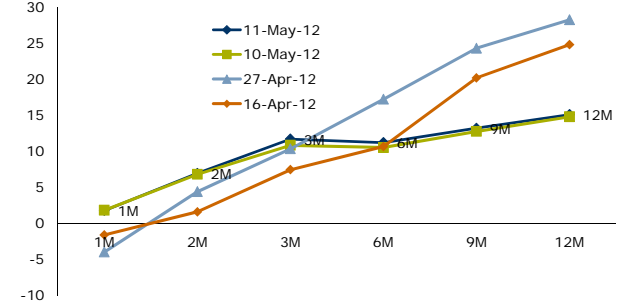
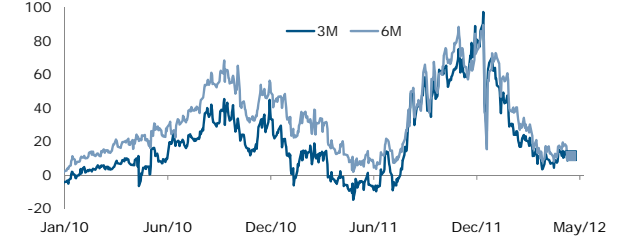


Fig 8. Movements in EURSEK implied cross currency basis (bps) for the 3M and 6M tenors over the last two years.

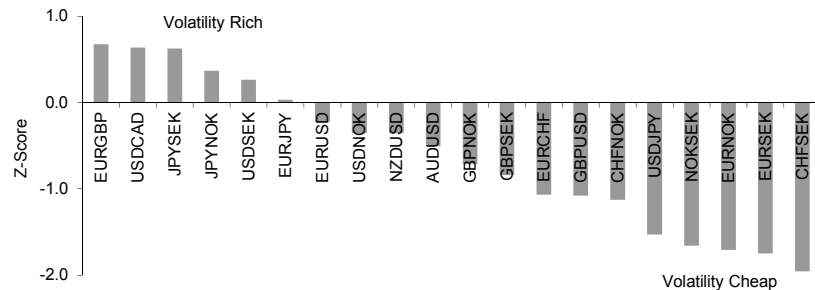


# Volatility FX

## Current 1M ATM vs. 3 month mean

Vol of Scandie crosses can be found on the cheap side of the scale when comparing implied vol with its three month mean. In particular, CHFSEK vol stands out as cheap.

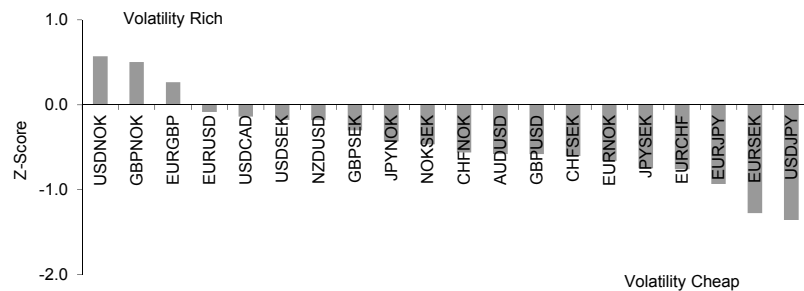
Fig 1 - Divergence of 1M implied vol from 3 month mean. Z-Score = (current - mean)/stdev



## Current 1M ATM vs. realized volatility

Comparing implied with realized vol reveals that USDJPY vol appears cheap. On the other side of the scale USDNOK vol stands out as rich.

Fig 2 - Residual from regressing 1M implied vol against realized vol. Z-Score = (current - regression value)/stdev. Realized vol calculated using an exponentially weighted moving average. For the regression we use one year of data.



## ATM volatility heat map

Over the board of crosses vol appears cheap. USDJPY vol stands out having cheap vol for all tenors below.

	1W			2W			1M			3M			6M			1Y		
	Rich/ Cheap	Vol	Z- Score	Rich/ Cheap	Vol	Z- Score	Rich/ Cheap	Vol	Z- Score	Rich/ Cheap	Vol	Z- Score	Rich/ Cheap	Vol	Z- Score	Rich/ Cheap	Vol	Z- Score
EURUSD	-0.3	9.0	-0.3	-0.2	9.2	-0.3	-0.2	9.6	-0.2	0.0	10.5	0.0	0.0	11.3	0.0	0.1	12.1	0.2
EURJPY	-0.3	11.7	-0.3	-0.3	11.7	-0.4	0.0	12.0	0.0	0.1	12.5	0.2	0.0	13.2	0.0	-0.1	14.0	-0.2
EURGBP	0.5	7.6	0.9	0.4	7.5	0.8	0.3	7.4	0.7	0.3	7.9	1.0	0.4	8.5	1.2	0.5	9.1	1.5
EURCHF	-0.8	1.7	-1.0	-0.9	1.7	-1.1	-0.9	2.2	-1.1	-0.6	3.6	-0.9	-0.6	4.7	-0.9	-0.6	5.8	-0.9
EURSEK	-0.9	5.0	-1.5	-0.7	5.3	-1.3	-0.7	5.4	-1.7	-0.5	6.0	-1.5	-0.3	6.8	-1.2	-0.1	7.4	-0.7
EURNOK	0.1	6.4	0.2	-0.2	6.1	-0.4	-0.6	5.7	-1.7	-0.4	6.3	-1.3	-0.4	6.7	-1.4	-0.4	7.0	-1.6
USDSEK	-0.2	10.4	-0.4	-0.1	10.7	-0.2	0.1	11.4	0.3	0.2	12.4	0.4	0.2	13.4	0.5	0.1	14.1	0.4
JPYSEK	-0.2	12.8	-0.2	-0.1	13.0	-0.2	0.3	13.5	0.6	0.6	14.6	1.7	0.5	15.3	1.7	0.3	16.0	1.2
GBPSEK	-0.4	8.2	-0.5	-0.4	8.1	-0.6	-0.5	8.1	-0.8	0.0	9.1	0.1	0.1	9.7	0.3	0.2	10.4	0.5
CHFSEK	-0.9	5.6	-1.5	-0.7	5.8	-1.5	-0.8	6.1	-2.0	-0.7	6.6	-2.1	-0.3	7.7	-0.9	-0.4	8.6	-0.7
NOKSEK	-0.7	4.9	-0.7	-0.8	4.9	-1.3	-0.6	5.3	-1.7	-0.5	5.7	-2.0	-0.3	6.1	-1.9	-0.2	6.5	-1.5
USDNOK	-0.6	10.1	-0.9	-0.5	10.3	-0.9	-0.2	11.0	-0.4	0.1	12.3	0.3	0.2	13.3	0.5	0.2	14.0	0.6
JPYNOK	-0.2	12.7	-0.2	-0.1	12.8	-0.1	0.3	13.3	0.4	0.6	14.3	1.2	0.4	15.0	1.2	0.3	15.7	1.1
GBPNOK	-0.2	8.5	-0.3	-0.2	8.4	-0.3	-0.4	8.3	-0.7	-0.1	9.1	-0.4	-0.1	9.6	-0.4	0.0	10.3	0.1
CHFNOK	-0.9	5.8	-1.3	-0.5	6.2	-0.8	-0.5	6.3	-1.1	-0.3	7.0	-1.1	-0.5	7.5	-1.2	-0.6	8.0	-1.6
AUDUSD	-0.4	9.8	-0.4	-0.5	9.8	-0.6	-0.5	10.1	-0.5	-0.5	11.1	-0.6	-0.5	12.1	-0.7	-0.6	13.0	-1.2
USDCAD	0.2	7.4	0.5	0.2	7.4	0.5	0.3	7.7	0.6	0.0	8.1	0.1	-0.1	8.7	-0.2	0.0	9.6	0.0
NZDUSD	-0.2	10.6	-0.2	-0.3	10.6	-0.3	-0.3	10.8	-0.4	-0.3	11.7	-0.4	-0.3	12.8	-0.5	-0.4	13.6	-1.0
GBPUSD	-0.4	6.7	-0.9	-0.5	6.7	-1.2	-0.4	7.0	-1.1	-0.3	7.7	-1.0	-0.3	8.4	-1.1	-0.1	9.3	-0.7
USDJPY	-2.4	7.5	-1.7	-1.9	7.8	-1.8	-1.4	8.2	-1.5	-1.0	8.9	-1.3	-0.9	9.6	-1.5	-0.8	10.6	-1.8

Very Rich	Z-Score > 2
Rich	1 < Z-Score < 2
Neutral	-1 < Z-Score < 1
Cheap	-2 < Z-Score < -1
Very Cheap	Z-Score < -2

Vol is current ATM volatility, data as of 07 May 2012

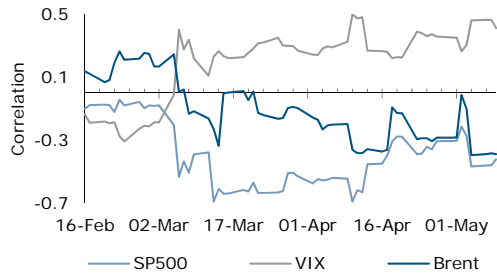
Rich/Cheap = current ATM volatility - 3 month average ATM volatility

Z-Score = (current ATM volatility - 3 month average ATM volatility)/stdev, i.e. how many standard deviation current ATM vol is from mean.

# Correlation Tracker FX

EURSEK and EURNOK correlations have edged up somewhat over the past week. In fact this is true for most crosses below and likely a result after the Greek referendum.

## EURSEK



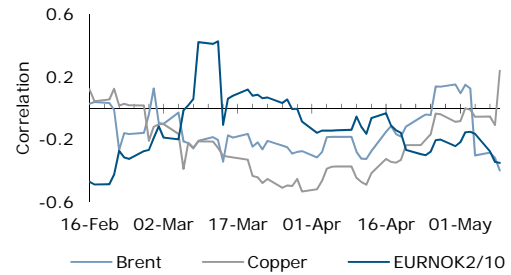
### Highest Short-Term Correlations to EURSEK

SP500	VIX	Brent
-42%	41%	-39%

### Highest Long-Term Correlations to EURSEK

SP500	VIX	CRBMetals
-35%	27%	-24%

## EURNOK



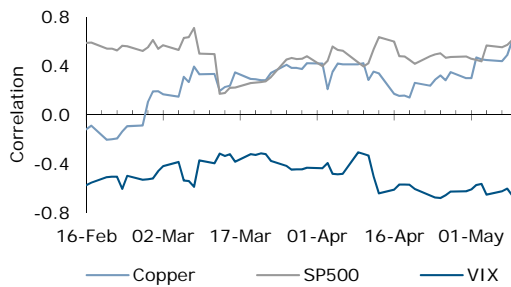
### Highest Short-Term Correlations to EURNOK

Brent	EURNOK2/10	Copper
-40%	-35%	24%

### Highest Long-Term Correlations to EURNOK

EURNOK2/10	CRBMetals	Brent
-24%	-23%	-22%

## EURUSD



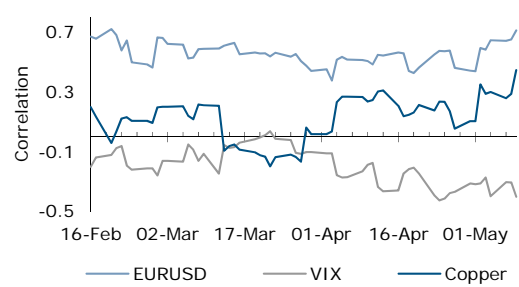
### Highest Short-Term Correlations to EURUSD

VIX	SP500	Copper
-66%	61%	60%

### Highest Long-Term Correlations to EURUSD

SP500	VIX	EURUSDRateDiff
66%	-59%	53%

## EURGBP



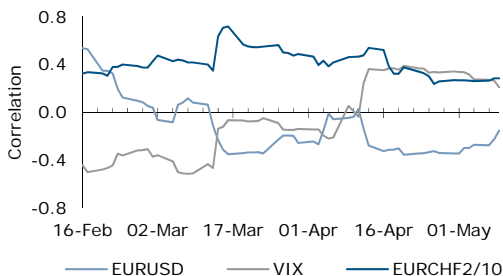
### Highest Short-Term Correlations to EURGBP

EURUSD	Copper	VIX
71%	44%	-40%

### Highest Long-Term Correlations to EURGBP

EURUSD	EURGBPRateDiff	SP500
68%	45%	40%

## EURCHF



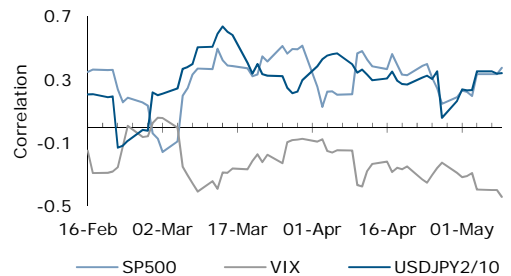
### Highest Short-Term Correlations to EURCHF

EURCHF2/10	VIX	EURUSD
28%	21%	-15%

### Highest Long-Term Correlations to EURCHF

SP500	VIX	EURUSD
29%	-25%	21%

## USDJPY



### Highest Short-Term Correlations to USDJPY

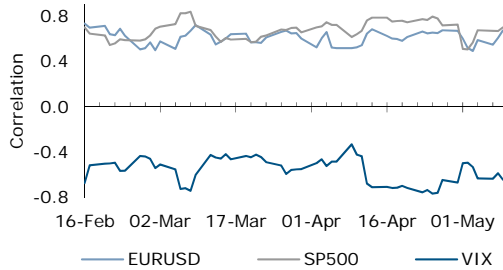
VIX	SP500	USDJPY2/10
-44%	37%	34%

### Highest Long-Term Correlations to USDJPY

EURUSD	Gold	VIX
-26%	-22%	9%

# Correlation Tracker FX

## AUDUSD



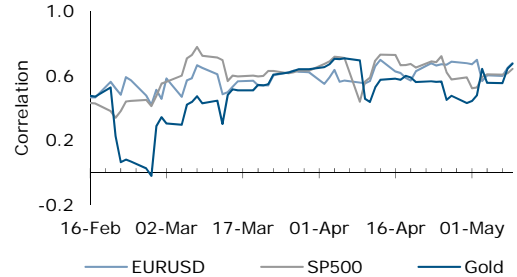
### Highest Short-Term Correlations to AUDUSD

SP500	EURUSD	VIX
70%	67%	-64%

### Highest Long-Term Correlations to AUDUSD

SP500	EURUSD	VIX
81%	72%	-69%

## NZDUSD



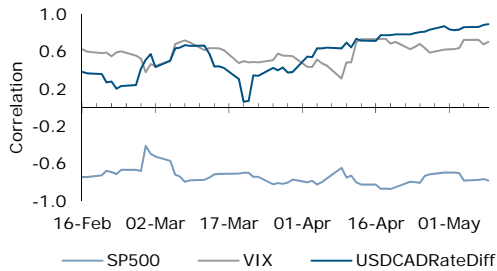
### Highest Short-Term Correlations to NZDUSD

EURUSD	Gold	SP500
68%	67%	64%

### Highest Long-Term Correlations to NZDUSD

SP500	VIX	EURUSD
78%	-69%	69%

## USDCAD



### Highest Short-Term Correlations to USDCAD

USDCADRateDiff	SP500	VIX
89%	-78%	70%

### Highest Long-Term Correlations to USDCAD

SP500	VIX	EURUSD
-81%	69%	-66%

## Fact Box

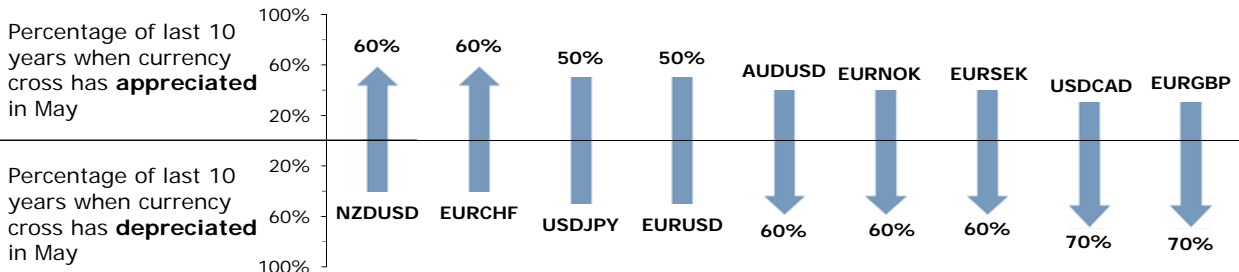
We display the movements in realized correlation between the major currency crosses and important drivers. For each currency cross short-term correlation movements are displayed in the graphs. In the tables we display the highest short-term and long-term (1Y) correlated assets. Short-term correlations are calculated using an exponentially weighted moving average (EWMA), a method designed to quickly pick up changes.

The drivers considered for each currency cross are EURUSD spot, S&P 500, Chicago Board Options Exchange Volatility Index (VIX), gold, copper, CRB Metals Index, Brent crude oil, slope in cross asset rate curve (2Y/10Y swap rates), difference in basis spreads (OIS v.s. Libor 3M), and difference in short rates (4<sup>th</sup> FRA contract)

# Seasonality FX

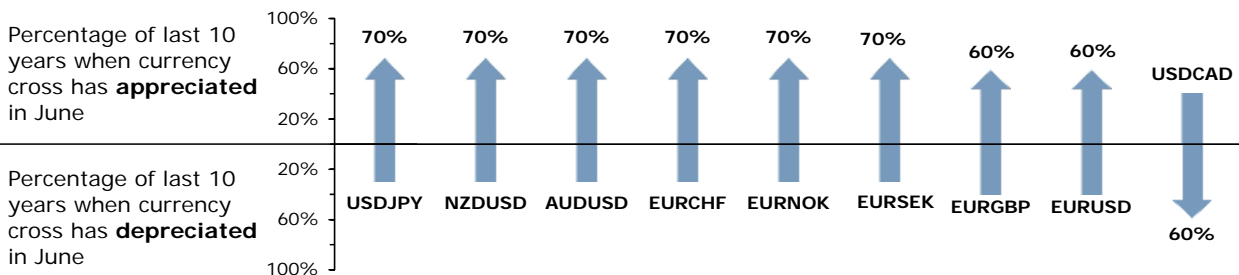
## May – No strong seasonality

If anything, the last ten years USDCAD and EURGBP have depreciated seven out of ten times in May.



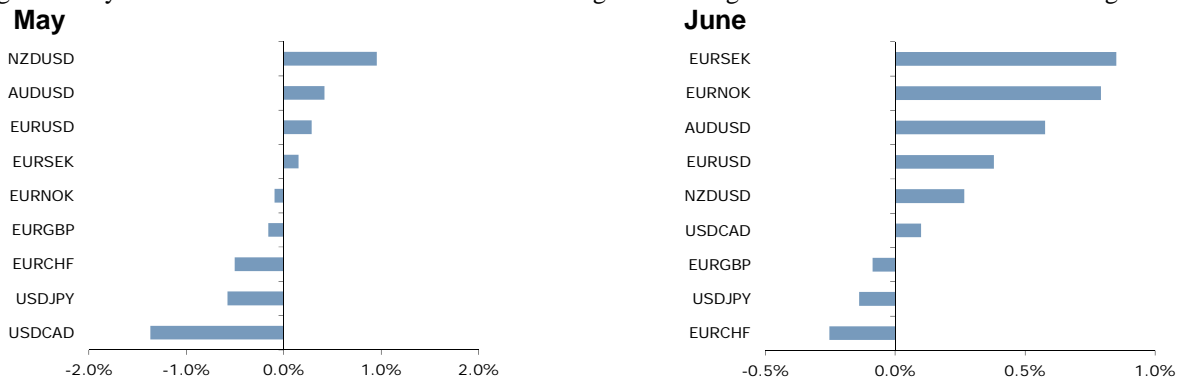
## June – Risk on

June has historically been somewhat of a risk on month as high beta currencies have tended to appreciate.



## Monthly movers

Average monthly movements since 2000. The USDJPY average is standing out due to a one-time massive surge in March.



## Month-end patterns

The heat map shows how many times a cross has appreciated during the last trading day of the specific month as percentage during the last ten years (indicated  $x$  in the heat map coloring specification below).

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
EURSEK	70%	20%	50%	70%	30%	80%	40%	60%	40%	60%	40%	30%
EURNOK	30%	50%	40%	30%	20%	100%	0%	30%	50%	30%	40%	0%
EURUSD	40%	50%	80%	50%	50%	80%	40%	50%	60%	50%	70%	40%
EURGBP	50%	30%	50%	30%	40%	80%	30%	50%	50%	20%	30%	20%
EURCHF	30%	40%	20%	60%	40%	60%	10%	50%	50%	60%	60%	30%
USDJPY	40%	40%	60%	20%	70%	40%	30%	20%	50%	40%	60%	60%
AUDUSD	60%	60%	70%	60%	60%	60%	30%	70%	50%	60%	60%	80%
NZDUSD	60%	30%	40%	40%	20%	60%	60%	30%	50%	50%	40%	30%
USDCAD	50%	60%	70%	70%	70%	60%	40%	80%	50%	60%	50%	60%

x < 20%
20% ≤ x < 40%
40% ≤ x ≤ 60%
60% < x ≤ 80%
x > 80%

# Tactical Trading Fixed Income

## An active week for the tactical portfolio

As we noted last week, we had several potential trades on the radar screen. Quite a few of them were implemented over the course of this week, and it has been a nice start in general. Firstly, we decided to re-enter a SEK front-end steepener and this time we selected a Mar'13/Mar'15 FRA calendar. After an almost relentless flattening on the SEK money market curve, we simply think current levels provide an attractive entry point where it can work both in a rally and sell-off. Against this trade we receive Mar'14 FRA vs. Euribor, which is still hovering around record wide territories. Our thinking is simply that should the SEK curve flatten further, it will likely be in an environment where spreads are compressing. Furthermore, we once again decided to sell 10yr France, and this time we did it against 10yr Sweden. As far as the French leg is concerned, our rationale should be clear to frequent readers of G10 Weekly, while the selection of Sweden instead of Germany is based on a relative judgment of spread levels (i.e. we think Sweden looks cheap on a relative basis). Finally, we implemented a SEK 10s/30s steepener in cash space. SEK 10s/30s has flattened in the recent rally, which stand in stark contrast to other curves that have steepened. In addition, the yield on the 30yr bond is in parity with JGBs now and simply looks ultra-expensive from each and every angle. An alternative to this trade could be to steepen the German curve against it, but we decide to keep it simple initially.

## Open Trades

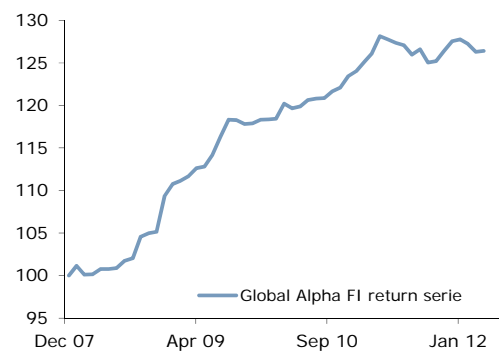
Global Alpha Strategy FI Trades					YTD	-0.73%
Position	Current	Entry	Target	Stop	Inception	P/L (bps)
SEK FRA Mar'13/Mar'15 steepener	23	23.5	50	5	07-May	-1
Receive SEK Mar'14 FRA vs Euribor	93	105	85	120	07-May	12
Sell 10yr France vs Sweden	128	114	150	80	07-May	14
Steepen SGB 1054 vs 1053 (10s/30s)	39	39	59	24	11-May	0

## Track Record (since 1/1-2008)

Record: 2008 - current	
# Months Up	41
# Months Down	11
Hit ratio (per trade)	68%
# Max Monthly Up (%)	4.03%
# Max Monthly Down (%)	-1.23%

Year	Total	Vol	IR	# trades	Hit %	+ mths
2008	9.1%	4.6%	1.98	42	62%	11
2009	7.9%	2.5%	3.16	15	81%	10
2010	4.7%	1.8%	2.59	23	72%	11
2011	2.8%	2.9%	0.96	34	55%	7

## Portfolio return

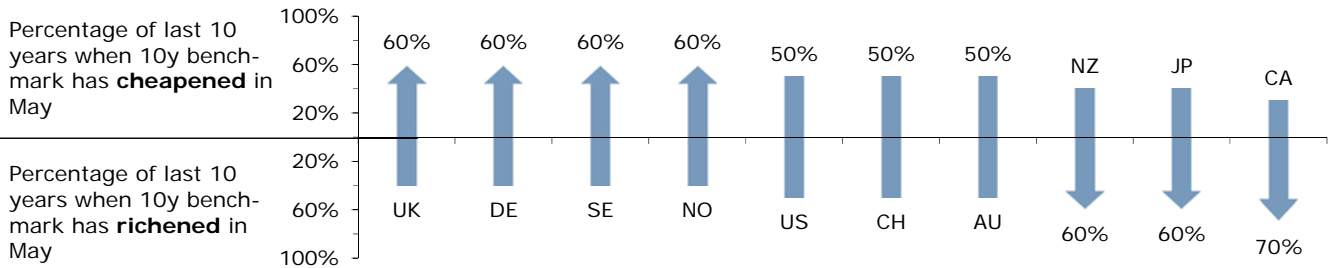


Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
2008	1.15%	-1.03%	0.03%	0.62%	0.00%	0.10%	0.87%	0.29%	2.48%	0.41%	0.14%	4.03%	<b>9.08%</b>
2009	1.27%	0.34%	0.48%	0.85%	0.17%	1.20%	1.87%	1.74%	-0.06%	-0.39%	0.08%	0.36%	<b>7.93%</b>
2010	0.02%	0.06%	1.51%	-0.46%	0.17%	0.65%	0.14%	0.04%	0.64%	0.39%	1.08%	0.49%	<b>4.74%</b>
2011	0.90%	0.74%	1.64%	-0.30%	-0.32%	-0.21%	-0.88%	0.49%	-1.23%	0.13%	0.97%	0.89%	<b>2.82%</b>
2012	0.19%	-0.39%	-0.77%	0.08%									<b>-0.89%</b>

# Seasonality Fixed Income

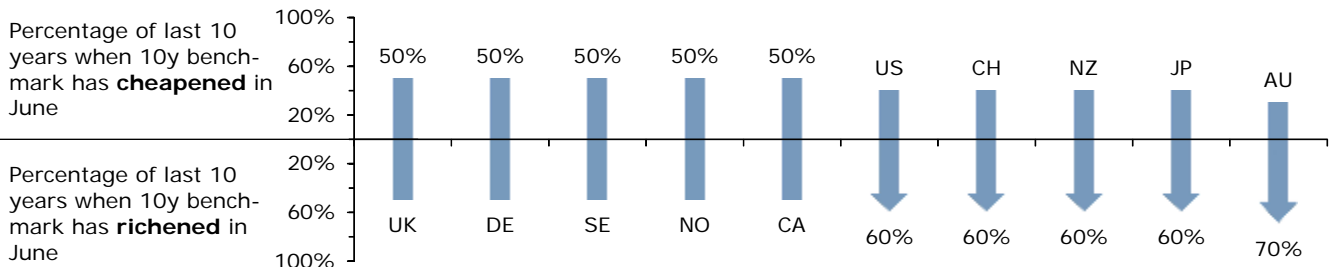
## May – Canada performing

The 10y Canadian benchmark has performed seven out of the last ten years in May.



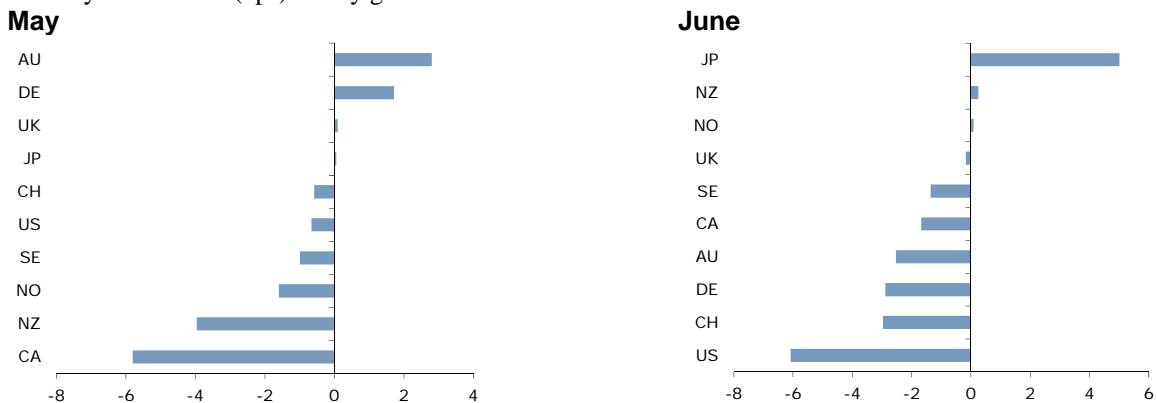
## June – No strong seasonality

There seems to be no strong seasonality in June. If anything, the AU 10y benchmark has richened seven out of the last ten years.



## Monthly movers

Average monthly movements (bps) of 10y government bonds since 2000.



## Month-end patterns

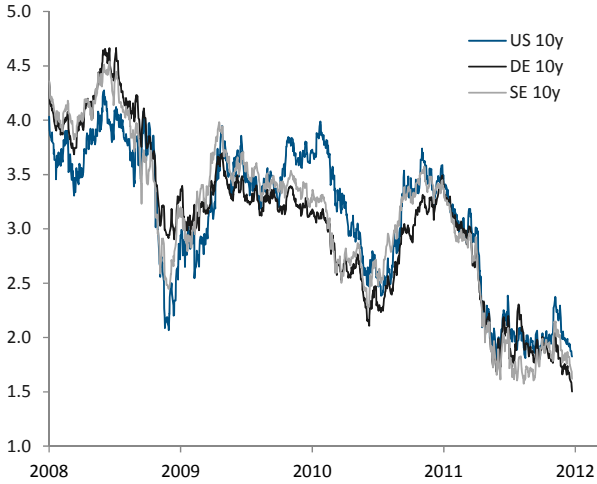
The heat map shows how many times a 10y government bond has richened the last trading day of the month, as a percentage during the last ten years (indicated x in the heat map coloring specification below).

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
US	60%	60%	70%	70%	70%	60%	70%	90%	30%	50%	60%	60%
UK	60%	60%	60%	50%	40%	50%	80%	80%	60%	30%	30%	60%
DE	40%	50%	60%	50%	40%	50%	60%	50%	50%	20%	30%	40%
SE	30%	30%	70%	60%	30%	40%	60%	60%	50%	20%	20%	50%
NO	40%	70%	60%	50%	40%	50%	50%	80%	40%	50%	70%	50%
CH	60%	40%	50%	60%	50%	60%	50%	50%	50%	20%	30%	30%
JP	50%	60%	70%	50%	50%	50%	60%	50%	40%	60%	40%	60%
CA	50%	60%	60%	40%	70%	50%	60%	90%	40%	70%	40%	50%
AU	30%	60%	70%	80%	90%	50%	80%	70%	50%	40%	20%	70%
NZ	50%	50%	70%	70%	70%	60%	80%	100%	30%	50%	70%	50%

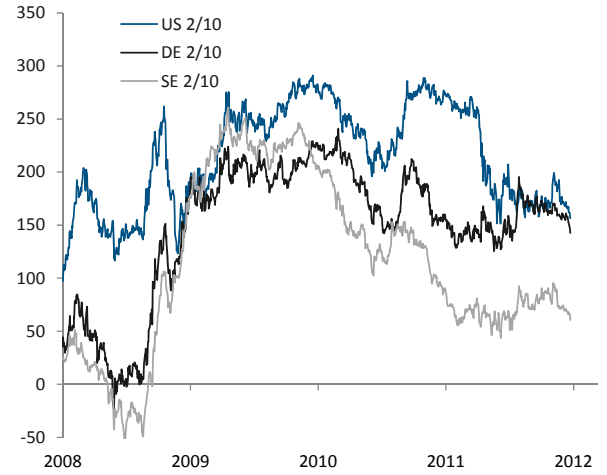
x < 20%
20% ≤ x < 40%
40% ≤ x ≤ 60%
60% < x ≤ 80%
x > 80%

# Spread Monitor Fixed Income

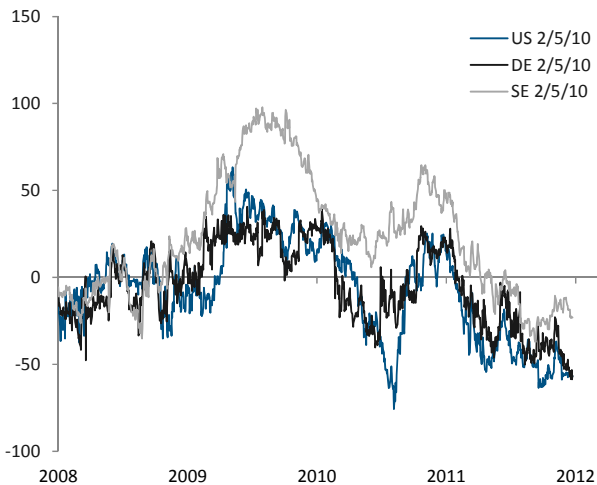
**Government 10y**



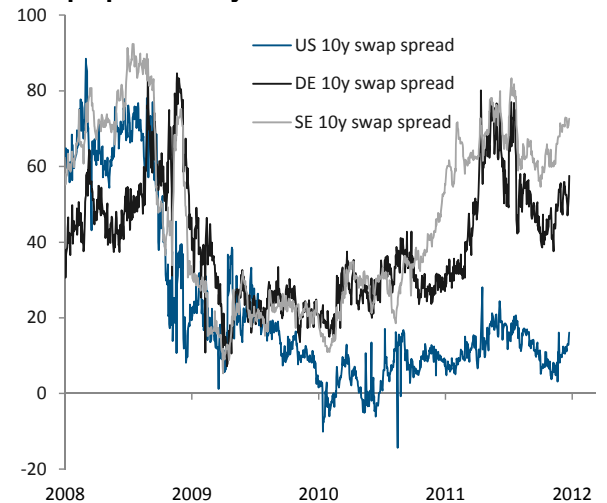
**Government 2/10s**



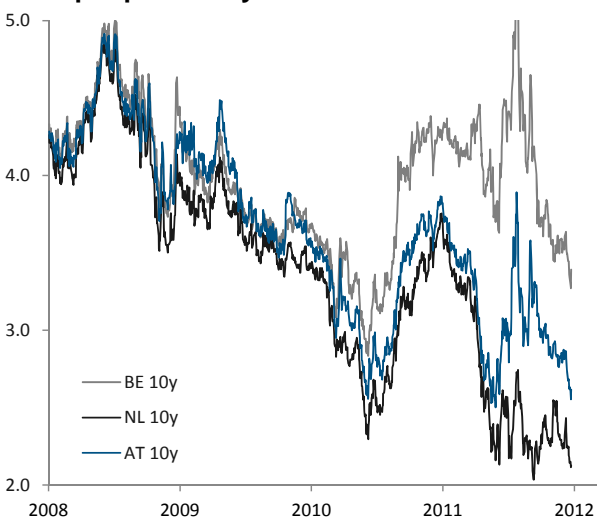
**Government 2/5/10s**



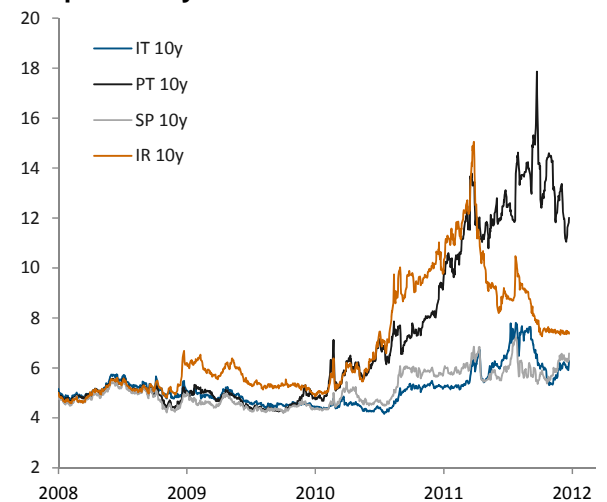
**Swap spreads 10y**



**Semi-peripheral 10y**

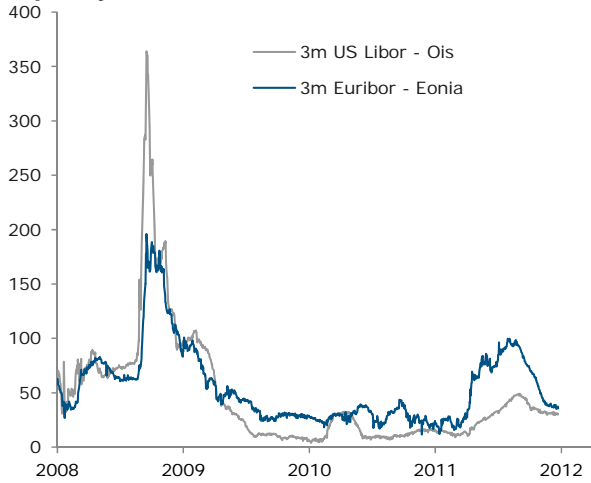


**Peripheral 10y**

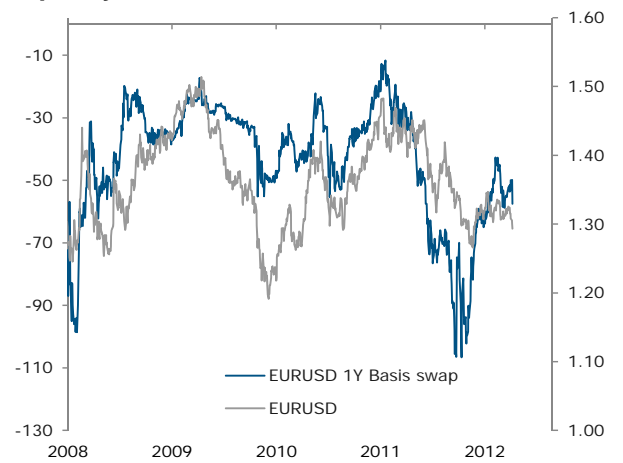


# Risk Monitor

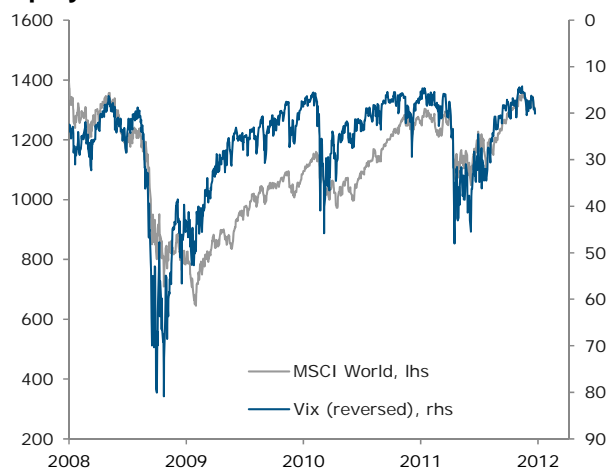
## Liquidity risk



## Liquidity risk



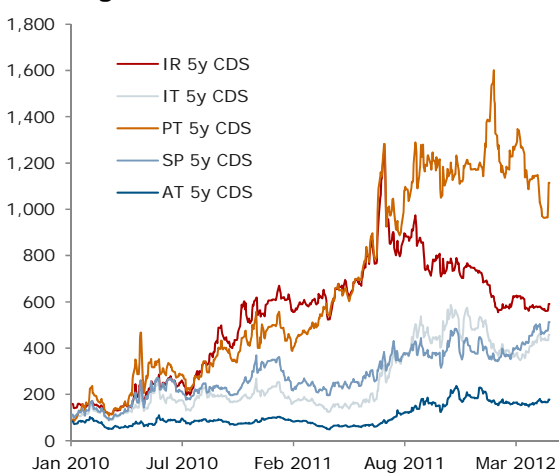
## Equity risk



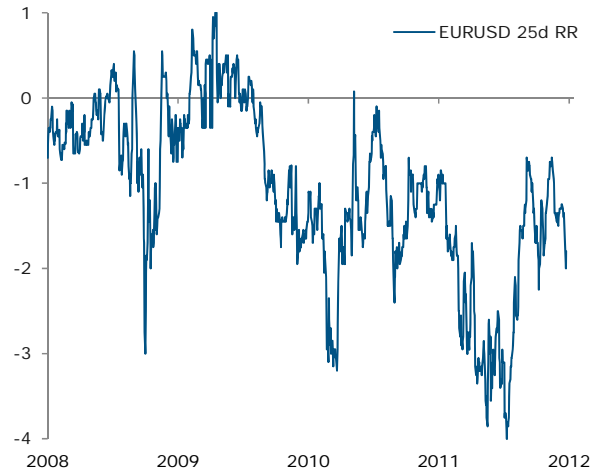
## Commodity risk



## Sovereign risk



## Skew risk



# G10 Calendar

<b>Monday 14-May-12</b>					Nordea	Consensus	Actual	Previous
	EU	ECOFIN meeting						
09:30	SE	Capacity utilization, manufacturing industry	Q1					
09:30	SE	Inventories, manufacturing industry	Q1					
10:00	IT	CPI (m/m, final)	Apr					0.5%
10:00	IT	CPI (y/y, final)	Apr					3.3%
10:00	NO	Credit growth, domestic, C2 (y/y)	Mar					7.0%
10:00	NO	Norges Bank publishes report on Financial Stability						
11:00	EU	Industrial production (sa, m/m)	Mar					0.5%
11:00	EU	Industrial production (w da, y/y)	Mar					-1.8%
11:00	NO	Auction of Treasury Bills						
16:00	US	Mortgage delinquencies (expected 14-18 May)	Q1					7.58%
16:00	US	Mortgage foreclosures (expected 14-18 May)	Q1					4.38%
<b>Tuesday 15-May-12</b>					Nordea	Consensus	Actual	Previous
03:30	AU	Minutes of the RBA meeting						
08:00	EU	G8 Summit						
08:00	DE	GDP (nsa, y/y, preliminary)	Q1					
08:00	DE	GDP (sa, q/q, preliminary)	Q1					-0.2%
08:00	DE	GDP (w da, y/y, preliminary)	Q1					
08:00	SE	House prices, Mäklarstatistik (y/y)	Apr					
08:45	FR	CPI (m/m)	Apr					0.8%
08:45	FR	CPI (y/y)	Apr					2.3%
08:45	FR	GDP (q/q, preliminary)	Q1					0.2%
08:45	FR	GDP (y/y, preliminary)	Q1					1.3%
10:00	NO	Foreign trade with goods (bn)	Apr					46.4bn
10:00	NO	Foreign trade with goods (growth volume q/q)	Q1					-0.9%
10:00	NO	The Revised National Budget 2012 is published						
11:00	EU	GDP (sa, q/q, preliminary)	Q1					-0.3%
11:00	EU	GDP (sa, y/y, preliminary)	Q1					0.7%
11:00	DE	ZEW, current conditions	May					40.7
11:00	DE	ZEW, expectations	May					23.4
14:30	US	CPI (m/m)	Apr		0.1%			0.3%
14:30	US	CPI (y/y)	Apr		2.4%			2.7%
14:30	US	CPI, core (m/m)	Apr		0.2%			0.2%
14:30	US	CPI, core (y/y)	Apr		2.3%			2.3%
14:30	US	Empire manufacturing	May		8.90			6.56
14:30	US	Retail sales (m/m)	Apr		0.2%			0.8%
14:30	US	Retail sales, ex auto and gas (m/m)	Apr					0.7%
14:30	US	Retail sales, less autos (m/m)	Apr		0.2%			0.8%
15:00	US	TIC flows, net long-term	Mar					10.1bn
15:00	US	TIC flows, net total	Mar					107.7bn
16:00	US	Business inventories (m/m)	Mar		0.5%			0.6%
19:00	US	Housing market index, NAHB	May		26			25
20:00	EU	Eurogroup and ECOFIN finance ministers meetings (14-15 May)						
<b>Wednesday 16-May-12</b>					Nordea	Consensus	Actual	Previous
08:00	EU	ECB Governing Council meeting						
10:00	IT	GDP (q/q, preliminary)	Q1					-0.7%
10:00	IT	GDP (y/y, preliminary)	Q1					-0.4%
10:00	GB	Earnings, average (3mma, y/y)	Mar					1.4%
10:00	GB	Earnings, ex bonus, average (3mma, y/y)	Mar					1.1%
10:30	GB	Unemployment rate, ILO (3mma)	Mar					8.3%
10:30	GB	Unemployment rate, claimant count	Apr					4.9%
11:00	EU	CPI (excluding food and energy)	Apr					
11:00	EU	CPI (m/m)	Apr					1.3%
11:00	EU	CPI (y/y)	Apr					1.6%
11:00	SE	SNDO to auction bonds (2.5 SEKbn)						
11:30	GB	BoE publish inflation report						
12:00	NO	Norges Bank announces auction of Treasury bonds						
13:00	US	Mortgage applications, MBA	May					
14:30	US	Building permits	Apr		735k			747k
14:30	US	Housing starts	Apr		678k			654k
14:30	US	Housing starts (m/m)	Apr		3.6%			-5.8%
15:15	US	Capacity utilization	Apr		78.9%			78.6%
15:15	US	Industrial production (m/m)	Apr		0.5%			0.0%
20:00	US	Minutes of the FOMC meeting						
<b>Thursday 17-May-12</b>					Nordea	Consensus	Actual	Previous
	NO	Ascension Day						
	NO	Constitution Day						
	SE	Ascension Day						
	CH	Ascension Day						
01:50	JP	GDP (q/q annualised, preliminary)	Q1		3.5%			-0.7%
01:50	JP	GDP (q/q, preliminary)	Q1		0.9%			-0.2%
14:30	US	Jobless claims, continuing	May					
14:30	US	Jobless claims, initial	May					
16:00	US	Leading indicators	Apr		0.2%			0.3%
16:00	US	Philadelphia Fed	May		11.0			8.5
<b>Friday 18-May-12</b>					Nordea	Consensus	Actual	Previous
14:30	CA	Bank of Canada core CPI (m/m)	Apr					0.3%
14:30	CA	Bank of Canada core CPI (y/y)	Apr					1.9%
14:30	CA	CPI (m/m)	Apr					0.4%
14:30	CA	CPI (y/y)	Apr					1.9%

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