



Financial markets survey

Autumn 2019

Summary

As from autumn 2018, the Riksbank sends out the Financial Markets Survey twice a year to participants active in the Swedish fixed-income and foreign exchange (FX) markets.¹ The purpose of the survey is to gain an overall picture of participants' views on the functioning of the Swedish financial markets – how they work, what market activity looks like and which risks market participants see in the Swedish financial system going forward. This report presents the results of the survey responded to in the period 1–16 October 2019.² The report is based solely on participants' responses and is not an account of the Riksbank's assessments.³

Survey results – autumn 2019

Escalated trade conflicts are the risk factor that participants mention most frequently

When asked to describe which external events risk having a negative effect on the Swedish financial system going forward, participants see potentially escalated trade conflicts, particularly between the United States and China, as the main risk factor. Several participants also mention a global slowdown in economic activity and an increased risk of recession. In addition to this, they also mention aspects such as the Swedish housing market, a disorderly British withdrawal from the EU (Brexit), credit and liquidity risks, cyber risks, more stringent regulatory systems and risks related to the financial situation of individual or multiple banks.

A majority of participants consider that they take small or neutral risks

Two-fifths of participants describe their general risk-taking as low or very low while a slightly smaller share describe it as neutral. Those saying they take equally large risks as previously are approximately as many as those who consider that they have reduced their risk-taking. Only one participant in five reports increased risk-taking. Most consider themselves to be generally well prepared to manage credit and counterparty risk, market risk and liquidity risk, but just under half consider themselves to be well prepared for legal risk. One participant in three considers themselves to be well prepared to manage cyber risk, while one in five see themselves as well prepared to manage climate-related risk.

Every second participant considers that the market for FX trading in the Swedish krona (SEK) is working well

Half the participants consider that the market for FX trading in SEK is functioning well and only one in seven considers that it functions poorly. When asked if they see any important factor that could affect the functioning of the market in the future, several participants responded that a less expansionary monetary policy in Sweden would be positive.

Two-fifths of participants consider that the fixed-income market functions poorly

Two-fifths of participants consider that the fixed-income market functions poorly or very poorly, which is almost twice as many as those who consider that it functions well. As with the foreign exchange market, many participants consider that a less expansionary monetary policy could get the market to function better going forward.

Participants in the market for FX trading in SEK often use electronic aids

More or less all respondents active in the market for FX trading in SEK state that they use electronic trading platforms in their trading, and around half of these state that they always

¹ The Riksbank conducted a biannual risk survey between 2008 and 2017 to provide an overall picture of participants' views on financial risks and the functioning of the financial market. In spring 2017, a review of the forms of the Risk survey was initiated and this has resulted in an updated survey that covers functionality, market activity, risks, risk-taking and other general questions with regard to both the fixed-income and FX market. The name of the survey has therefore been changed to Financial markets survey. The Financial markets survey supplements the regular contacts the Riksbank has with market participants.

² The survey was carried out with the aid of the survey tool Epsilon, which is supplied by the European Central Bank (ECB). The survey this autumn was sent out to 105 participants, both Swedish and non-Swedish, who are active in the Swedish fixed-income and/or FX market. The response frequency was 63 per cent for the survey as a whole.

³ The term *(market) participants* will henceforth be used to refer to those participants responding to the survey.

use them. However, the majority of FX market participants state that they seldom or never use algorithms. Regarding the trade in Swedish government bonds, one in three fixed-income market participants say that they have increased their use of electronic trading platforms, however using algorithms remains very unusual.

Risks and risk factors

Escalated trade conflicts are the risk factor that participants mention most frequently

Participants were asked in the survey to describe which external events risk having a negative effect on the Swedish financial system in the coming six months. The risk factor that most participants have expressed concern over is escalated trade conflicts, particularly between the United States and China. Several participants also mention a global slowdown in economic activity and an increased risk of recession as the foremost risk factors. Other risk factors mentioned include credit and liquidity risks, risks linked to the Swedish housing market, cyber risks and risks related to the financial position of one or more banks. In the Financial Markets Survey for spring 2019, market risks related to the risk of a disorderly UK exit from the EU (Brexit) was the risk factor most participants considered greatest over the coming six months. A disorderly Brexit was also mentioned this time by several participants, but not to such a great extent as in the last survey.

There were also several participants who mentioned liquidity risks in the spring survey, among other things in connection with more stringent regulatory systems.⁴ More specifically, many participants highlighted Finansinspektionen's (the Swedish Financial Supervision Agency) proposal for liquidity coverage ratios (LCRs) in individual currencies (particularly Swedish kronor).⁵ These participants claim that the proposal will increase demand for Swedish kronor via the market for FX swaps⁶ and Swedish interest-bearing assets. Banks can increase their LCRs by obtaining more liquid assets or by extending the maturities of their funding. In the autumn survey, several participants state that demand for Swedish government securities, Swedish kronor via the FX swap market and Riksbank Certificates has increased as a result of the new LCR requirement. According to respondents, this has led to a rise in Swedish money market rates (primarily Stibor).

A majority of participants consider that they take small or neutral risks

Two-fifths of the participants describe their general risk-taking as low or very low in terms of positioning, while a slightly lower proportion describe it as neutral (i.e. neither high nor low; see Diagram 1). Compared with the survey from spring 2019, a slightly lower proportion of respondents say that they take low or very low risks. Just under one-quarter of the participants describe their risk-taking as high, which is a higher proportion than in the last survey. No participants consider they take very high risks.

Participants were also asked whether they think they have changed their risk-taking in the past six months. Almost two-fifths think they have reduced their risk-taking, while just over two-fifths say they take as high risks as before, which is illustrated in Diagram 2. To a greater extent than others, banks consider that they have reduced their risk-taking, while non-financial corporations to a lesser extent consider that they have done so. In addition, other financial corporations, for example investment funds and insurance companies, are overrepresented among participants who consider that they take higher or much higher risks. There is no clear-cut pattern in the reasons given for changes in risk-taking. Some participants

⁴ Market liquidity refers here to the ability to trade large volumes of a financial instrument rapidly at a low transaction cost without the transaction noticeably affecting the market price of the instrument. See also *Market liquidity on the Swedish bond market and its importance for financial stability*, article in Financial Stability Report 2016:1, Sveriges Riksbank.

⁵ The liquidity coverage ratio, LCR, measures banks' resilience to short-term liquidity stress over 30 days. An LCR of 100 per cent means, put simply, that the bank can manage outflows for 30 days. See Financial Stability Report 2019:1, Sveriges Riksbank.

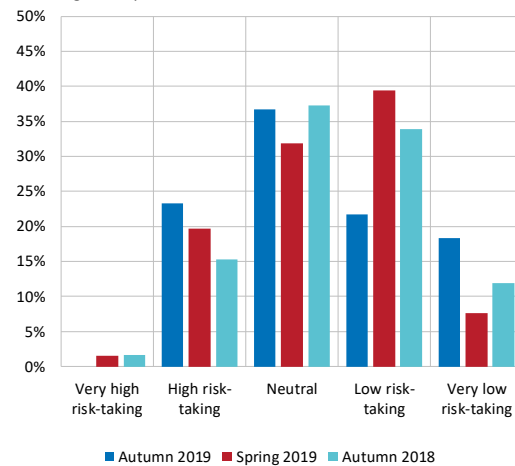
⁶ An FX swap is a bilateral agreement to exchange a specific currency in return for another currency for a predetermined period according to specific conditions.

say that the reason they have reduced their risk-taking is the uncertainty linked to the slowdown in the global economy, the risk of an escalated trade conflict between the United States and China, and Brexit. Others refer to illiquid markets or too low volatility. Higher costs due to various regulations, primarily those connected to capital requirements and provisions for resolution, are also mentioned. It is notable that market makers consider that they have reduced their risk-taking to a greater degree than investors have, for example.⁷ Instead, investors have increased their risk-taking to a greater degree than other roles. As reasons for the increased risk-taking, they mention, for example, that low interest rates mean that they must invest in riskier assets to fulfil their required rates of return or that clients have expressed a wish to see increased risk-taking.

Participants were also asked to assess how well prepared they were to manage a number of risk factors: *credit and counterparty risk*, *market risk*, *legal risk*, *liquidity risk*, *cyber risk* and *climate-related risk*. Most consider themselves to be generally well prepared as regards credit and counterparty risk, market risk and liquidity risk, but only just less than half consider themselves to be well prepared regarding legal risk such as amended legislation or compliance risk. Only one in three participants consider themselves well prepared to manage cyber risk, which is also apparent in the open responses, where cyber risk is highlighted as the most prominent risk factor by a few participants. The question on climate-related risk is new for the survey and, in response to this, only one participant in five answers that they considers themselves to be well prepared. However, a relatively large proportion of participants state that they do not know how well prepared they are for cyber risk (just over one in three respondents) or climate-related risk (one in four respondents).

Diagram 1. How do you assess your general risk-taking in the market at present?

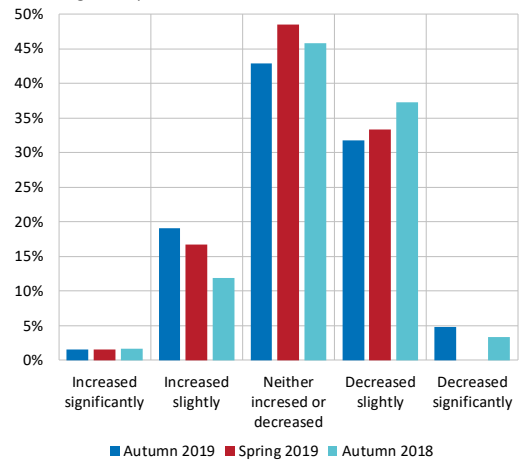
Percentage of responses



Note. 60 responses in total (autumn 2019).

Diagram 2. How do you consider your risk-taking to have changed over the past six months?

Percentage of responses



Note. 63 responses in total (autumn 2019).

⁷ Respondents were asked to classify their role in the market as either issuer/borrower, investor or market maker/dealer. See Diagram 10, Diagram 11 and Diagram 12 in Appendix 1.

Market for FX trading in the Swedish krona

Every second participant considers that the market for FX trading in the Swedish krona (SEK) is working well

Just as in the Financial Markets Survey for spring 2019, half of the participants consider that the market for FX trading in the Swedish krona functions well and one in seven that it works poorly or very poorly (see Diagram 3). The proportion replying that they think the market functions well is slightly higher, but the results are very similar to those in the spring survey. Participants were also asked to respond whether they see any important factors that may affect how the market will work in the future. Several consider that a less expansionary monetary policy in Sweden, with a higher repo rate, and a tapering by the Riksbank of its purchases and holdings of Swedish government bonds would be positive for the functioning of the market going forward.

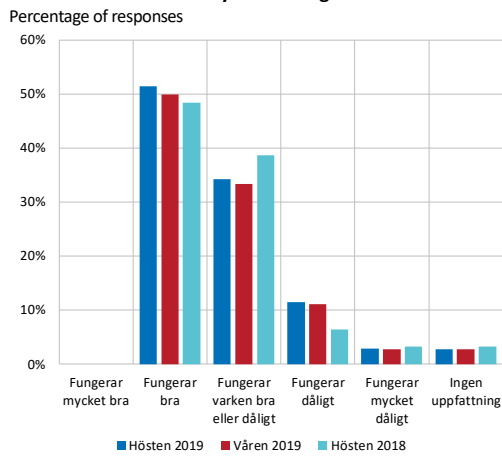
In the survey, participants were asked to assess market liquidity in the spot and forward markets (including the market for FX swaps) for SEK in relation to the other G10 currencies.⁸ In general, these markets are perceived as working approximately as well as in the spring survey. On the other hand, distinctly fewer than in the spring now consider that market liquidity in Swedish kronor, in both the spot and forward markets, is good or very good. In the autumn survey, just under one-third of participants stated that they deem market liquidity in Swedish kronor to be good or very good on both the spot and forward markets, compared with about half of participants in the spring. One in four respondents experiences liquidity as poor or very poor on the spot market, and one in six as poor or very poor on the forward market.

When the participants were then asked to assess the change in market liquidity on the krona market over the last six months, just over one in four considered that market liquidity, both spot and forward, had deteriorated. At the same time, most consider that market liquidity is unchanged, which is illustrated in Diagram 4 and Diagram 5. As in the spring, participants gave similar or the same reasons for their assessments of market liquidity as they did for their assessments of how the market is functioning. Several participants refer to liquidity in the market in their assessments of the functioning of the market, which also corresponds with the results of the Financial Markets Survey for spring 2019. Some participants mention that liquidity varies over time, that it is sometimes good and sometimes worse.

Finally, the participants were also asked to assess which driving forces they consider to have been the most important behind the development of the krona exchange rate over the last six months. In response, a large proportion considered the Riksbank's monetary policy to have been the most important driving force, particularly as the repo rate had been very low from a historical perspective. The global economic outlook was also mentioned as an important driving force.

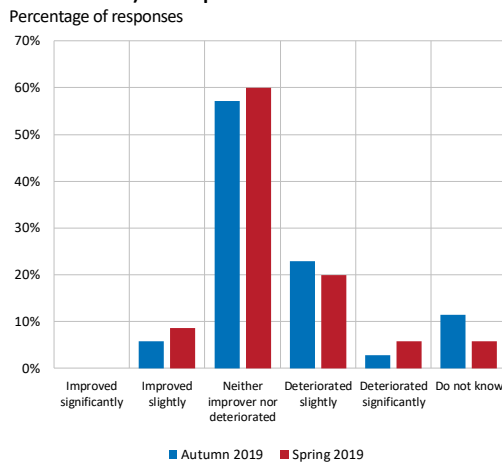
⁸ The G10 currencies are formed of the ten most traded currencies in the world: *US dollar, euro, pound sterling, Japanese yen, Australian dollar, New Zealand dollar, Canadian dollar, Swiss franc, Norwegian krone and Swedish krona.*

Diagram 3. What is your general assessment of how the market for SEK is currently functioning?



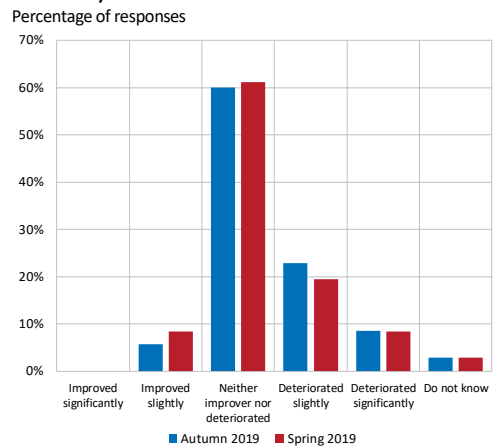
Note. 35 responses in total (autumn 2019).

Diagram 4. How do you assess that market liquidity has changed over the past 6 months in SEK (in relation to the G10 currencies) in the spot market?



Note. 35 responses in total (autumn 2019).

Diagram 5. How do you assess that market liquidity has changed over the past 6 months in SEK (in relation to the G10 currencies) in the forward market?



Note. 35 responses in total (autumn 2019).

The Swedish fixed-income market

Two-fifths of participants consider that the fixed-income market functions poorly

One in five respondents considers that the Swedish fixed-income market generally functions well, which is a distinctly smaller proportion than in the last survey (see Diagram 6). About two-fifths continue to consider that the fixed-income market is functioning poorly or very poorly but, unlike in the spring survey, a larger proportion now considers that the market is functioning very poorly. Above all, it is investors and market makers who consider that the market is functioning poorly or very poorly. Issuers, on the other hand, answer more often than others that the market is generally functioning well. Two-fifths of participants also consider that the market functions neither well nor poorly, which is an increase from the spring.

Participants were also asked to give the main reason for their answer. A majority of those who consider the fixed-income market to be working poorly mention limited or poor liquidity as the main reason for their opinion. Several participants mention the Riksbank's government bond purchases as one of the reasons for this. Another reason given is that market makers are less able or willing to act as mediators of risk between different participants and are thus not maintaining the market in the same way as previously. A number of respondents also consider that foreign interest in Swedish interest-bearing assets has decreased. In the spring survey, several participants emphasised that these were factors that could impair the functioning of the market in the period ahead. The parts of the fixed-income market that several participants perceive to be functioning better are the markets for interest rate swaps⁹ and covered bonds.

Market liquidity in the secondary market for treasury bills and government bonds is currently perceived to be poor or very poor by almost half of respondents. In general, investors perceive market liquidity to be poorer than for example issuers (see Diagram 8, 7 and 9, as well as Diagram 19 in Appendix 1). The results are approximately in line with the responses in the Financial Markets Survey for spring 2019. In the autumn survey, government bonds are classified as either nominal or real. Market liquidity on the secondary market for real bonds is considered to be worse than it is on the market for nominal ones (see Diagram 8 and 9). However, a large proportion of respondents report that they have no opinion, above all as regards real government bonds. Market liquidity in the secondary market for covered bonds is perceived by just over one-third of respondents as good or very good, while the corresponding figure for interest rate swaps is almost two out of three participants (see Diagram 13 and 14 in Appendix 1). The proportion who answer that market liquidity for covered bonds is functioning well or very well has decreased since the spring, as has the corresponding proportion for interest rate swaps, albeit to a lesser extent.

The participants were also asked to assess how market liquidity in the secondary market has changed over the past six months and to describe which driving forces they consider to have been the most important.¹⁰ Most consider market liquidity in the secondary market, for all types of Swedish interest-bearing asset, to be unchanged or worse. It is above all for government bonds, both nominal and real, that the participants perceive a deterioration of market liquidity. The Riksbank's monetary policy, and in particular the government bond purchases, are described as the most important driving force behind the change in market liquidity over the past six months. Respondents state that the Riksbank's government bond purchases have restricted market liquidity, particularly in the government

⁹ An interest-rate swap is a bilateral agreement to exchange a specific interest rate in return for another interest rate for a predetermined period according to specific conditions. In the survey, respondents are asked to assess functionality and market liquidity in interest rate swaps (SEK/SEK).

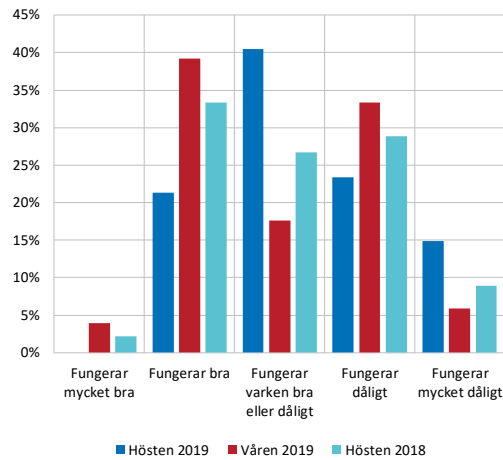
¹⁰ The secondary market for *treasury bills, government bonds, covered bonds, corporate bonds, interest rate swaps (SEK/SEK), repos with government securities, repos with covered bonds and FRA contracts*.

bond market. Several respondents also consider the new LCR requirements to have contributed towards deteriorated market liquidity.

They consider that a less expansionary monetary policy in Sweden, particularly a reduction by the Riksbank of its purchases and holdings of Swedish government bonds, could improve the functioning of the market in the period ahead. Improved possibilities for trading in corporate bonds are also mentioned as something that could improve the functioning of the fixed-income market. As regards aspects that could impede the functioning of the market in the period ahead, the respondents mention continued regulation and the risk that banks discontinue their activities as market makers, among other factors.

Diagram 6. What is your assessment of the functioning of the Swedish fixed-income market at present?

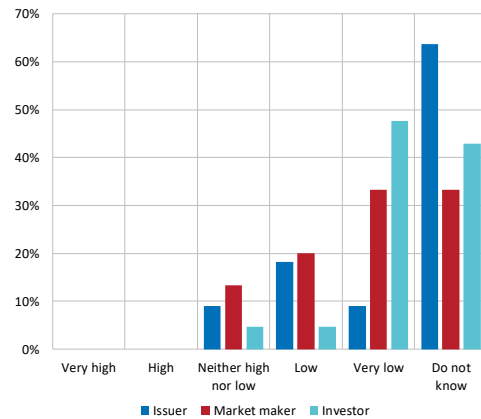
Percentage of responses



Note. 48 responses in total (autumn 2019).

Diagram 7. What is your assessment of market liquidity in the secondary market for treasury bills at present?

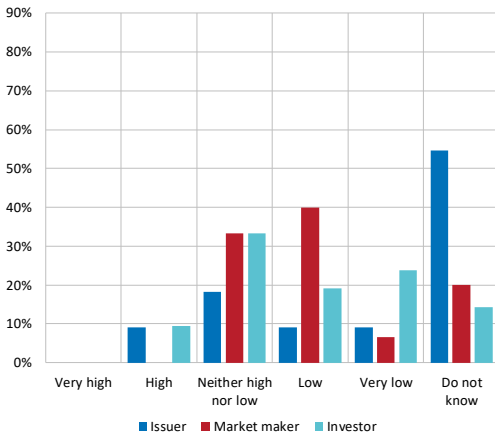
Percentage of responses for each category



Note. 48 responses in total (autumn 2019), of which 11 issuers, 16 market makers, 21 investors.

Diagram 8. What is your assessment of market liquidity in the secondary market for nominal government bonds at present?

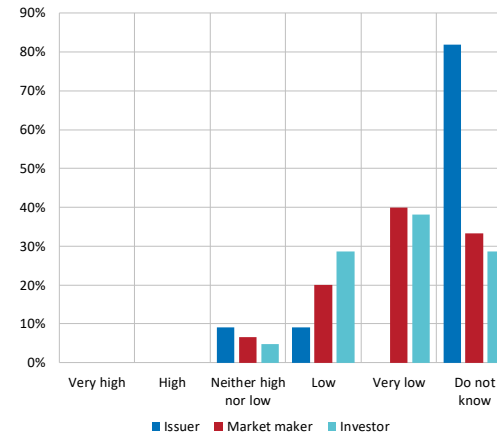
Percentage of responses for each category



Note. 47 responses in total, of which 11 issuers, 15 market makers, 21 investors.

Diagram 9. What is your assessment of market liquidity in the secondary market for real government bonds at present?

Percentage of responses for each category



Note. 47 responses in total, of which 11 issuers, 15 market makers, 21 investors.

Electronic aids

Electronic aids are often used by participants in the market for FX trading in SEK

The extent to which electronic aids are used in trade still differs substantially between respondents active in the market for SEK and those active in the fixed-income market. More or less all participants active in the market for SEK state that they use electronic trading platforms in their trading in SEK, of whom just over half say that they always use them (see Diagram 15 in Appendix 1).¹¹ The results are very similar to the findings of the Financial Markets Survey for spring 2019. No participant reports never using electronic trading platforms. One-fifth of FX market participants say that they have increased their use of electronic trading platforms, while the remaining participants state that their use over the last six months is unchanged. No participant reports having reduced their use.

Just over one-third of participants active in the market for FX trading in SEK say that they often or always use algorithms in their SEK trading, while just over one-third state that they never use them (see Diagram 16 in Appendix 1).¹² Compared with the results last time, a larger proportion say that they often use algorithms, which coincides with just over one in five who say that they have increased their use over the last six months. The responses do not differ substantially between the different types of participant.

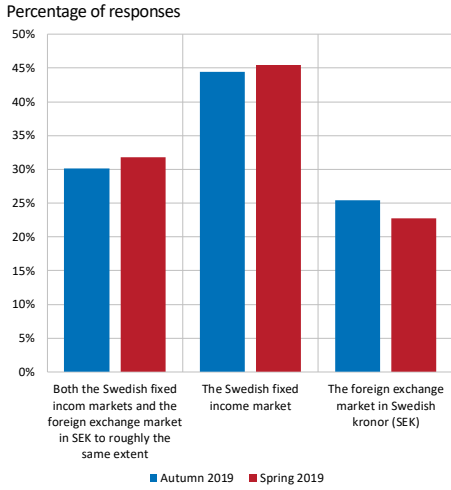
Compared with FX trading, electronic aids remain relatively unusual in the trade of Swedish government bonds, particularly when it comes to algorithms. Overall, the results resemble those of the last survey. Approximately half of participants continue to use electronic trading platforms often or always (see Diagram 17 in Appendix 1). However, one in three fixed-income market participants say that they have increased their use of electronic trading platforms over the last six months. In contrast, a large majority state that they seldom or never use algorithms in their trading (see Diagram 18 in Appendix 1) and most reply that they have not increased their usage over the last six months either.

¹¹ Electronic trading platforms are computerised dealing rooms that mediate contact between the purchaser and the seller, and provide information on current prices for various currency pairs.

¹² Algorithms are mathematical models and formulas that create specific sets of rules in FX trading whereby orders can be placed and transactions executed.

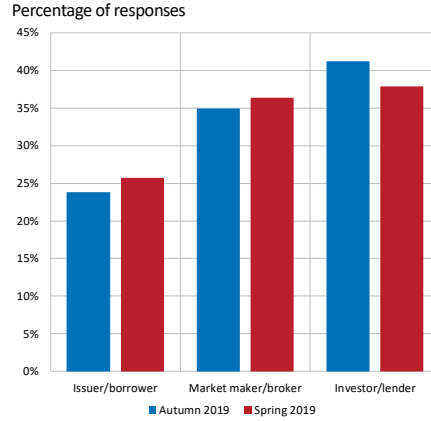
BILAGA 1

Diagram 10. In which market are you most active?



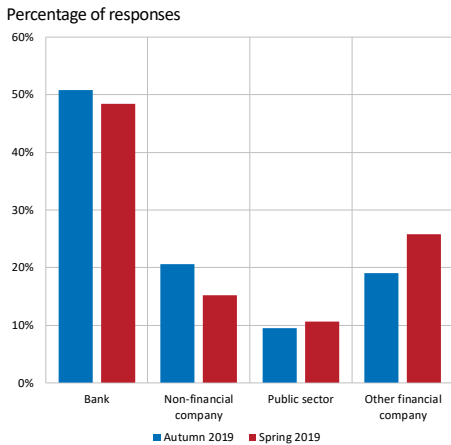
Note. 63 responses in total (autumn 2019).

Diagram 11. What is your primary role in that market/those markets?



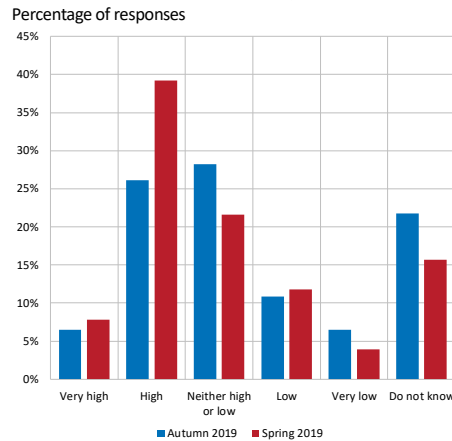
Note. 63 responses in total (autumn 2019).

Diagram 12. To which sector do you primarily belong?



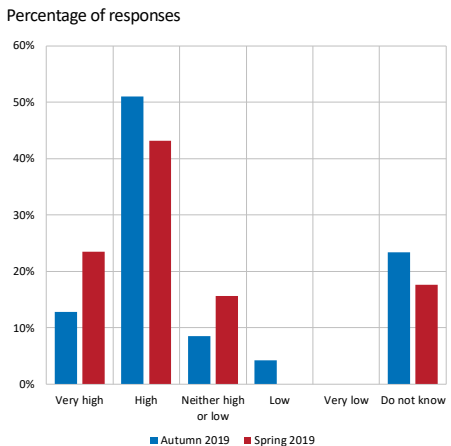
Note. 63 responses in total (autumn 2019).

Diagram 13. What is your current assessment of market liquidity in covered bonds in the secondary market?



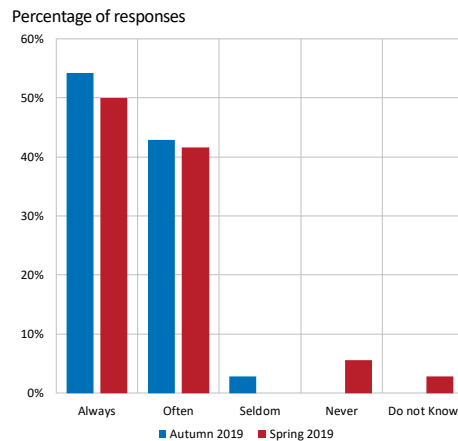
Note. 46 responses in total (autumn 2019).

Diagram 14. What is your current assessment of market liquidity in interest rate swaps (SEK/SEK) in the secondary market?



Note. 47 responses in total (autumn 2019).

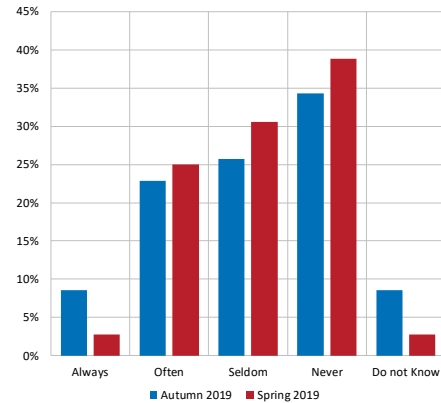
Diagram 15. To what extent do you use electronic platforms in your FX trading with SEK?



Note. 35 responses in total (autumn 2019).

Diagram 16. To what extent do you use algorithms in your FX trading with SEK?

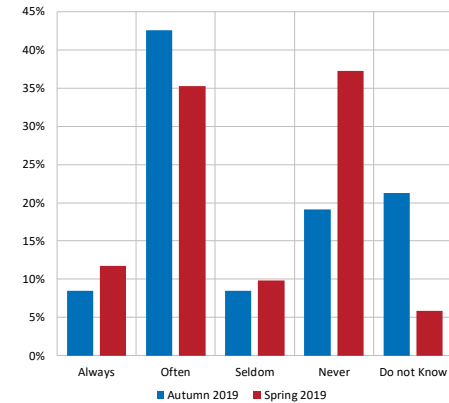
Percentage of responses



Note. 35 responses in total (autumn 2019).

Diagram 17. To what extent do you use electronic platforms in your trading in Swedish government bonds?

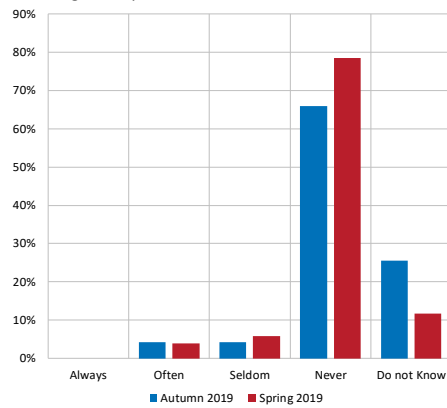
Percentage of responses



Note. 47 responses in total (autumn 2019).

Diagram 18. To what extent do you use algorithms in your trading in Swedish government bonds?

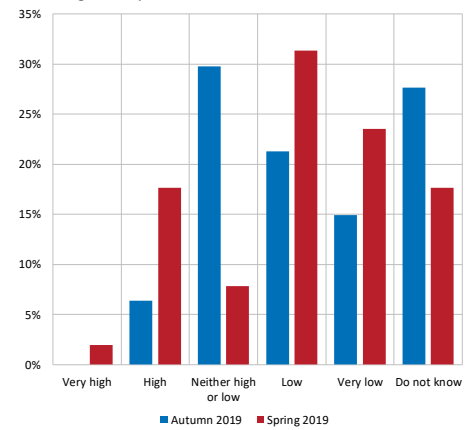
Percentage of responses



Note. 47 responses in total (autumn 2019).

Diagram 19. What is your assessment of market liquidity in the secondary market for government bonds at present?

Percentage of responses



Note. 47 responses in total (autumn 2019).



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