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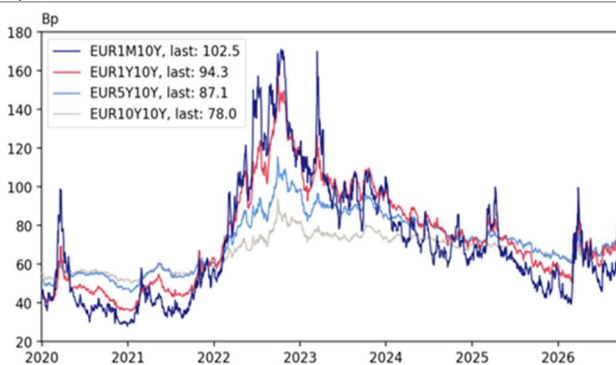
Marketing communication

Jacob Skinhøj, Chief Analyst, jsi@nykredit.dk, +45 44 55 11 27

- Lower iTraxx, low issuance and more reasonable OAS levels point to further performance in callables.
- High implied volatility provides a significantly better entry point; 4'56 bonds could gain approx 2.3 points if volatility normalises towards levels seen at the beginning of the year.
- Deferred reinvestments from the October payment date should provide further support; we prefer 4'56 and close our recommendation of 1'56 vs 4'56.

The recent calm surrounding France and lower iTraxx improve the set-up for Danish covered bonds. Callables are further supported by low issuance, high volatility and more attractive OAS levels following the recent widening. We also assess that part of the reinvestment from the October payment date has been deferred and may therefore continue to support performance.

Implied volatilities



Entry point in vol has improved considerably.

Source: Bloomberg, Nykredit Markets

The recent calm surrounding France has already fed through to lower European credit spreads.

If this trend continues, we expect further performance in Danish covered bonds.

The relationship between iTraxx and OAS in callables is not one-to-one, but in periods of rising European risk, callable bonds are typically also affected.

When the risk premium falls again, part of this move is likely to reverse. In isolation, this supports performance in callables over the next weeks.

We see further arguments for overweighting callables.

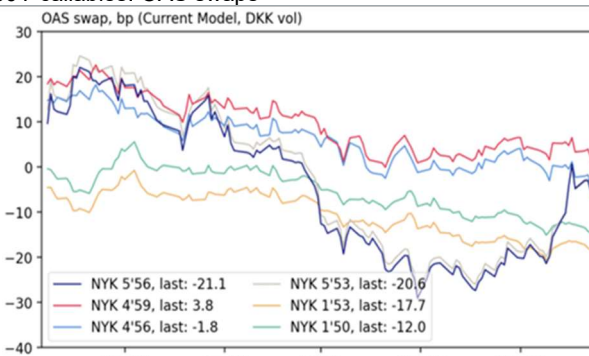
First, issuance remains low. Net issuance in callables is limited, which continues to exert downward pressure on OAS levels. Quite simply, there is not much new duration for investors or market makers to absorb.

Second, volatility has risen to very high levels. Over the summer, one argument against callables was that investors were relatively poorly compensated for selling the option to the borrower.

This has changed significantly. Implied volatility is high, and if it normalises back towards the levels seen at the beginning of the year, there is substantial price potential in callables. 4'56 bonds, for example, would gain around 2.3 points from such volatility normalisation alone.

Realised volatility has admittedly also increased, but it remains comfortably below quoted volatility. We expect this to remain the case going forward. We have to go back to 2022 to find a period in which realised volatility was above quoted volatility.

30Y callables: OAS swaps



Starting OAS means that risk/reward of callables is marginally more attractive.

Source: Nykredit Markets

We do not necessarily believe that volatility will return quickly or fully to the level seen at the beginning of the year. However, the entry point has improved markedly.

The third argument is that, following the recent widening, OAS has once again reached somewhat more reasonable levels. The combination of lower iTraxx and a slightly better starting OAS means that risk/reward is marginally more attractive.

More important than the OAS level, perhaps, is that the rise in quoted volatility has been priced in and has therefore not translated into higher OAS. Accordingly, one may also expect a fall in volatility to be priced in correspondingly, thereby providing a real P/L contribution.

Finally, we assess that some investors have deferred reinvestment from the October payment date, and that we are therefore currently seeing delayed reinvestment performance in callables.

We close our recommendation of 1'56 vs 4'56, as we believe that 4'56 has moved into the money. The reason for closing this recommendation is that 4'56 would gain relative to 1'56 in the event of a normalisation of volatility.

Bullets should – all else being equal – also perform. The correlation between iTraxx and bullet spreads is even higher than in callables, where the correlation is muddled to a greater extent by other components. At the same time, the currently higher-than-expected net position should also support bullets.

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Recommendation	
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As at 13.12.2024

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

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Nykredit Bank A/S – Sundkrogsgade 25 – DK-2150 Nordhavn – Tel +45 44 55 10 00 – Fax +45 33 12 04