

Fixed Income Update Week 40

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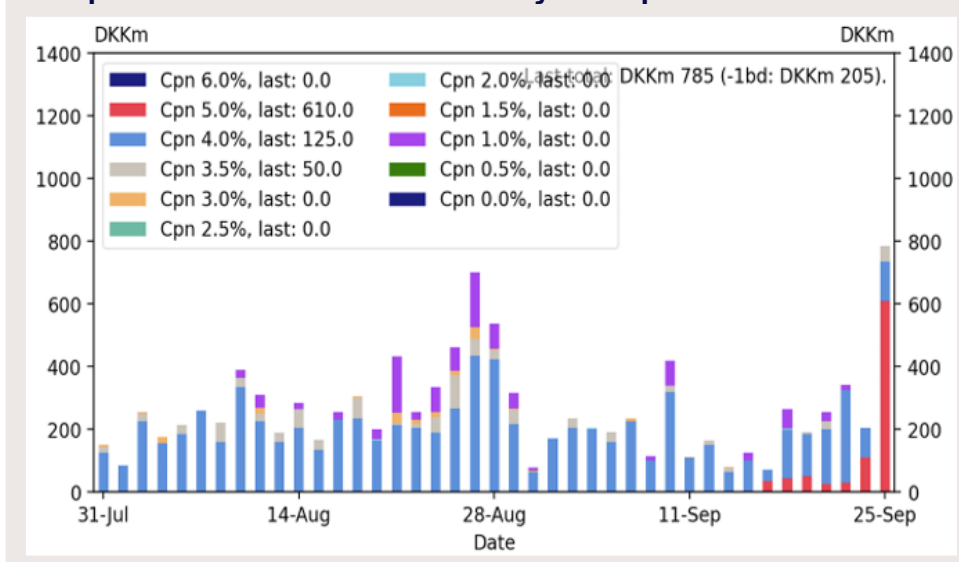
Jump in callable issuance and additional FRN supply

- Last week, we our published end-of-quarter issuance forecast, anticipating relatively modest volumes, still dominated by FRNs (Read more [here](#)).
- Friday's initial month-end flow was largely in line with that picture: DKK 1.6 billion in FRNs, DKK 1.0 billion in bullets and DKK 0.8 billion in callables.
- We believe the additional callable issuance largely reflects pent-up activity among borrowers who have been waiting to take out fixed-rate mortgages at high bond prices. We expect issuance to normalise from here, returning to DKK 200-300 million a day.
- Nykredit has also announced DKK 6 billion of additional FRN issuance tomorrow related to secured homeowner loans. This was not included in our original month-end forecast.
- Including this in end-of-quarter issuance, we raise our FRN issuance estimate to DKK 10-11 billion.

Expected end-of-quarter issuance – update

DKK billion	Last week	Updated
FRNs	4-5	10-11
Bullets	2-3	2-3
Callables	<1	<1
Total	6-8	12-14

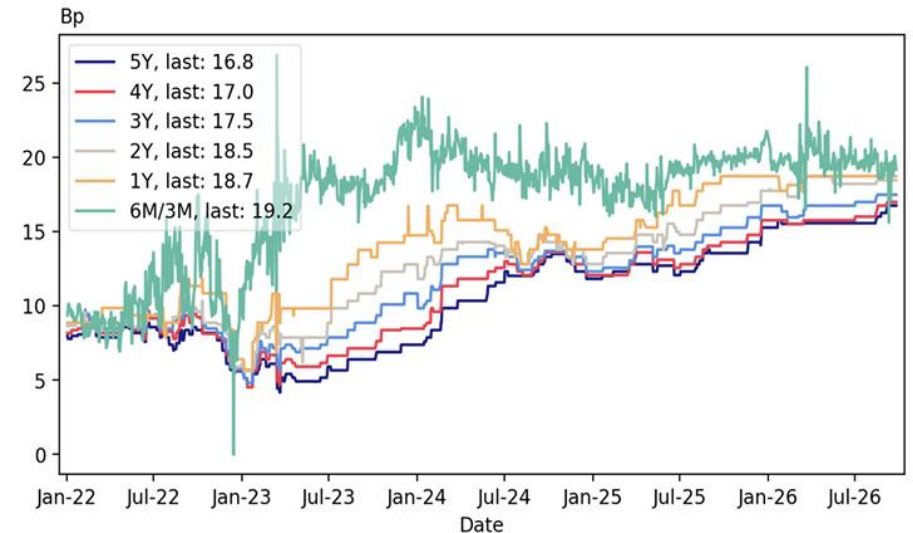
Jump in callable issuance on Friday 25 September



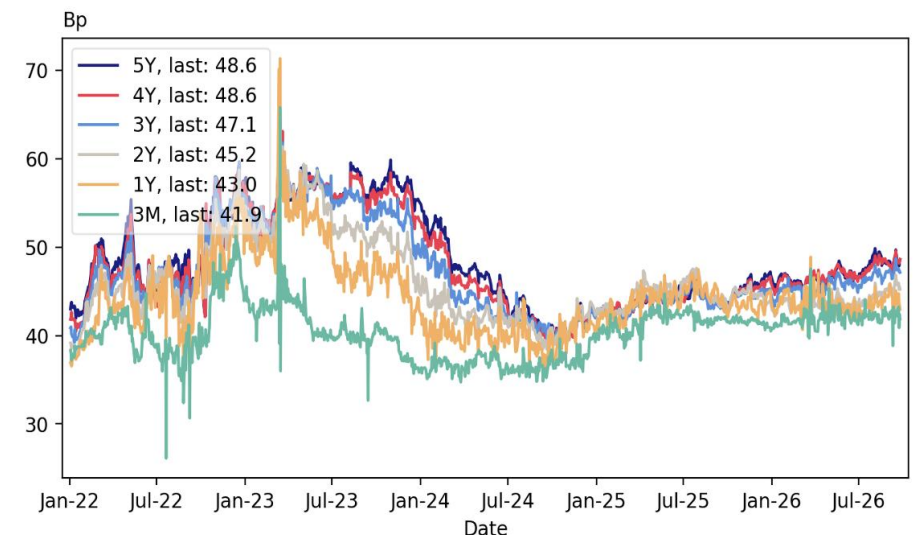
FRNs: Which basis?

- This year, Cibur 6M swap rates have risen relative to Cibur 3M (see top chart).
- This can be interpreted as pricing in higher future Cibur 6M fixings relative to Cibur 3M fixings, supporting Cibur 6M FRNs relative to Cibur 3M FRNs.
- Our recommendation to favour Cibur 6M FRNs over Cibur 3M FRNs at the start of the year is therefore now in the money. We see less remaining upside and are taking profit.
- Cibur 3M swap rates have also risen relative to Cibur swap rates.
 - This has not hurt our recommendation to favour Cita FRNs over Cibur 3M FRNs, which has moved sideways, as the increase has mainly occurred at maturities beyond those of the FRNs in our recommendation.
 - We still prefer Cita to Cibur 3M FRNs, but are holding off for now on initiating a similar trade in longer-dated FRNs.
 - Greater clarity on the situation in the Middle East, particularly the outlook for energy prices, inflation and interest rates, would give us a clear preference for Cita FRNs over Cibur 3M.
- The nearly DKK 5.9 billion of NYK Cita 3M Oct28 FRNs being auctioned tomorrow may price slightly cheaply. If so, they could offer an attractive buying opportunity relative to NYK's other Oct28 FRNs, which reference Cibur 3M.
 - But remember to demand at least 5bp of additional OAS to compensate for callability.

Cibur 6M vs Cibur 3M (6M/3M boxed vs Cita)



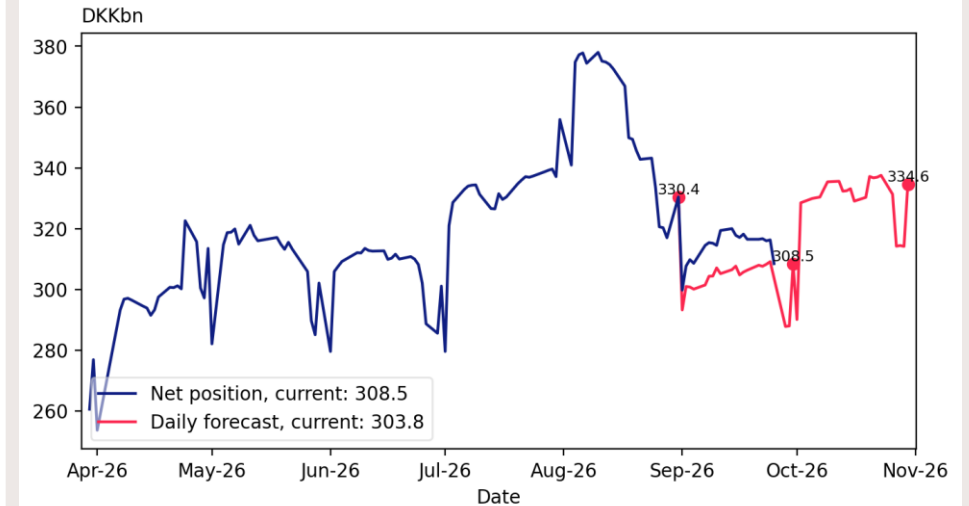
Cibur 3M vs Cita (adjusted for 19bp before 1 January 2026)



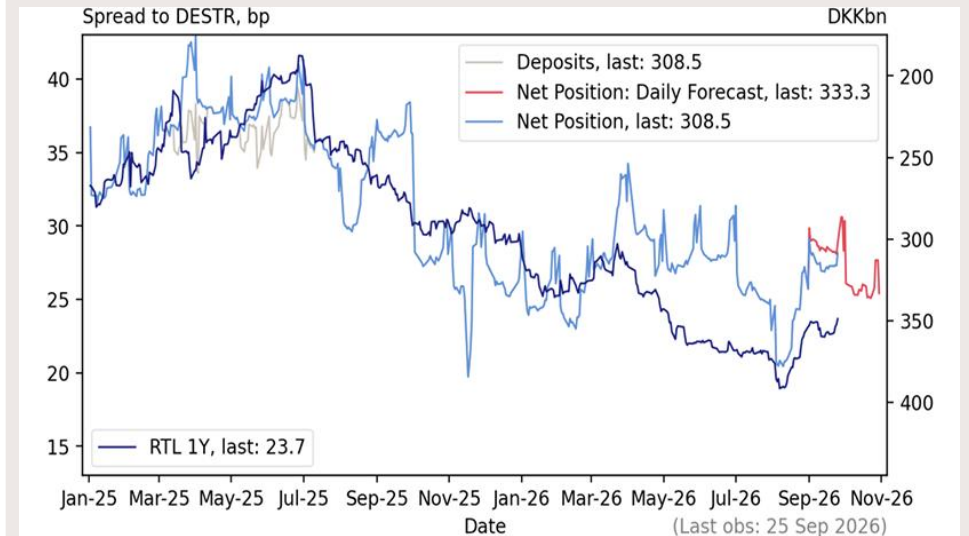
Liquidity: Back on track

- The net position stood at DKK 308.5 billion on Friday afternoon.
 - This is DKK 4.7 billion above the daily profile of the September forecast, adjusted for actual government bond and T-bill issuance.
 - This overshoot is considerably smaller than the just over DKK 14 billion recorded two weeks earlier. The pattern seen in recent months therefore appears to be repeating itself, with the net position exceeding the daily forecast by more in the first half of the month than in the second.
- So far, the September net position shows no clear signs of either FX intervention by Danmarks Nationalbank or a catch-up in the government's net financing requirement (read more [here](#)).
- In October, the net position is set to rise to around DKK 335 billion.
 - This should provide a respite from the liquidity headwinds faced by short-dated bullets over the past month.
 - Unless the anticipated catch-up in the government's net financing requirement materialises in November and, particularly, December, the October increase is set to reverse over those two months.

The net position is approaching the daily forecast



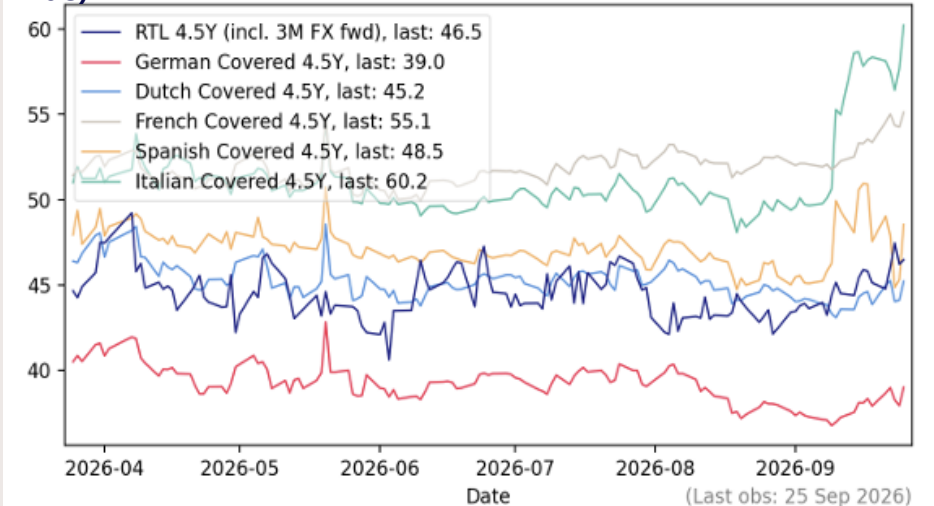
Short-dated bullets widened last week



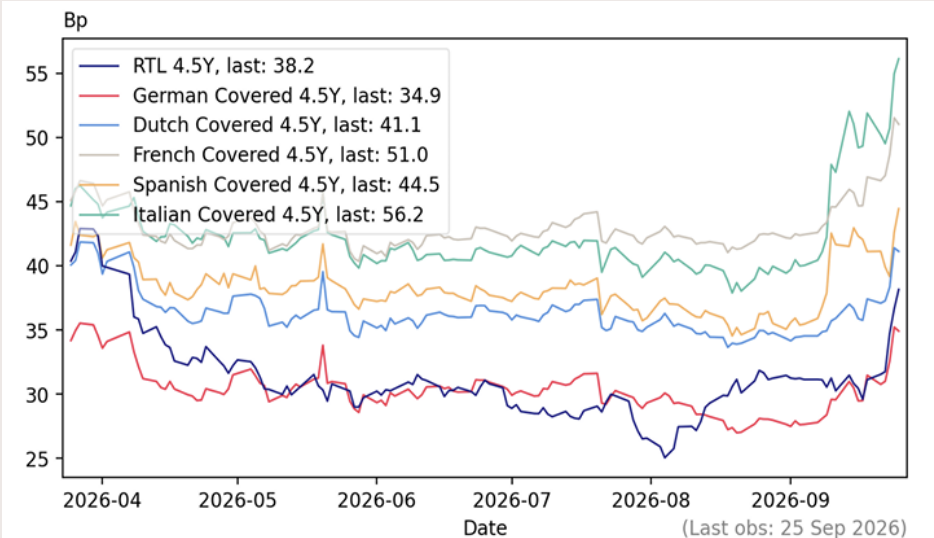
Bullets vs EUR covered bonds: Correlated

- 4.5-year bullets have underperformed against ESTR since the start of September (the chart shows spreads calculated using 3M FX forwards).
 - EUR covered bonds have performed broadly similarly, leaving relative value largely unchanged.
 - Bullets remain on the expensive side when spreads to ESTR are calculated using a maturity-matched basis swap. However, this is unlikely to correct until Q1 2027, when declining liquidity could put pressure on short-dated FX forwards.
- Bullets and EUR covered bonds underperformed Danish and German government bonds, respectively, last week.
 - This mainly reflects government bonds' outperformance against swaps as renewed rises in oil prices prompted a flight to safety (see also below).
- Bullets and FRNs could face a somewhat challenging week, as end-of-quarter issuance may put some widening pressure on spreads in the current environment.
 - However, we do not expect this to result in sustained spread widening relative to, for example, EUR covered bonds.

ESTR spread: EUR covered bonds and bullets (via 3M FX fwd)



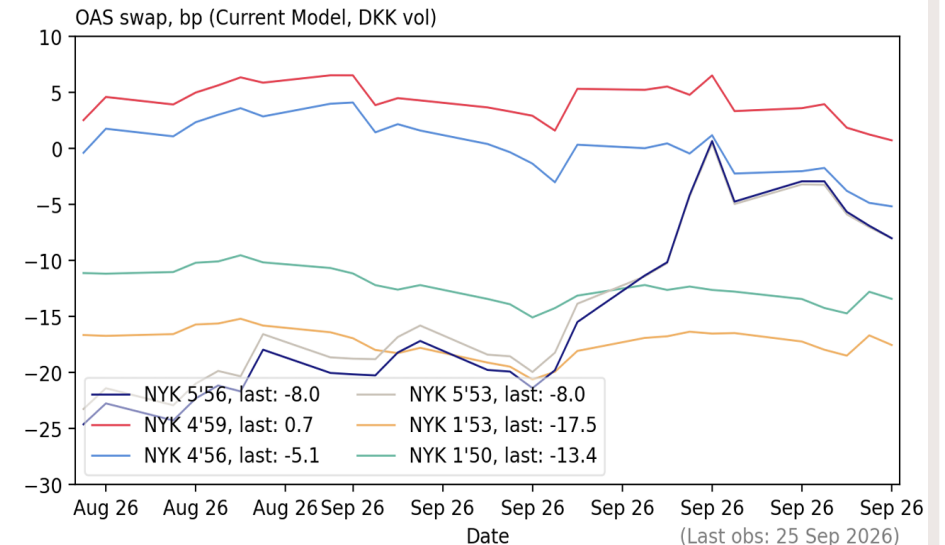
Bullets and EUR covered bonds: Spreads vs DGB/DBR



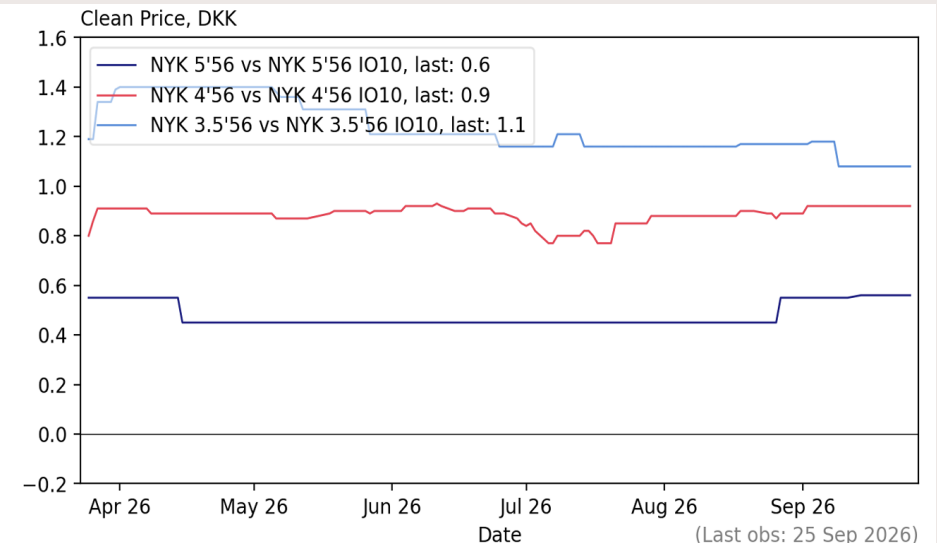
5'59: Time to buy?

- Issuance of callables is now shifting to 5'59 A/IO, with substantial issuance on Friday.
- As noted previously, we see 5'59 as an attractive buying opportunity if available at wider OAS than the corresponding 4'59 series.
- 5'59 A currently offers an OAS of around 6-7bp, considerably wider than the roughly 0bp on 4'59 A.
- We therefore see value in 5'59 A at current levels and will recommend buying NYK 5'59 A once tap issuance begins.
- We are more cautious about the 5'59 IO series. The price spread between A and IO is currently around DKK 0.50 per DKK 100 nominal – identical to that between 5'56 A and IO – which looks too narrow.
 - The narrowing of the price spread between A and IO in legacy 5% bonds largely reflected prices so far above par that prepayment risk became the main driver of pricing.
 - Pricing of the new 5% bonds should place greater weight on cash flows, warranting a wider price spread between A and IO, as seen in 4'56 A versus IO.
 - Experience with the older 5% bonds also shows that heavy prepayments were concentrated in the IO series, further supporting a wider spread between A and IO.

30Y callables: OAS swaps



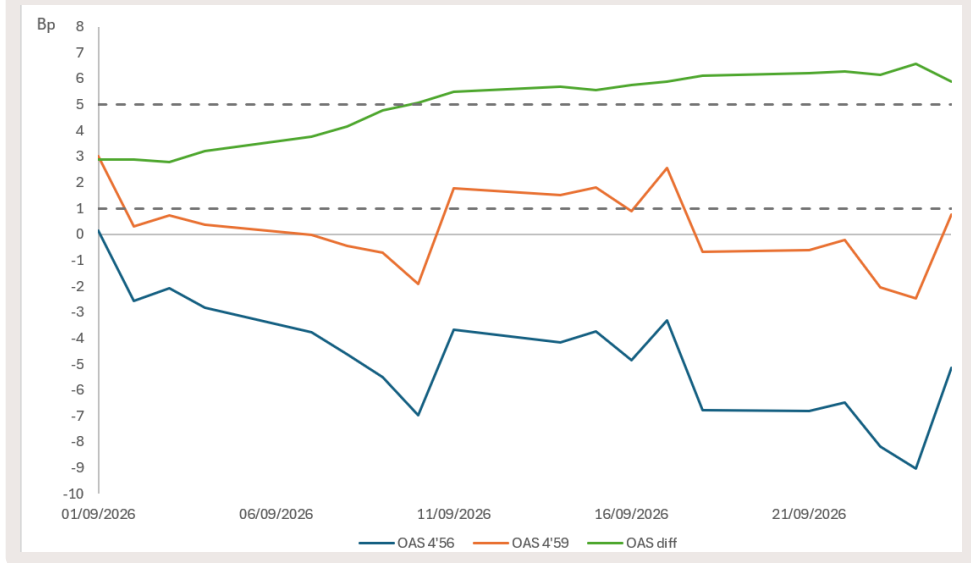
Price spread A vs IO



1'59 vs 4'56

- At the beginning of September, we estimated the fair OAS spread between 4.59 and 4.56 to be 1-5 bp. If the spread widened beyond 5 bp, we recommended purchasing 4'59 vs 4'56 and vice versa.
- The spread is currently just under 6 OAS points, so the question is whether it is now time to buy 4'59 vs 4'56.
- Since issuance has shifted to 5'59, we are inclined to say no.
- One factor suggesting that the spread is currently too wide is that we have seen decent performance in 4'56, which we attribute to expectations that reinvestment flows will be concentrated here.
- If the payment date follows the usual pattern, 4'56 will lose value again when we are on the other side of the reinvestment.
- 4'59s remain very small series, and with issuance currently concentrated in 5'59, they have become harder to come by.
- At the same time, the shift in issuance is, all things equal, likely to slow the build-up of 4'59, pushing any prospective index representation further into the future.
- We believe that this suggests that the maturity class spread should currently be wider than it was at the beginning of September.
- Due to the limited series size in 4'59, we will generally be cautious about buying them before they become an on-the-run bond again.

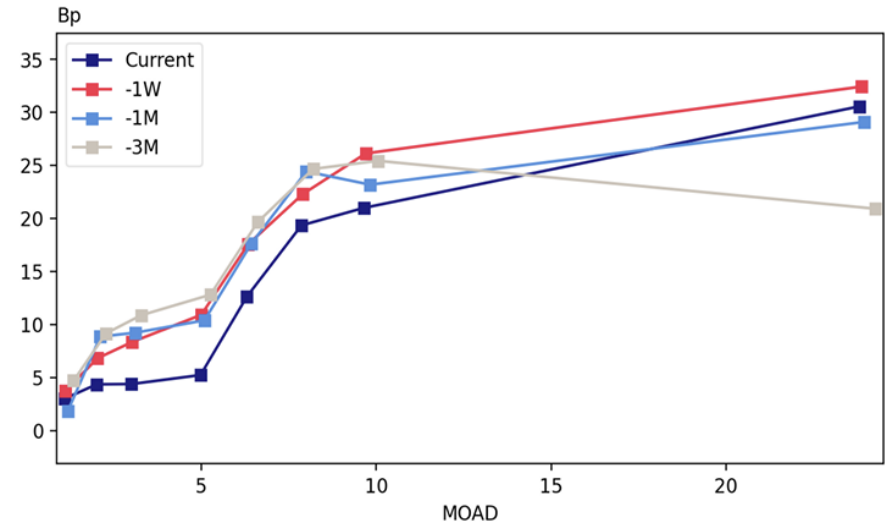
OAS and OAS difference – 4'56 vs 4'59



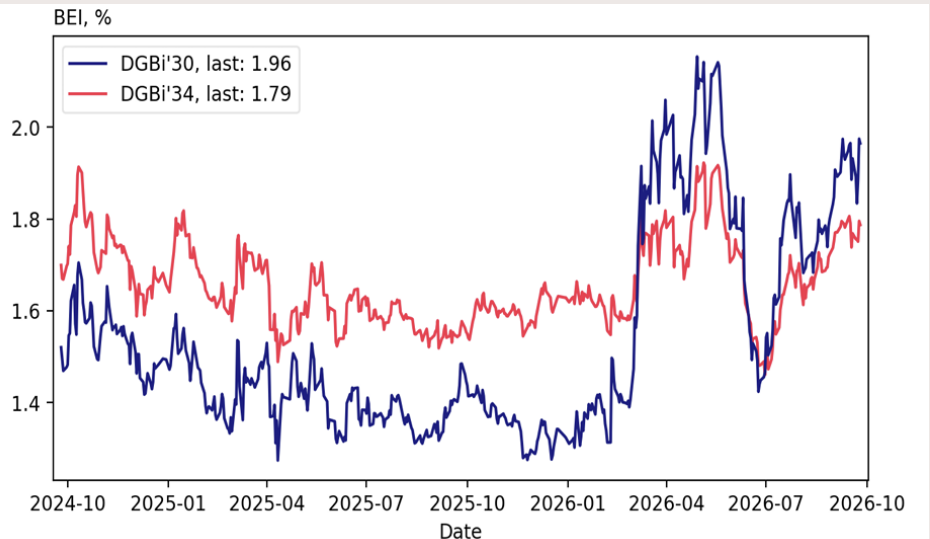
DGB(i)

- Last week we saw fair tightening of the DGB spread vs DESTR.
 - A break from the previous week's trend of falling oil prices meant that last week saw decent yield rises and a generally stronger preference for safe assets.
 - Hence, the Bobl-swap spread rose just over 5 bp on Wednesday and Thursday last week (ie performance in German government bonds vs swap), while oil prices rebounded to levels last seen in mid-September. For the week as a whole, the Bobl-swap spread rose by around 2.2 bp.
 - The spread tightening for DGB largely follows the trend we have seen for German government bonds.
- Last week's developments also help to keep the BEI on DGBi'30 above that of DGBi'34.
 - This means that our recommendation of DGBi'34 vs DGBi'30 (boxed vs nominal government bonds) remains well out of the money.
 - However, we expect the trade to recover over the coming months and maintain the position.

DGB vs DESTR



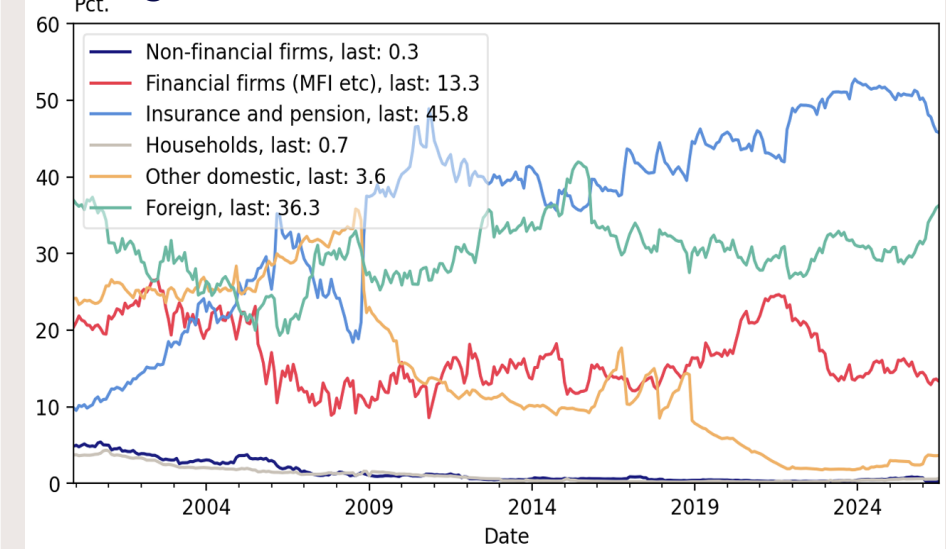
BEI (sa) of DGBi'30 and DGBi'34



New ownership distribution for August – same pattern

- The development in the ownership distribution for Danish covered bonds continues to broadly follow the pattern observed in July.
- Foreign investors' ownership share remains at about 27% in callables and 20% in FRNs, while foreign investors once again reduced their holdings of bullets by about DKK 2 billion in August, leaving them with just 13.5% of the total outstanding amount.
- Likewise, the trend continues in DGB, where foreign investors purchased bonds worth a further DKK 5 billion in August and now hold a total portfolio of about DKK 211 billion, corresponding to just under 40% of the market, at the expense of the insurance and pension sector and MFIs.
- The continued purchase of DGBs by foreign investors indicates an increased demand for high-quality assets, supported by Denmark's low sovereign debt relative to many other countries.

Foreign investors increase their share of Danish government bonds again



Recommendations

- We close our recommendation of Cibor 6M vs Cibor 3M FRNs (see above).
- A few weeks ago, we opened a recommendation of 4'59 vs 5Y bullets, as 4'59 was the leading on-the-run-bond. We maintain this recommendation as we continue to see performance potential in callables vs longer-dated bullets. Were we to put on the trade today, we would, however, prefer to do so in 4.56 instead and would also recommend hedging the position's vol exposure.
- We also maintain our other recommendations.

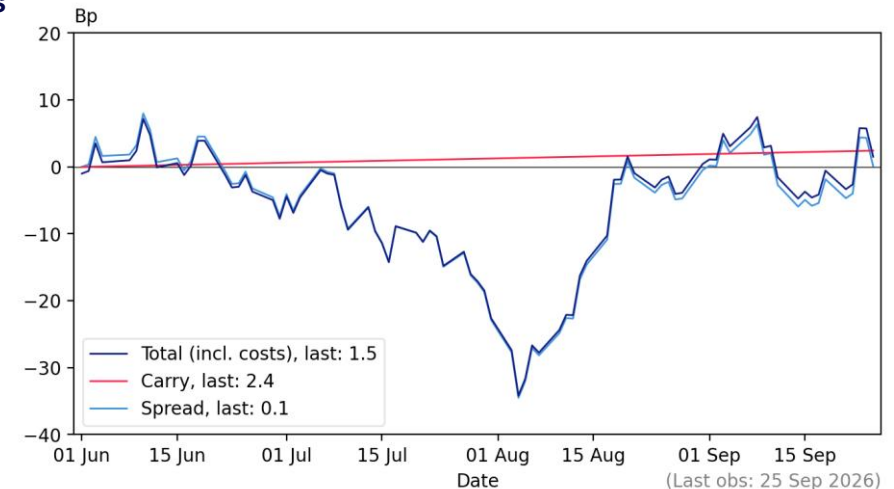
Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-01	RD 4'56IO vs NYK 4'56IO	-0.01	-0.01	0.06
2026-06-15	DGBI'34 vs DGBI'30 (BOX)	0.03	-0.07	-1.62
2026-08-21	3Y FRN vs RTL	-0.00	0.01	0.01
2026-09-03	RTL5 vs RTL1 (hedged)	0.01	-0.02	-0.02
2026-09-02	1'59 vs 4'59	0.18	0.21	-0.25
2026-09-10	4'59 vs. RTL5	-0.26	-0.18	0.32

Outlook recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2025-08-25	CITA vs CIBOR 3M FRN	0.03	0.01	0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.01	0.00	0.13
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.16	-0.20	-1.09
2026-01-26	4'56 vs RTL5	-0.34	-0.50	-0.02

Recommendation: 4.5Y German Covered Bonds vs bullets (vs ESTR via basis



Nykredit

markets

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Recomm endation	
Buy	50%
Sell	50%

As at 13.12.2024

Note: Distribution of our recommendations, which therefore add up to 100%.

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