



# Financial markets survey

Spring 2020



## Summary

*As from autumn 2018, the Riksbank sends out the Financial markets survey twice a year to participants in the Swedish fixed-income and foreign exchange (FX) markets.<sup>1</sup> The purpose of the survey is to gain an overall picture of participants' views on the Swedish financial markets – how they are working, what market activity looks like and what risks participants see in the Swedish financial system going forward. This report presents the results of the survey responded to during the period 27 April – 10 May 2020.<sup>2</sup> The report is based solely on participants' responses and is not an account of the Riksbank's assessments.<sup>3</sup>*

*Out of 104 participants asked to take part in the survey, 49 responded. This is a response rate of 47 per cent. It is lower than previous Financial market surveys, in which the response rate have been between 56 and 67 per cent.*

### Uncertain economic situation

Since mid-March, the coronavirus pandemic and the very extensive measures to reduce the spread of infection have caused a sharp slowdown in global economic activity. This dramatic development has completely changed the economic prospects for both Sweden and the rest of the world. Uncertainty over how the economy will cope with the crisis has been reflected in substantial movements on financial markets. Although the respondents in this survey have submitted their responses in the period 27 April – 10 May, when the financial markets had come out of the most volatile period in mid-March, much of the volatility and the uncertainty regarding future financial and economic developments still prevailed during the survey period.

### Survey results – spring 2020

#### **The consequences for the economy and the financial markets as a result of the coronavirus pandemic are the risk factor most often mentioned by participants**

When asked to describe which external events risk having a negative effect on the Swedish financial system going forward, participants mentioned the consequences of the coronavirus pandemic as an important factor. Global recession, high volatility on the fixed-income and FX markets and the risk of participants being driven out or disappearing from the financial markets are also highlighted as important factors.

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

Four tenths of participants describe their general risk-taking as low or very low. The same proportion describe it as neutral. Just over half also consider that they have reduced their risk-taking over the last six months. According to participants, the reason for this is the increased uncertainty and volatility and poorer liquidity on financial markets as a result of the coronavirus pandemic.

#### **The FX market for SEK is perceived to be working smoothly given the circumstances**

Four tenths of participants consider that the market for FX trading in SEK is functioning smoothly and a fifth think it is functioning poorly. This is a deterioration since the autumn,

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<sup>1</sup> Twice a year between 2008 and 2017, the Riksbank conducted a risk survey to provide an overall picture of participants' views on financial risks and the functioning of the financial market. In the spring of 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.

<sup>2</sup> 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 spring was sent out to 104 participants, both Swedish and non-Swedish, who are active in the Swedish fixed-income and/or FX market.

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

when half of them considered that the market was functioning well and only one in seven thought it was functioning poorly. However, a number of participants point out that the market for SEK has functioned better than the markets for other comparable currencies during the corona crisis.

In response to the question of whether they see any important factors that may affect the functioning of the market going forward, most participants said that the effects of the measures to limit the coronavirus pandemic may affect how the market functions. Banks not being able to or willing to mediate deals as market makers between different participants and continued low liquidity were also mentioned as negative factors.

**The Swedish fixed-income market is considered to be working less smoothly than before**

Just over four tenths of participants consider that the fixed-income market is functioning poorly or very poorly in general, which is almost twice as many as those who think it is functioning well. That is roughly the same ratio as in the autumn. However, there are more participants than in the autumn who think that liquidity on the corporate bond market and market for covered bonds is poor or very poor. As with the FX market, many participants consider that the effects of the coronavirus pandemic may affect the functioning of the fixed-income market going forward.

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

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 use them. Compared with the survey in the autumn, however, there is a slight shift in the proportion saying that they always use electronic trading platforms towards the proportion saying that they use them often. Seven out of ten FX market participants state that they rarely or never use algorithms and this is more than in the autumn. As regards trade in Swedish government bonds, every third participant states that they use electronic trading platforms, which is a reduction since the autumn when half stated that they did so. The use of algorithm-based bond-trading is still very unusual.

## Risks and risk factors

### Consequences for the economy and the financial markets as a result of the coronavirus pandemic are the risk factor most often mentioned by participants

In the survey, we asked participants 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 say they are concerned about is the continued spread of the coronavirus and consequences for the economy and the financial markets as a result of this spread. Several participants also mention risks of a global recession, high volatility on the fixed-income and FX markets and the risk of participants being driven out or disappearing from the financial markets, which would lead to reduced liquidity. A number of participants also highlight cyber risks and new regulations and reporting requirements. Other risk factors mentioned are credit and liquidity risks, risks associated with the Swedish housing market and climate risks, but these risk factors are mentioned by significantly fewer respondents than in previous surveys.

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

Compared with the survey in the autumn of 2019, a lower proportion say that they are taking high risks in terms of positioning. Four tenths of participants describe their general risk-taking as low or very low. The same proportion describe it as neutral (i.e. neither high nor low, see **Fel! Hittar inte referenskälla.**). Only a sixth of participants describe their risk-taking as high and no participants think they are taking very high risks.

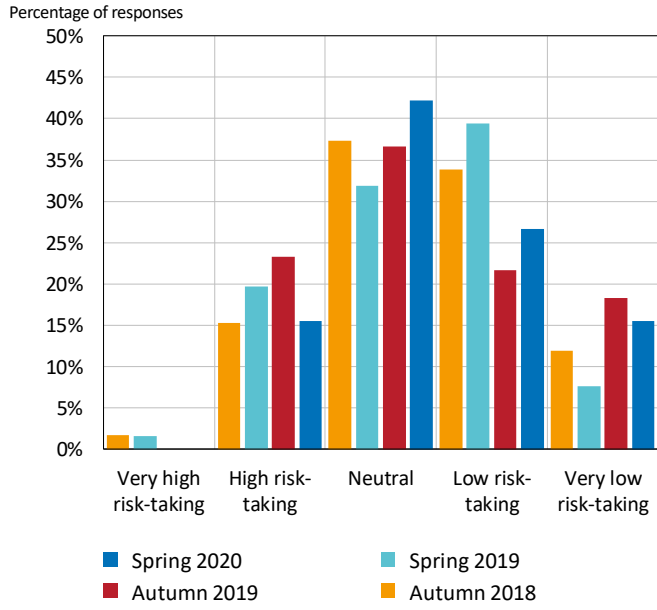
Participants were also asked whether they think they have changed their risk-taking in the past six months. Just over half consider that they have reduced their risk-taking, while slightly less than four tenths say they take as high risks as before, which is illustrated in **Fel! Hittar inte referenskälla.** Many in the investor sub-group say that they have the same risk exposure as before. A higher proportion of market makers and issuers say that they have reduced their risk exposure.<sup>4</sup> According to participants, the reason for this is the increased uncertainty and volatility and poorer liquidity on financial markets as a result of the coronavirus pandemic.

Participants were also asked to assess how well prepared they think they are to manage a number of risk factors: *credit and counterparty risk, market risk, legal risk, liquidity risk, cyber risk and climate-related risk.*<sup>5</sup> Most consider themselves to be generally well prepared as regards credit and counterparty risk, market risk and liquidity risk, but only half consider themselves to be well prepared regarding legal risks such as amended legislation or compliance risks. Only one in three participants consider themselves well prepared to be able to manage cyber risks, the same proportion as in the autumn survey. Only three out of ten consider themselves well prepared for climate risks. However, a relatively large proportion of participants state that they do not have any idea of how well prepared they are for cyber risks (every fifth respondent) or climate-related risks (every fourth respondent).

<sup>4</sup> Respondents were asked to classify their role in the market as either issuer/borrower, investor or market maker/dealer.

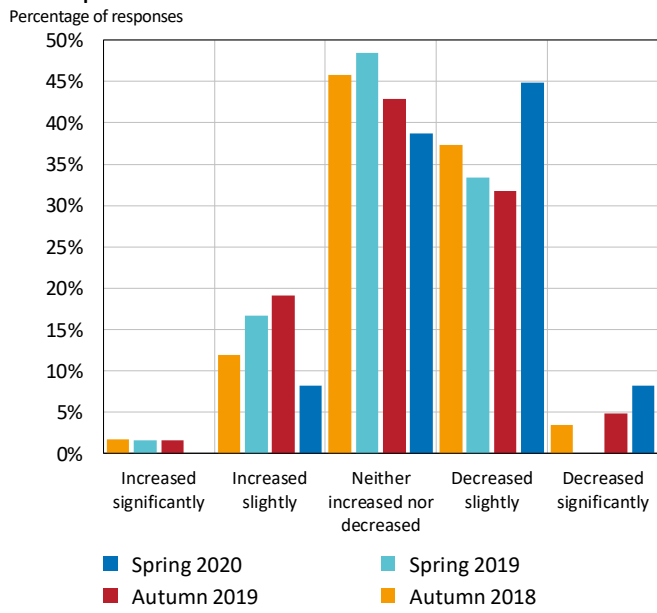
<sup>5</sup> (Market) liquidity refers here to the ability to rapidly trade large volumes of a financial instrument at a low transaction cost without the transaction noticeably affecting the market price of the instrument. See also *Market liquidity on the Swedish bond market and its importance for financial stability*, article in Financial Stability Report 2016:1, Sveriges Riksbank.

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



Note: 45 responses in total (spring 2020).

**Diagram 2. How do you consider your risk-taking in the market to have changed over the past 6 months?**



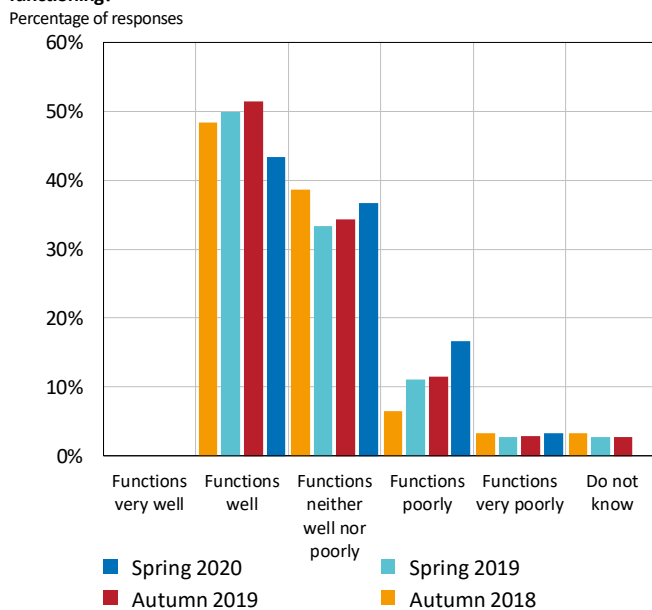
Note: 49 responses in total (spring 2020).

## Market for FX trading in SEK

### The FX market for SEK is perceived to be working smoothly given the circumstances

Four out of ten participants consider that the market for FX trading in SEK is functioning well and one in five think it is working poorly or very poorly (see **Fel! Hittar inte referenskälla.**). Compared with the Financial markets survey in autumn 2019, a slightly higher proportion of respondents say that they think that market is functioning poorly or very poorly. As before, several participants stress that market liquidity is important for how well the market is perceived to be functioning. In their view, it is primarily a deterioration in market liquidity which is the reason why the market is now functioning less well. In this respect, however, several point out that the krona market has functioned better than the markets for other comparable currencies during the corona crisis. Furthermore, participants state that the market was working better and that liquidity was better at the time of responding to the survey than in March this year, when market turbulence was at its worst.

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



Note: 30 responses in total (spring 2020).

Participants were also asked to respond whether they see any important factor that may affect how the market will work in the future. In response, most participants state that primarily the effects of the measures to limit the coronavirus pandemic may affect market functionality. Participants also mention that, in their view, many banks have become increasingly unwilling or say they are unable to mediate deals as market makers between different participants. This is said to be leading to the market functioning poorly at present and a risk that it will continue to do so. Lower liquidity due to participants choosing to withdraw from the market is also mentioned as a negative factor.

In the survey, we asked participants to assess market liquidity in the spot and forward markets (including the market for FX swaps<sup>6</sup>) for SEK in relation to the other G10 currencies.<sup>7</sup> Liquidity on both of these markets was stated to have deteriorated slightly

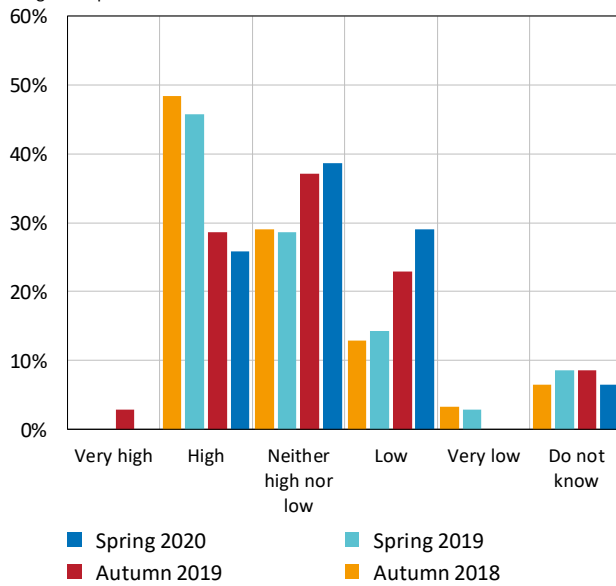
<sup>6</sup> An FX swap is a bilateral agreement to exchange a specific currency in return for another currency for a predetermined period according to specific conditions.

<sup>7</sup> The G10 currencies are formed of the ten most traded currencies in the world: the US dollar, euro, pound sterling, Japanese yen, Australian dollar, New Zealand dollar, Canadian dollar, Swiss franc, Norwegian krone and Swedish krona.

compared with the autumn's survey. Above all, there has been an increase in the proportion responding that liquidity in the forward market is poor. Three in ten respondents to the spring survey state that liquidity on both the forward market and the spot market is poor, which is a greater proportion than in last autumn's survey, where only two in ten gave this as a response. No respondent states that liquidity on these markets is very poor. One quarter of participants deem that liquidity on both the spot and forward markets is good. These results are reported in **Fel! Hittar inte referenskölla.** and **Fel! Hittar inte referenskölla..** The deterioration of liquidity on the spot and forward markets is also apparent in the participants' assessment of the change in liquidity in these markets. Almost two-thirds state that liquidity on the spot market has deteriorated. The corresponding proportion for the forward market is almost three-quarters. These results can be found in **Fel! Hittar inte referenskölla.** and **Fel! Hittar inte referenskölla.** in Appendix 1.

**Diagram 4. What is your assessment of current market liquidity in SEK (against the G10 currencies) for the spot market?**

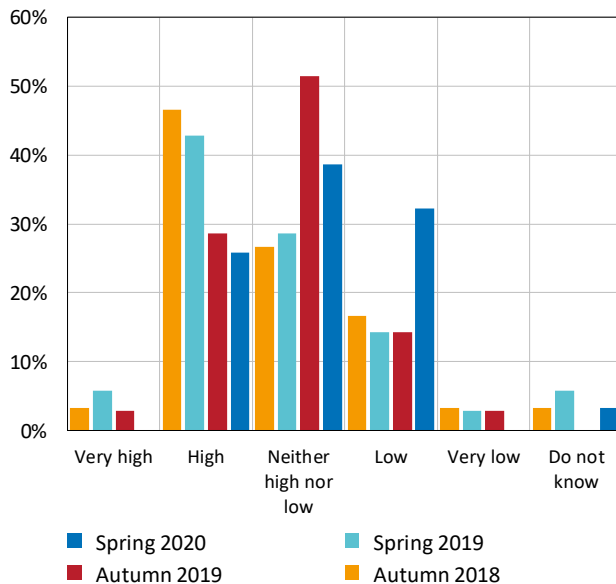
Percentage of responses



Note: 31 responses in total (spring 2020).

**Diagram 5. What is your assessment of current market liquidity in SEK (against the G10 currencies) for the forward market?**

Percentage of responses



Note: 31 responses in total (spring 2020).



Finally, we also asked the participants 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. Once again, the participants state that the consequences of the coronavirus pandemic have been the foremost factor. Some participants also mention the Riksbank's monetary policy as the most important driving force.

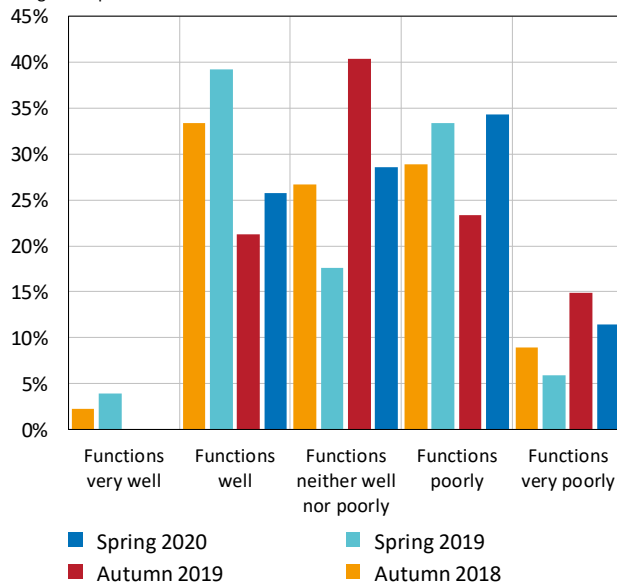
## The Swedish fixed-income market

### The Swedish fixed-income market is considered to be working less smoothly than before

About four-tenths continue to consider that the Swedish fixed-income market is functioning poorly or very poorly (see **Fel! Hittar inte referenskälla.**). However, one in four respondents considers however that the fixed-income market is functioning well, which is a slightly higher proportion than in the last survey. Almost three-tenths of participants consider that the market is functioning neither well nor poorly, which is a decrease from the report from autumn 2019. Compared with last autumn, there is also a greater difference between how different participants consider that the Swedish fixed-income market is functioning in general. Among the different types of participant (issuers, investors and market makers), it is the investors, above all, who consider that the market is functioning poorly or very poorly. Issuers, on the other hand, answer more often than others than the market is generally functioning well.

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

Percentage of responses



Note: 35 responses in total (spring 2020).

Participants were also asked to give the main reason for their answer. A majority of those considering that the fixed-income market is functioning poorly mention that liquidity is poor. Many participants mention the consequences of the coronavirus pandemic as a reason for this, but the Riksbank's government bond purchases are also mentioned. Another reason given is that market makers are less able or willing to mediate deals between different participants and are thus not maintaining the market in the same way as previously. However, the markets for interest rate swaps<sup>8</sup> and covered bonds are considered to be functioning better than the market for government bonds, for example.

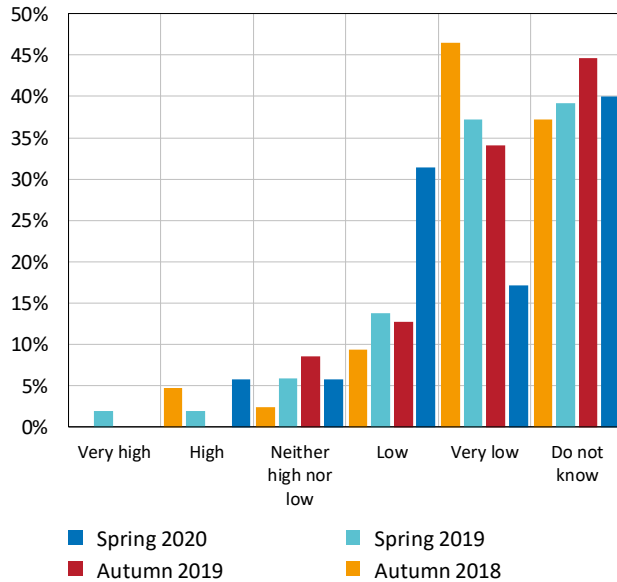
Market liquidity in the secondary market for treasury bills is currently perceived to be poor or very poor according to almost half of respondents (see **Fel! Hittar inte referenskälla.**). In general, investors consider liquidity to be worse than issuers do, for

<sup>8</sup> 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).

example (see **Fel! Hittar inte referenskölla.** in Appendix 1). The results are approximately in line with the responses in the Financial Markets Survey for autumn 2019, but the share of participants who consider liquidity as poor is higher while the share considering liquidity as very poor is lower.

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

Percentage of responses

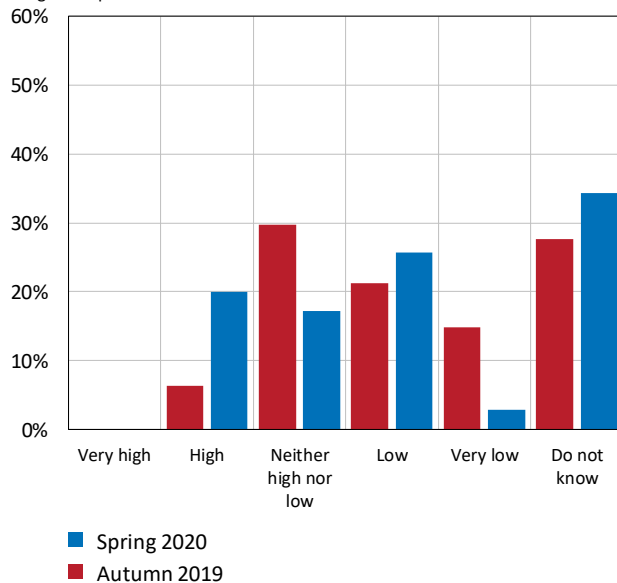


Note: 35 responses in total (spring 2020).

Three in ten respondents consider that market liquidity on the secondary market for both inflation-linked and nominal bonds is poor or very poor (see **Fel! Hittar inte referenskölla.** and **Fel! Hittar inte referenskölla.**, and **Fel! Hittar inte referenskölla.3** in Appendix 1 for previous history). However, a large proportion of respondents report that they have no opinion, above all as regards real government bonds.

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

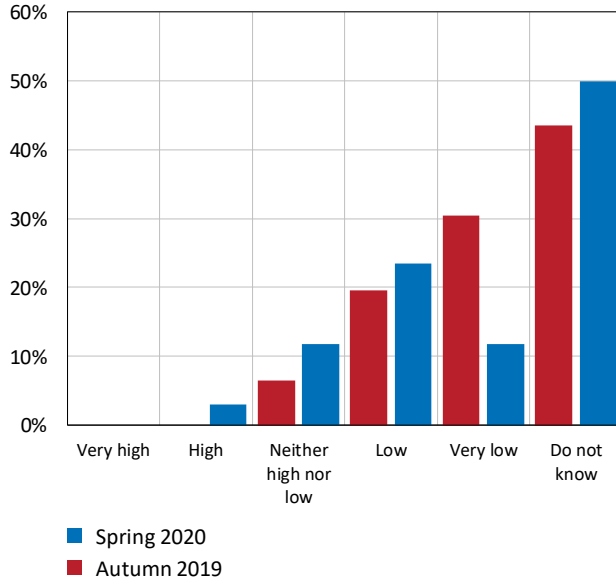
Percentage of responses



Note: 35 responses in total (spring 2020).

**Diagram 9. What is your assessment of current market liquidity in the secondary market for inflation-linked government bonds?**

Percentage of responses

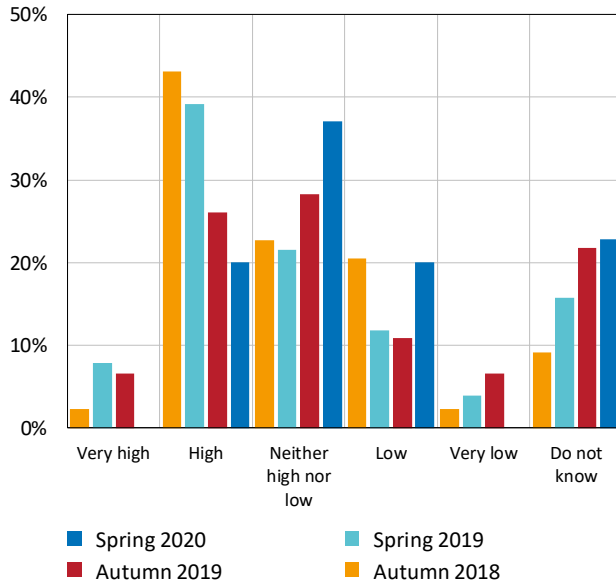


Note: 34 responses in total (spring 2020).

Market liquidity on the secondary market for covered bonds is considered to be good by one-fifth of respondents, which is slightly fewer than in last autumn's survey, when one-quarter considered it to be good (see **Fel! Hittar inte referenskälla.**). No respondent considers any longer that market liquidity for covered bonds is very good. One-quarter of participants state that they have no opinion.

**Diagram 10. What is your assessment of current market liquidity in the secondary market for covered bonds?**

Percentage of responses

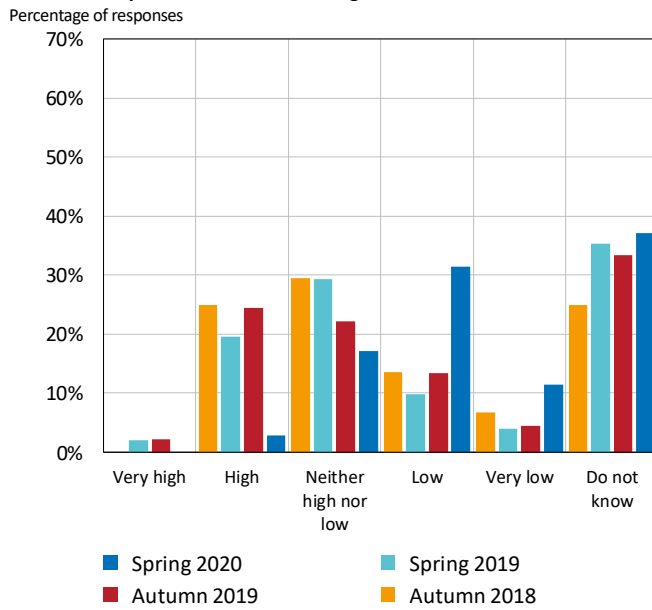


Note: 35 responses in total (spring 2020).

Market liquidity for interest rate swaps is still considered to be good or very good, according to slightly more than half of participants. This is a slightly lower proportion than last autumn, when two-thirds considered that liquidity was good or very good (see **Fel! Hittar inte referenskälla.** in Appendix 1). One-fifth of participants state that they have no opinion.

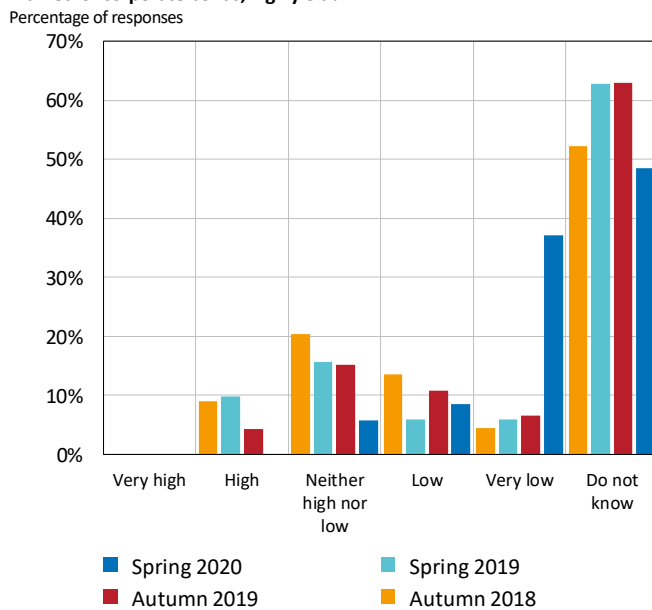
Just over four-tenths of participants state that market liquidity on the secondary market for corporate bonds, both investment grade<sup>9</sup> and high yield<sup>10</sup>, is poor or very poor (see **Fel! Hittar inte referenskälla.** and **Fel! Hittar inte referenskälla.**). This is a heavy increase compared with the responses in last autumn’s survey when less than two in ten considered that market liquidity was poor or very poor. It is investors above all who consider liquidity to be poor, while market makers do not experience liquidity to be as large a problem. The proportion of respondents stating that they have no opinion is very large. For investment grade corporate bonds, less than four in ten say that they have no opinion and, for high yield corporate bonds, half say that they have no opinion.

**Diagram 11. What is your assessment of current market liquidity in the secondary market for corporate bonds, investment grade?**



Note: 34 responses in total (spring 2020).

**Diagram 12. What is your assessment of current market liquidity in the secondary market for corporate bonds, high yield?**



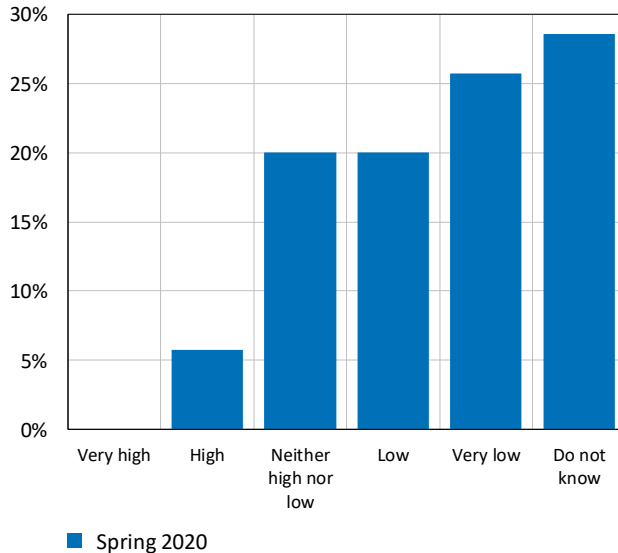
Note: 34 responses in total (spring 2020).

<sup>9</sup> Corresponding to a credit rating of BBB- or the equivalent, at lowest.  
<sup>10</sup> Corresponding to a credit rating of BB to C or the equivalent.

In the survey, the respondents were asked, for the first time, for their opinion of market liquidity on the secondary market for corporate bonds. Slightly less than half of respondents assess market liquidity as poor or very poor (see **Fel! Hittar inte referenskälla.**). Almost three in ten state that they have no opinion.

**Diagram 13. What is your assessment of current market liquidity in the secondary market for commercial papers?**

Percentage of responses



Note: 35 responses in total (spring 2020).

The participants were also asked to assess how market liquidity on the secondary market has changed over the past six months and to describe which driving forces they consider to have been the most important.<sup>11</sup> In principle, all participants stating they have an opinion on this at all consider market liquidity on the secondary market, for all types of Swedish interest-bearing asset, to be unchanged or to have worsened.

The participants consider that market liquidity has deteriorated for covered bonds, covered bonds and commercial paper, above all. Two thirds of them see a deterioration for these asset types. Liquidity for the remaining asset types (treasury bills, nominal and real government bonds and interest rate swaps) is not considered to have deteriorated as much. Between one and two-fifths of respondents consider that market liquidity for these asset types has become somewhat worse or a lot worse over the last six months.

The consequences of the coronavirus pandemic for both the economy and the financial markets is stated as the main driving force behind the change in market liquidity over the last six months. As in previous investigations, credit risks, regulation, the banks' unwillingness to act as market makers and the Riksbank's purchases of securities were cited as liquidity-affecting factors.

The ongoing negative consequences of the pandemic were considered by many participants to be able to affect the functioning of the market in the period ahead. Several respondents also mentioned that, if the number of market makers continues to decrease, this would be a factor that could affect the market negatively going forward. The Riksbank's purchases of securities and an increased national debt are also deemed able to affect the market.

<sup>11</sup> The secondary market for *treasury bills, government bonds, covered bonds, corporate bonds, commercial papers, interest rate swaps (SEK/SEK), repos with government securities, repos with covered bonds and FRA contracts.*

## Electronic aids

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

As in previous surveys, the extent to which electronic aids are used in trade 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 (see **Fel! Hittar inte referenskölla.4** in Appendix 1).<sup>12</sup> Compared to the results in the Financial markets survey Autumn 2019, slightly fewer state that they always use electronic platforms and, instead, slightly more state that they often use them. One likely reason for this is that trade generally becomes more manual in times of considerable fluctuation on the financial markets, which is supported by comments left in the open responses.

Just over one-fifth of participants active in the market for FX trading in SEK say that they often use algorithms in their SEK trading, while two-fifths state that they never use them (see **Fel! Hittar inte referenskölla.5** in Appendix 1).<sup>13</sup> Compared with the last set of results, a larger proportion state that they never or seldom use algorithms. The reason is probably the same as for the reduction in the use of electronic trading platforms.

Compared with FX trading, electronic aids remain relatively unusual in the trade of Swedish government bonds, particularly when it comes to algorithmic trading. Three in ten respondents stated that they often or always use electronic platforms. This is fewer than in the last survey, when half stated that they used electronic platforms (see **Fel! Hittar inte referenskölla.6** in Appendix 1). Two-thirds state that they seldom or never use algorithms in their trading (see **Fel! Hittar inte referenskölla.7** in Appendix 1) and most reply that they have not increased their usage over the last six months either.

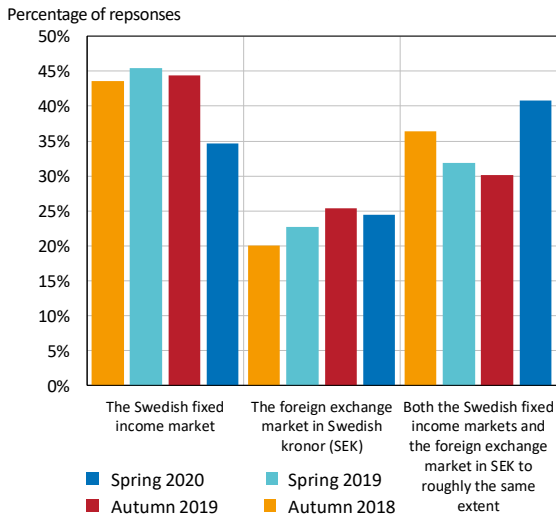
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<sup>12</sup> Electronic trading platforms are computerised dealing rooms that mediate contact between the purchaser and the seller, and provide information on current prices for various currency pairs.

<sup>13</sup> Algorithms are mathematical models and formulas that create specific sets of rules in FX trading whereby orders can be placed and transactions executed.

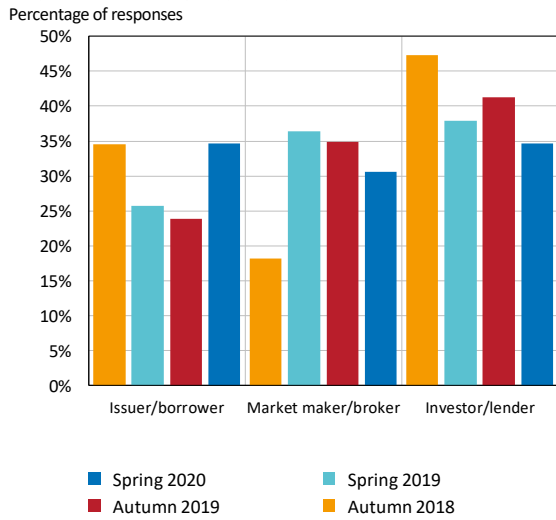
# Appendix 1

**Diagram 14. In which market are you most active?**



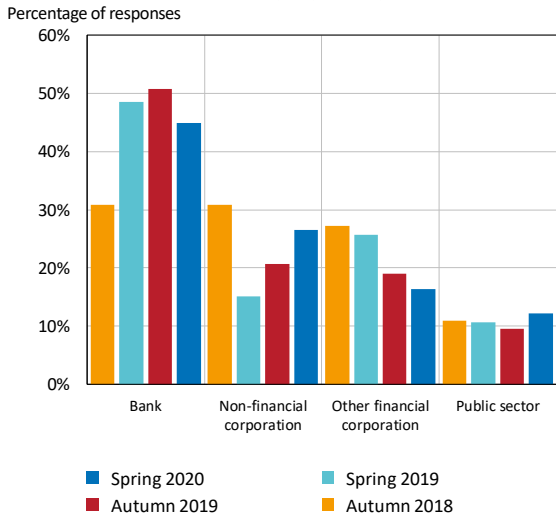
Note: 49 responses in total (spring 2020).

**Diagram 15. What is your primary role in that/those markets?**



Note: 49 responses in total (spring 2020).

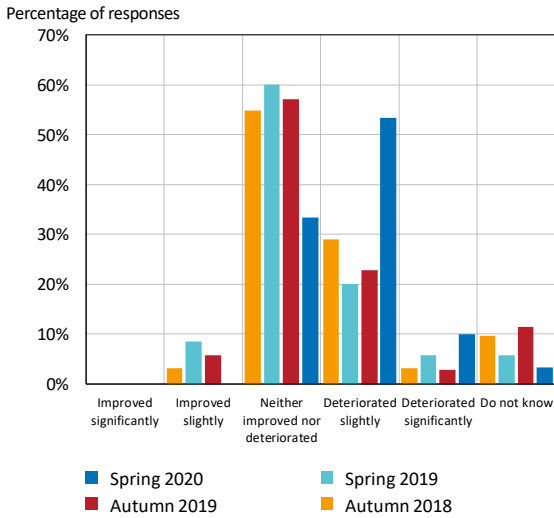
**Diagram 16. To which sector do you primarily belong?**



Note: 49 responses in total (spring 2020).

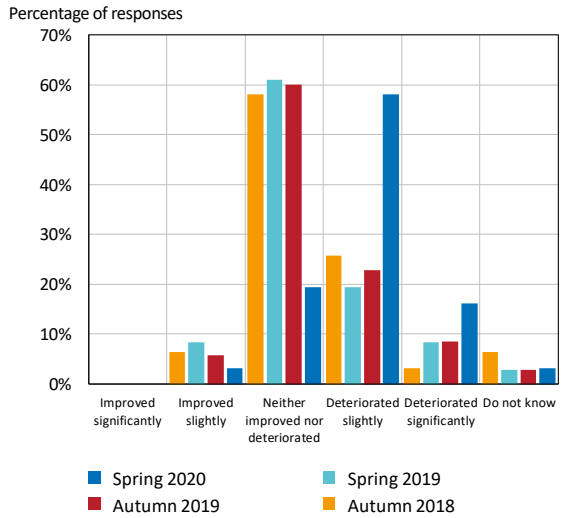


**Diagram 17. How do you assess that market liquidity in SEK (against the G10 currencies) has changed over the last 6 months on the spot market?**



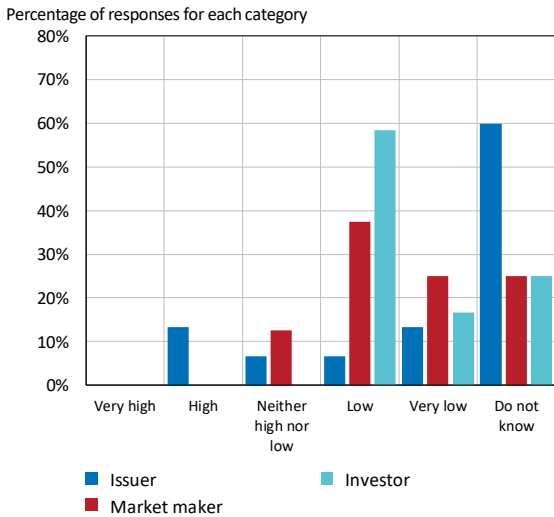
Note: 31 responses in total (spring 2020).

**Diagram 18. How do you assess that market liquidity in SEK (against the G10 currencies) has changed over the last 6 months on the forward market?**



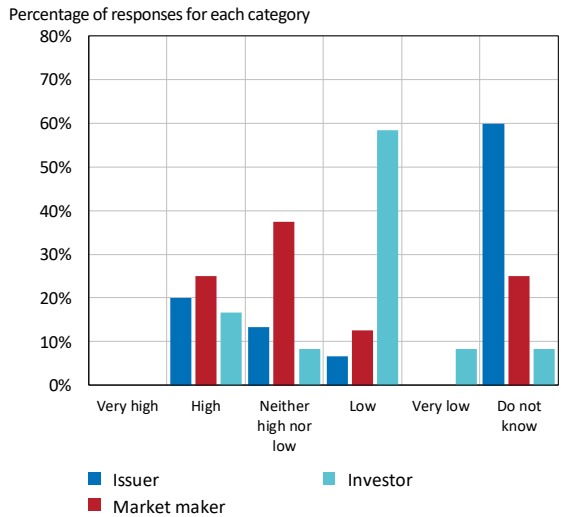
Note: 31 responses in total (spring 2020).

**Diagram 19. What is your assessment of current market liquidity in the secondary market for treasury bills?**



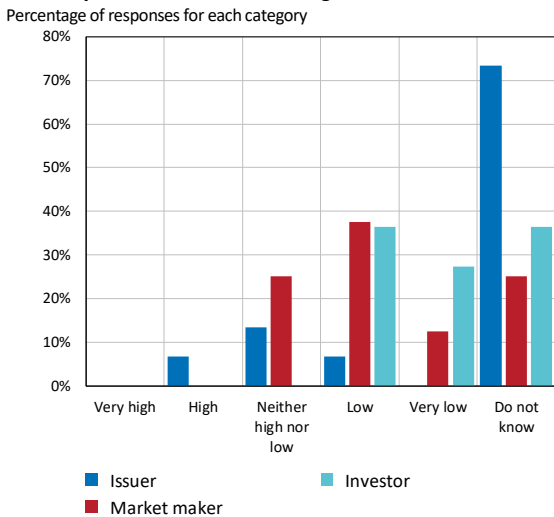
Note: 35 responses in total, of which 15 issuers, 8 market makers, 12 investors.

**Diagram 20. What is your assessment of current market liquidity in the secondary market for nominal government bonds?**



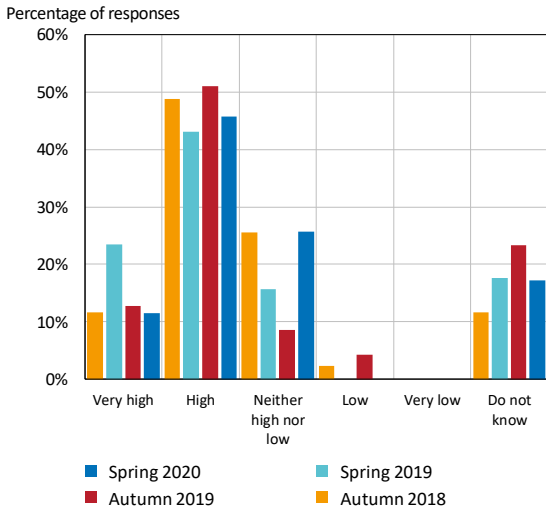
Note: 35 responses in total, of which 15 issuers, 8 market makers, 12 investors.

**Diagram 21. What is your assessment of current market liquidity in the secondary market for inflation-linked government bonds?**



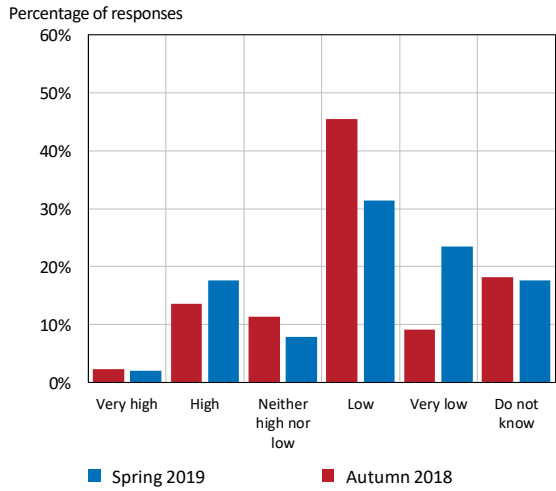
Note: 35 responses in total, of which 15 issuers, 8 market makers, 12 investors.

**Diagram 22. What is your assessment of current market liquidity in the secondary market for interest rate swaps (SEK/SEK)?**



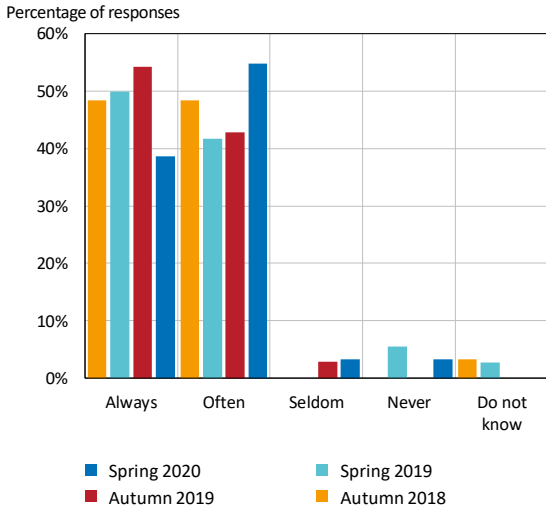
Note: 35 responses in total (spring 2020).

**Diagram 23. What is your assessment of current market liquidity in the secondary market for government bonds?**



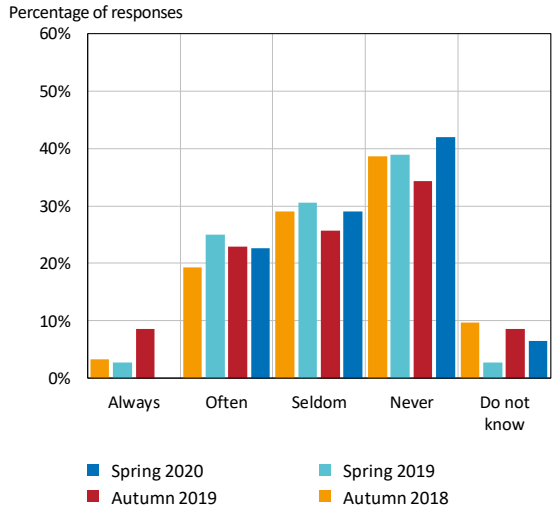
Anm: 45 responses (autumn 2018) and 51 responses (spring 2019) in total. Since autumn 2019, the question is instead divided into two separate categories: nominal and inflation-linked government bonds (see Diagram 8 and 9).

**Diagram 24. To what extent do you use electronic platforms in your FX trading in SEK?**



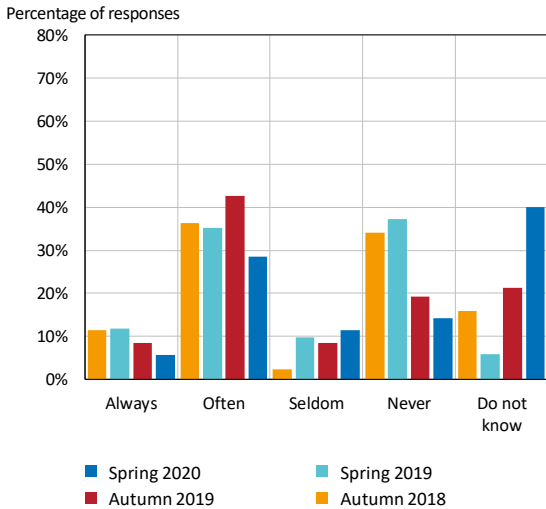
Note: 35 responses in total (spring 2020).

**Diagram 25. To what extent do you use algorithms in your FX trading in SEK?**



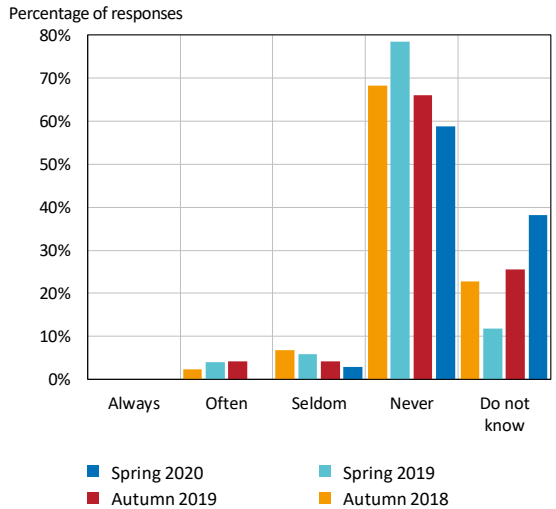
Note: 35 responses in total (spring 2020).

**Diagram 26. To what extent do you use electronic platforms in your trading in Swedish government bonds?**



Note: 35 responses in total (spring 2020).

**Diagram 27. To what extent do you use algorithms in your trading in Swedish government bonds?**



Note: 34 responses in total (spring 2020).



**SVERIGES RIKSBANK**  
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