

Fixed Income Update Week 41

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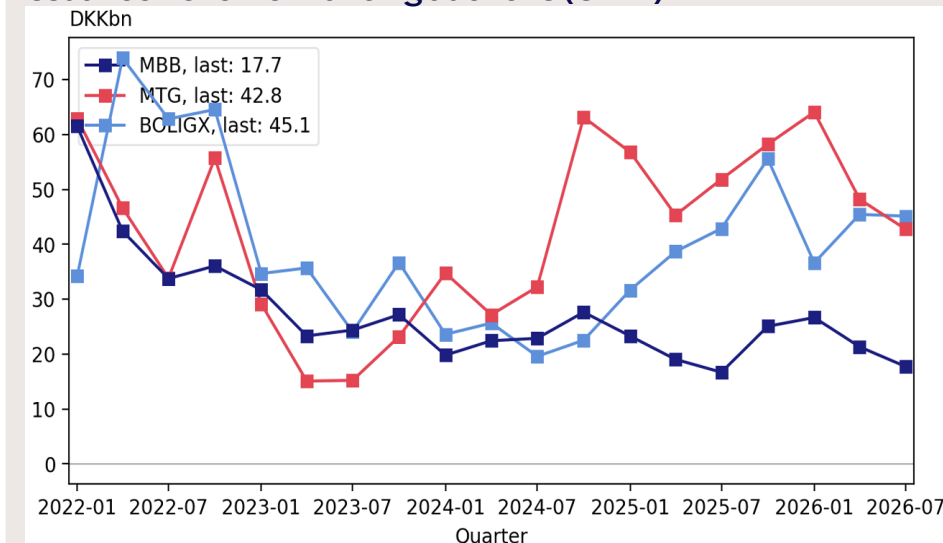
Nykredit



Issuance – more of the same

- Issuance continues along the same path in Q3 as in Q1 and Q2:
 - FRN issuance sees further growth.
 - Issuance of bullets has decreased further but remains centred around 5Y bullets.
 - Issuance of callables still constitutes a relatively small part of the overall issuance picture (record low in September).
- The explanation can largely be found in borrowers' interest rates:
 - FRNs are still the most affordable.
 - 1Y/3Y/5Y currently carry virtually the same interest rate (including loan margin), and the overweight in 5Y bullets thus indicates that the borrower nevertheless prefers a longer interest period, provided it comes at no additional cost.
 - The interest rate is too high for the borrower to find it attractive to have a fixed interest rate.
- New FRN-based products have likely also pulled in the same direction. "Jyske Frihed" has, for example, contributed to Jyske Realkredit's issuance being heavily skewed towards FRNs throughout the year.
- Based on the forward pricing, we expect that FRNs will continue to constitute a significant part of the issuance in Q4. Furthermore, Nykredit's new product, "Dit råderum", can potentially support the same trend.

Issuance net of refinancing auctions (OMX)



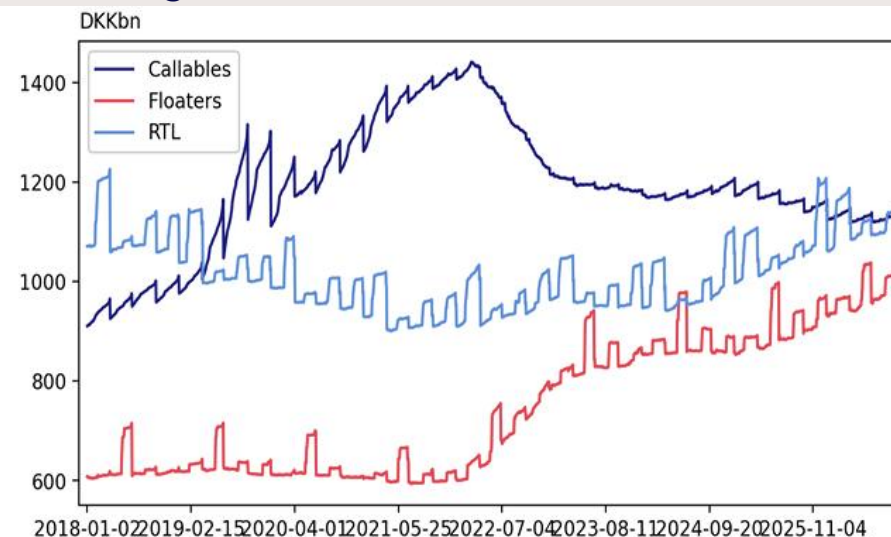
Costs of different types of loans, incl adm margins etc



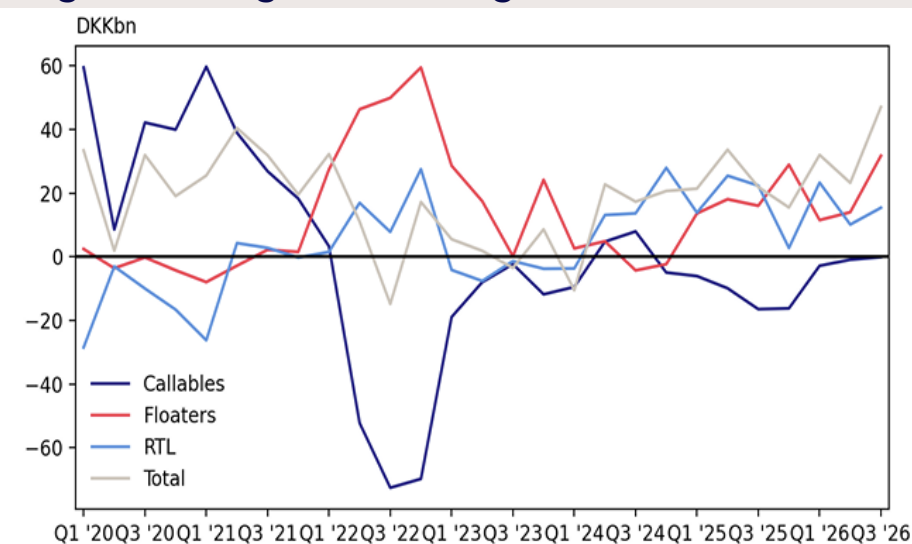
The bullet segment just about made it!

- The bullet segment came within a hair's breadth of overtaking the callables segment in terms of the outstanding amount in Q3 2026.
- The callables segment simply refuses to grow and shrank again in Q3 – though only very marginally. The difference in size between the two segments is now just under DKK 10 billion.
- Whether the bullet segment overtakes the callables segment in Q4 depends on the extent to which the just under DKK 160 billion worth of bullets maturing at the January payment date are refinanced within the bullet segment.
- The most likely scenario, however, is that we will have to wait until Q1 2027 before bullets dethrone callables.
- The FRN segment recorded solid growth in Q3 2026, specifically by just over DKK 30 billion, marking the strongest growth in the segment since 2022.
- This marks the second consecutive quarter in which the FRN segment has been the fastest-growing segment.
- Although higher yields (due to lag in FRN coupons) as well as the refinancing of adjustable-rate mortgage loans into FRNs may result in a fairly large FRN issuance in Q4, we do not expect the issuance pressure to be materially higher than in Q3.

Outstanding amounts



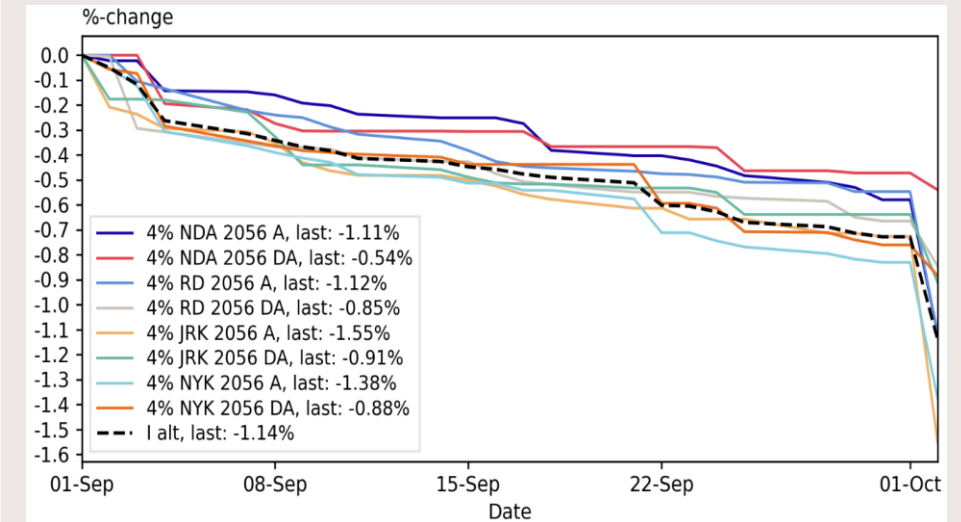
Net growth (change in outstanding amount)



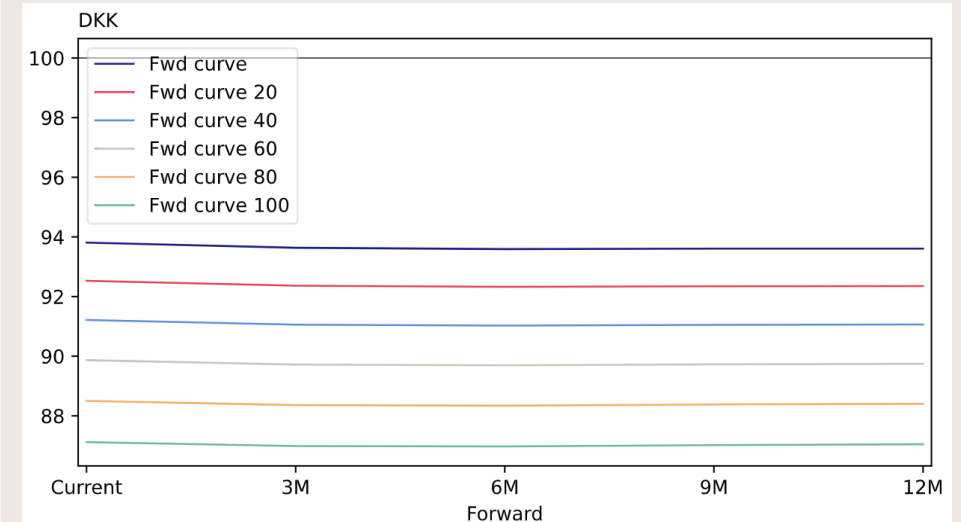
Buybacks in 4'56

- The buyback activity appears to have picked up, based on last week's change in outstanding amount, but remains moderate.
- Overall, the 4'56 segment (non-IO/IO) has decreased by 1.14% since 1 September, which corresponds to about 13% annualised.
- Despite the recent acceleration, our assessment remains that the flow is chiefly driven by ordinary redemptions/housing transactions rather than a large wave of prepayments.
- For prepayments to become truly attractive, we believe that the price of 4'56 must fall further and/or the payment savings from shifting to F-kort/3Y need to increase (see [here](#)).
- Buybacks in 1'50 took off in earnest for the first time at around the price of 90. For 4'56, an equivalent price level, other things being equal, would require an additional yield rise of about 60 bp.
- At the same time, the yield rise would need to concentrate at the long end of the curve, so that the financing alternatives F-kort/3Y bullets do not become equivalently more expensive. Otherwise, the payment savings that drove the fixed-to-variable refinancing in 2022 will fail to materialise.
- For the time being, we do not see extraordinary buybacks as a significant performance driver in the near future.

Change in outstanding amounts of 4'56 non-IO/IO since closing



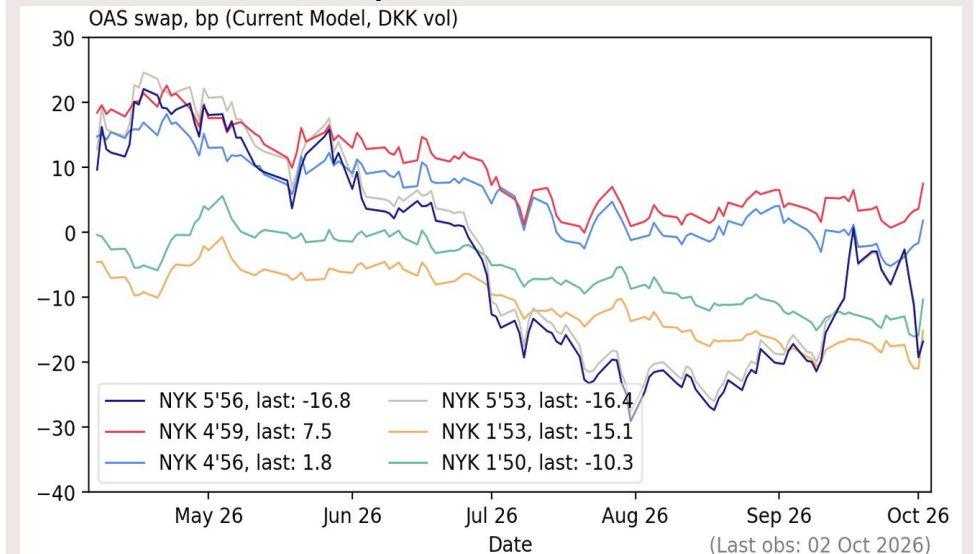
Price of NYK 4'56 under higher yields



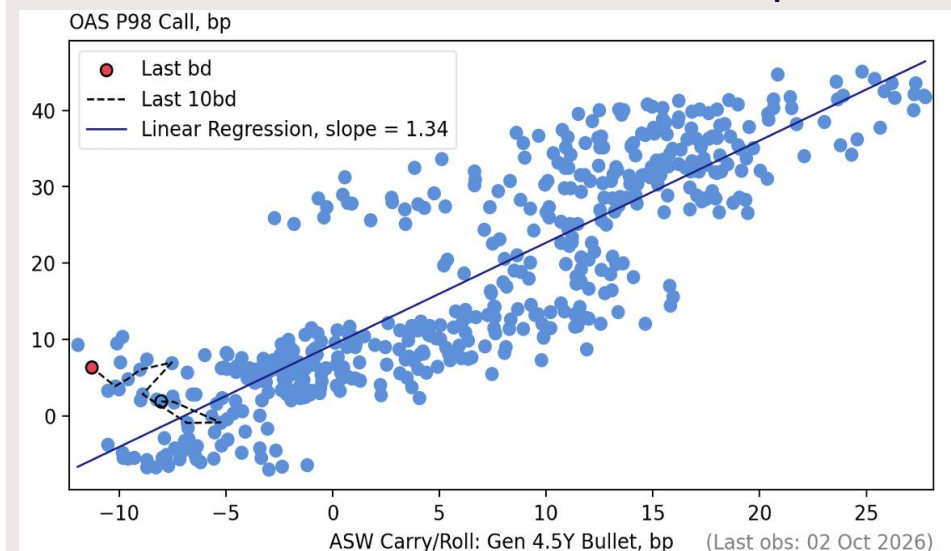
Callables – what's the outlook?

- Reinvestment from the October payment date was not enough to put a floor under callables, which widened in spread last week.
- The yield decline on Friday was, however, enough for 5'59 non-IO to close above the price of 100 (except for Jyske), meaning that no new loan offers can be issued in these bonds today, Monday.
- Already provided loan offers in 5'59 non-IO may, however, still give rise to issuance. Moreover, it cannot be ruled out that they will reopen loan offers again from Tuesday.
- For now, loan offers will probably be provided in 5'59 IO, for the issuers that also use these to finance repayment loans.
- Nykredit's 5'59 non-IO closed on Friday at an OAS of 5bp, thus slightly lower than 4'59, which closed at an OAS of 7.5bp.
- 4'59s are still very small series, and although they have moved closer to once again becoming the primary OTR bond after Friday, we believe its current OAS looks reasonable relative to the other coupons.
- We are, however, generally concerned that the OAS widenings in callables will continue this week.
- If investors have the opportunity to hedge the vol exposure, we still have a slight preference for callables over bullets, and for 5'59 non-IO vs other coupons.

30Y callables: OAS swaps



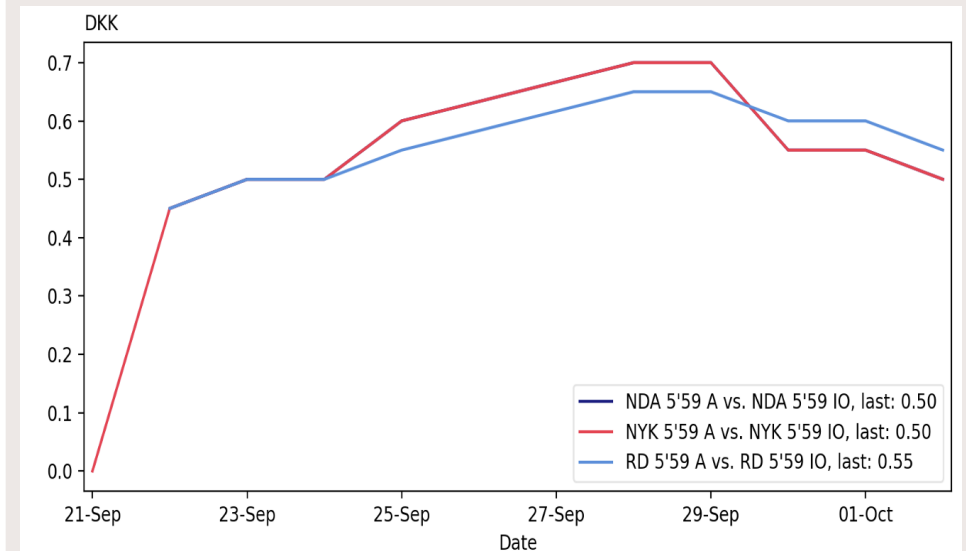
OAS Price 98 Callable vs. Gen 5Y Bullet (Start 2 Sep 24)



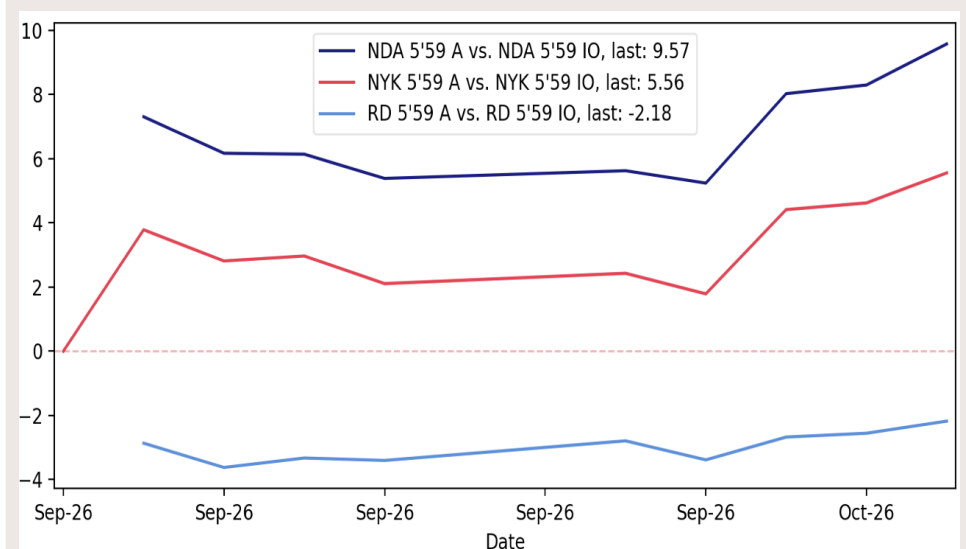
Non-IOs vs IOs: The price spread is too low and the OAS spread too high

- 5'59 non-IO and 5'59 IO are currently trading at a price spread of DKK 0.50 (DKK 0.55 in RD's bonds).
- It thus appears that the new 5% bonds, for the time being, have inherited the non-IO vs IO price spread of the old 5% bonds, which is roughly the same.
- The difference, however, is that the old 5% bonds are still above the price of 100, and they have therefore lost some of their duration, while the new 5% bonds are just around the price of 100 and have a duration of about 4-5.
- The result is that 5'59 non-IO has a somewhat higher OAS than 5'59 IO. (5bp vs -0.5bp in Nykredit bonds)
- Historically, IO bonds have tended to trade at higher OAS levels than non-IO bonds. There are typically two arguments put forward to explain this:
 - 1) IOs offer the potential of a capital gain when the interest-only period expires, as they should subsequently trade flat to the annuities, which leads to a lower upfront OAS.
 - 2) IOs have the prospect of larger buybacks when the interest-only period terminates.
- Conversely, there has historically been a tendency for higher prepayments in IOs due to a larger proportion of large loans, and IOs should therefore not trade at the same price as annuities, even after the interest-only period ends.

Price difference 5'59 non-IO vs IO



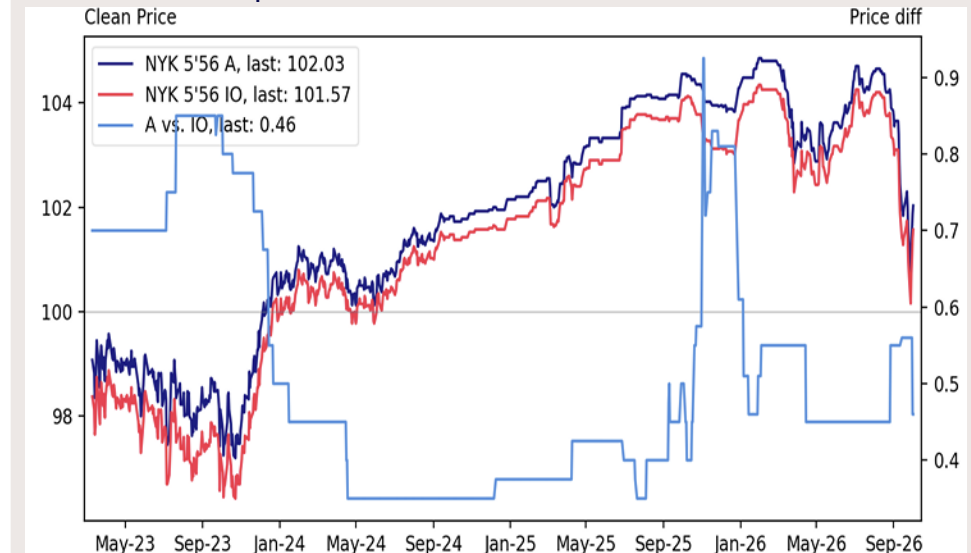
OAS difference 5'59 non-IO vs IO



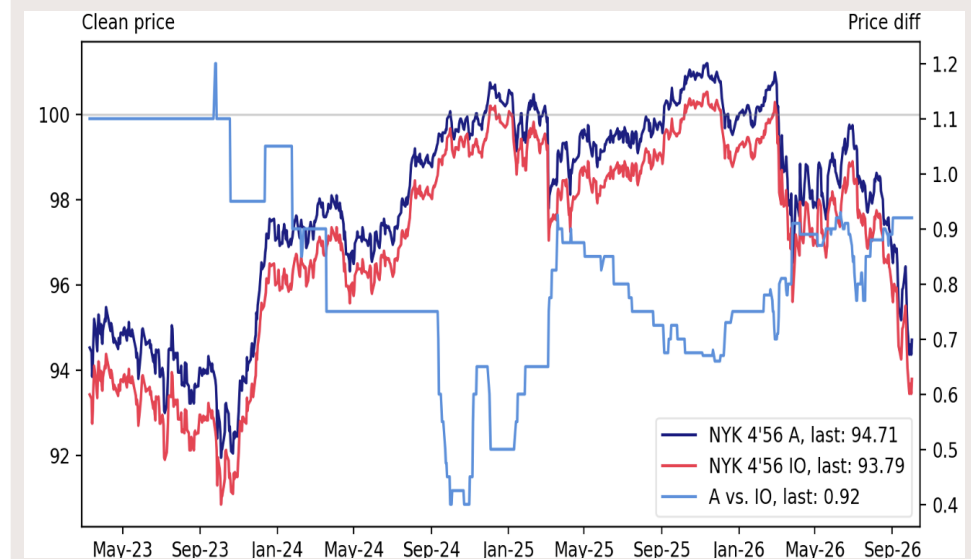
IOs are always too expensive

- Assuming that the model is correct with respect to prepayments and that the IOs and the annuities should have the same OAS, this would imply that the price spread between the 5'59 IO and non-IO should be closer to DKK 0.80.
- However, DKK 0.50 is well aligned with the price spread that both the 4'56 non-IO vs IO and the 5'56 non-IO vs IO have shown at comparable price levels.
- Although the IO bonds appear too expensive at first glance, it is far from certain that there will be a price correction.
- Looking at the price spread between the 4'56 non-IO vs IO, it is currently too low both relative to the historical price spread and under the assumption of identical OAS for the two bonds.
- The last time the 4'56s traded around a price of 94, the price spread was DKK 0.10-0.20 higher than it is now, and for the two bonds to trade at the same OAS, the price spread would need to be almost DKK 0.50 higher than it is today.
- We therefore see greater potential for a price correction here, provided that the 4'56s remain around a price of 94.

NYK: Price and price difference 5'56 IO vs non-IO

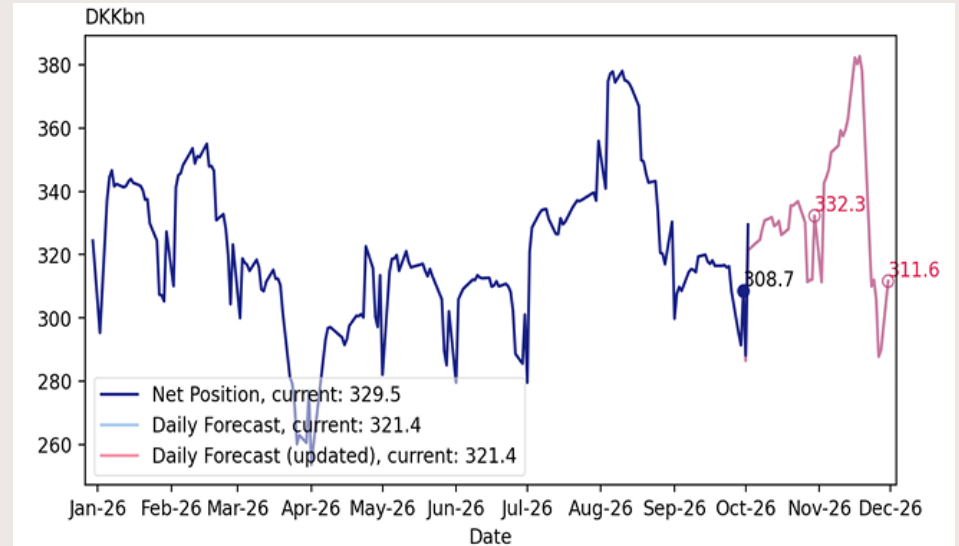


Price & difference: NYK 4'56 A/IO

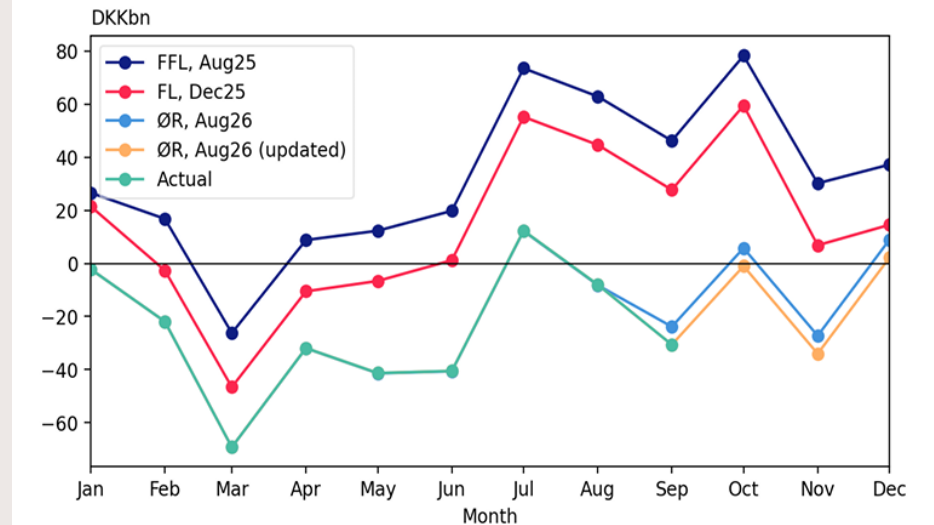


Liquidity: Prospects of growth!

- Forecast was spot on in September!
 - Adjusted for actual issuance of government bonds and T-bills, the daily forecast for the change in net position was spot on in September, with a deviation of DKK 0.2 billion.
 - This was despite the fact that, at one point in September, the net position was almost DKK 15 billion higher than the forecast. This is a pattern we have seen before.
 - There was no intervention by Danmarks Nationalbank, so this did not act as a drag.
- The net position has already risen to just under DKK 330 billion in October, and according to forecast it should move largely sideways from here for the rest of the month.
- Activity is set to pick up in November, when the net position is expected first to rise to just above DKK 380 billion and then fall back to around DKK 310 billion.
 - Over the next one and a half months, bullets may therefore receive some liquidity tailwind, or at least a pause in the headwind, before conditions turn again.
 - Any near-term tailwind is likely to benefit the shorter-dated bullets in particular.
- In September, the net financing requirement was around DKK 7 billion lower than in the monthly forecast based on the August Economic Survey.
 - This therefore increases the scale of the "catch-up" required, particularly in November and December, relative to the forecast from December 2025, if the estimate for the net financing requirement from August 2026 is to be reached.

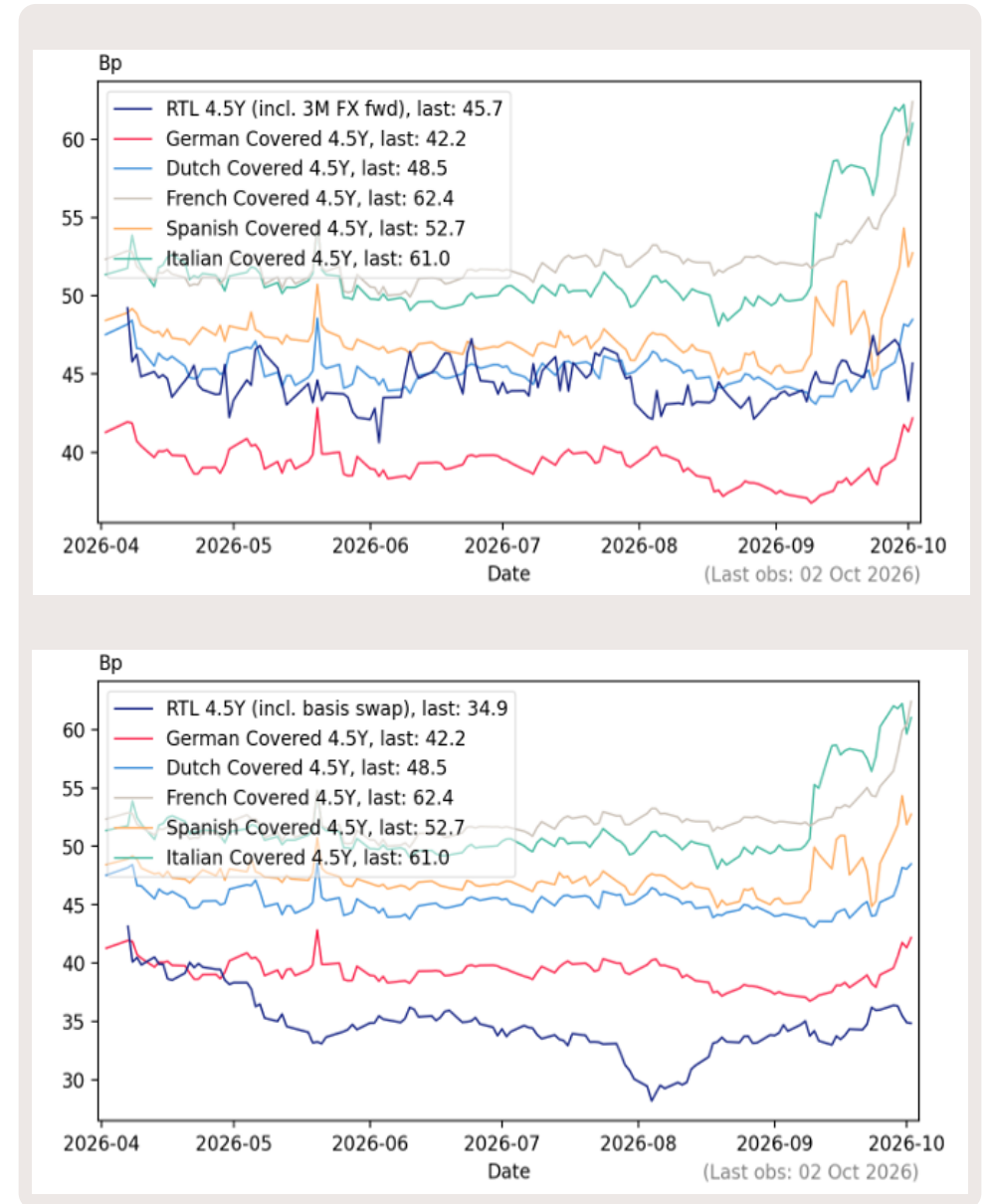


Net financing requirement falls further behind ...



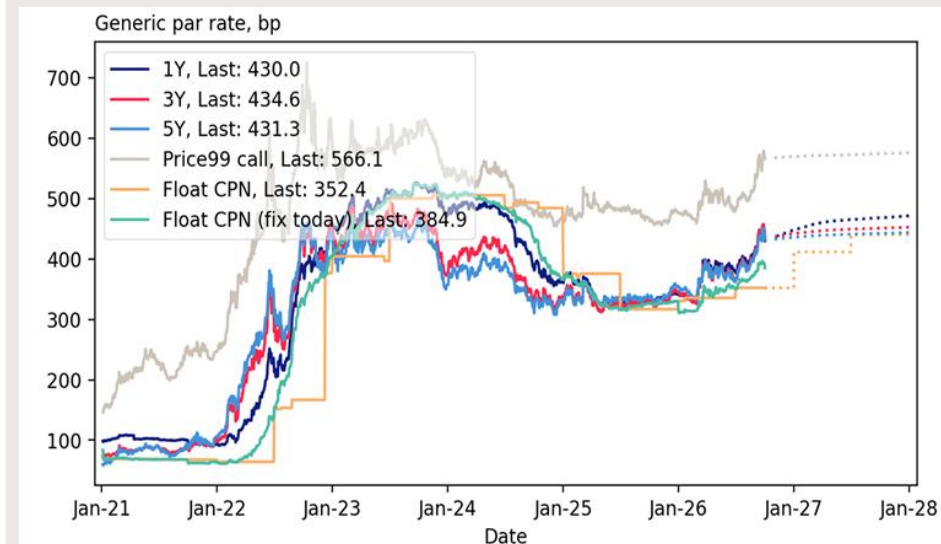
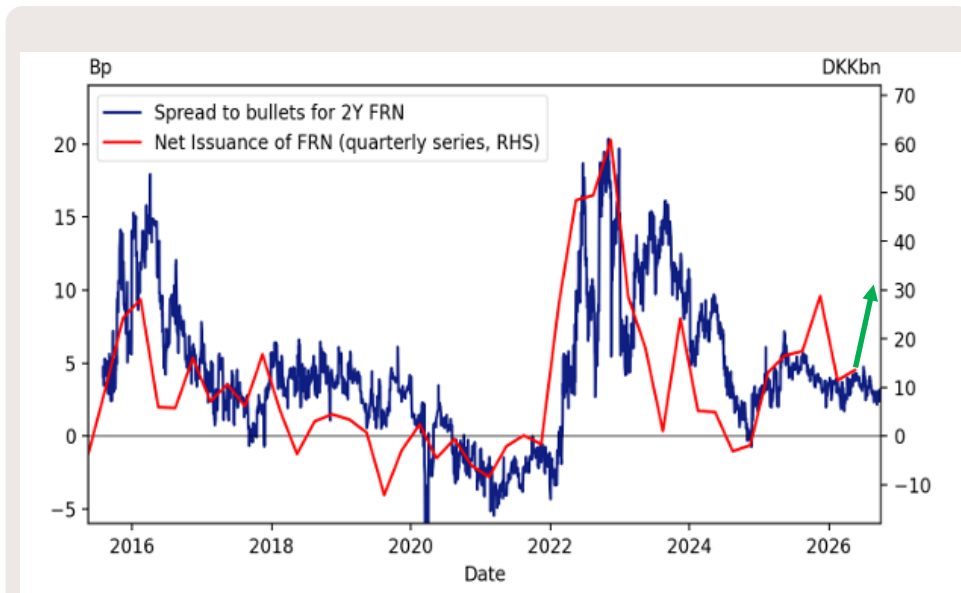
Bullets: Where on the curve?

- Longer-dated bullets look expensive relative to EUR covered bonds after last week.
 - This is true regardless of whether the spread to €STR on 4.5Y bullets is calculated via a 3M FX forward or a maturity-matched basis swap.
- With large auctions expected in November, and issuance already set to increase during October through early refinancing outside the auctions, bullets could come under some pressure in the coming weeks.
 - Spread widening usually fades on the other side of a payment date, when the flow shifts from being dominated by end-of-quarter issuance to reinvestments, but given the current pricing, we are somewhat sceptical.
- We are closing our recommendation of 5Y bullets vs 1Y bullets, which has moved broadly sideways, and are reversing the position.
 - Given the above, and the short-term liquidity outlook, we prefer to take some shelter in short-dated bullets over the coming month.
 - We are therefore opening a recommendation in 1Y bullets vs 5Y bullets (hedged, funded and spread-risk neutral).



Bullets vs FRNs

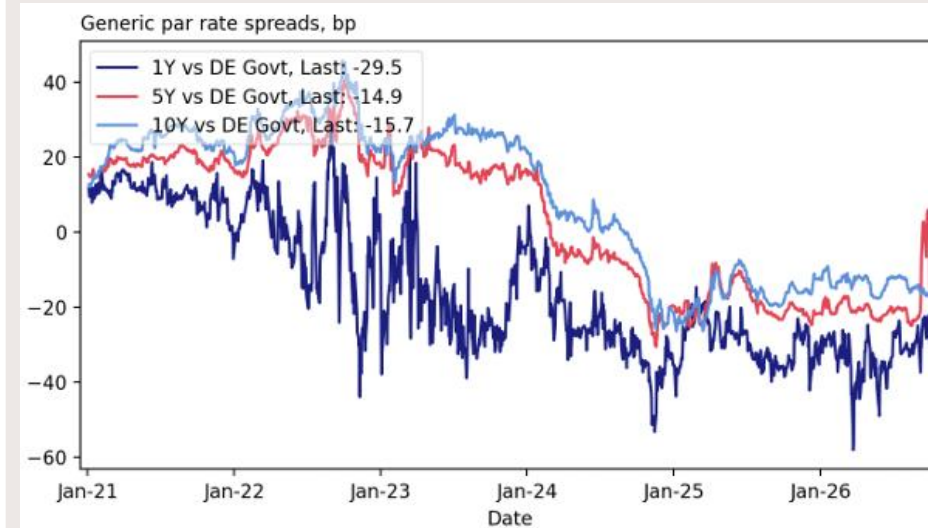
- As mentioned above, growth in the FRN segment picked up in Q3 and came in at a solid DKK 30 billion.
 - This, however, happened without FRN spreads taking much notice.
 - We do not see a sharp increase in underlying FRN issuance, and we do not expect issuance pressure in the FRN segment to rise significantly in Q4.
 - We expect almost unchanged FRN/bullet spreads.
- The January payment date is larger than usual for FRNs, but the maturity is still relatively manageable at DKK 61 billion.
 - Most of the maturity, just under DKK 33 billion, is from NDA, for which we expect solid demand.
- Should FRN spreads come under some pressure from increased issuance, we expect the effect to be relatively short-lived.
 - This should also be seen in light of the outlook for fairly solid issuance of longer-dated bullets in Q4r, and also in Q1 2027.
- We maintain our recommendation of FRNs over bullets.



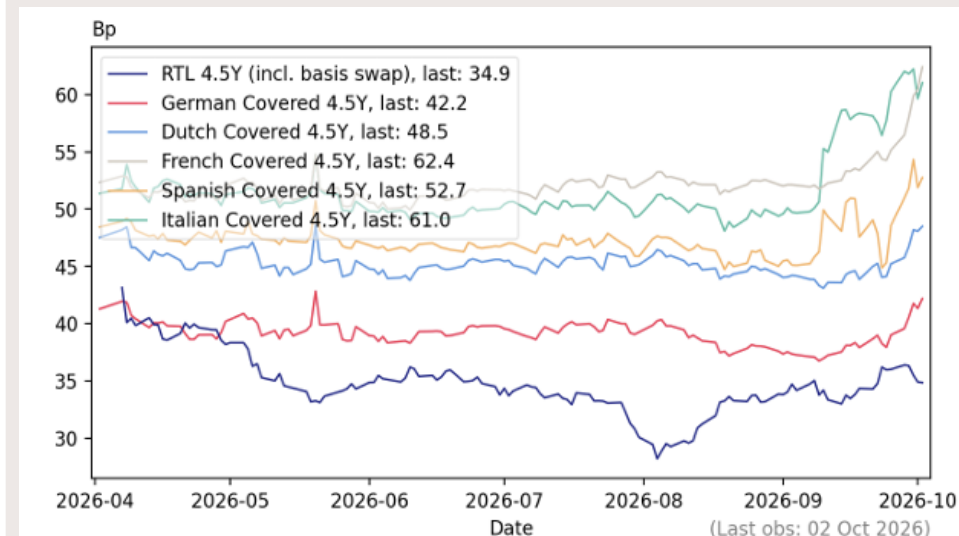
DGB – As a safe haven

- French government bond yields have risen markedly, and particularly, the spread to German government bonds has widened considerably. This primarily reflects a rising political and fiscal risk premium on France.
- The market remains uncertain as to whether the government can secure a majority behind a credible budget for 2027. The plan to bring the deficit down towards 5% of GDP requires substantial savings, but it remains unclear how much of the consolidation can realistically be implemented politically.
- The recent move has so far had only a moderate spillover effect on Danish covered bonds. The French turbulence has lifted the general level of spreads, but Danish government bonds and Danish covered bonds have so far shown considerable relative resilience.
- In the current situation, Denmark benefits from the strong fiscal position. While we expect further French turbulence to spill over into covered bond spreads, including Danish covered bonds, we believe that both DGBs and DBRs may be able to function as safe havens.
- We therefore recommend investors to overweight DGBs and are also opening a relative recommendation: buy **NYKRCDG5 Index** against **NYKRCMB5 Index**.

DGB: Spread vs DBR



Bullets and EUR covered bonds: Spreads vs €STR



Recommendations

- We close our recommendation of 5Y bullets vs 1Y bullets, marginally in the money, and instead open a recommendation of 1Y bullets vs 5Y bullets, see more on page 10 (spread risk neutral, hedged and funded).
- We also maintain our other recommendations.

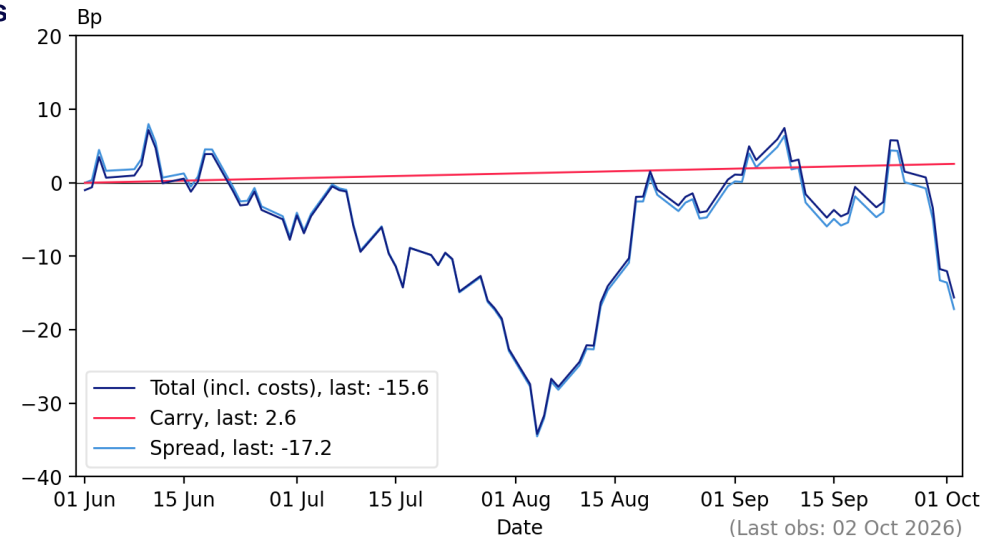
Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	0.00	0.13	-1.49
2026-08-21	3Y FRN vs RTL	0.00	-0.02	-0.01
2026-09-03	RTL5 vs RTL1 (hedged)	0.01	0.04	0.02
2026-09-02	1'59 vs 4'59	0.07	0.60	0.36
2026-09-10	4'59 vs. RTL5	-0.45	-1.50	-1.18

Outlook recommendations

Recid	Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
395	2025-08-25	CITA vs CIBOR 3M FRN	-0.01	-0.00	0.01
404	2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.00	-0.74	-1.82
407	2026-01-26	4'56 vs RTL5	-0.15	-1.04	-1.06

Recommendation: 4.5Y German Covered Bonds vs bullets (vs €STR via bas



Nykredit

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BUY: In our view, the bond pricing is fairly cheap relative to comparable alternatives in either the bond or the derivatives market. We expect that the bond will offer a higher return than any alternatives on a horizon of typically three months.

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Recommendation	
Buy	50%
Sell	50%

As at 13.12.2024
Note: Distribution of our recommendations, which therefore add up to 100%.

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