The auctions are going from bad to worse

Update on ongoing auctions

18 November 2026 11:22 Marketing communication

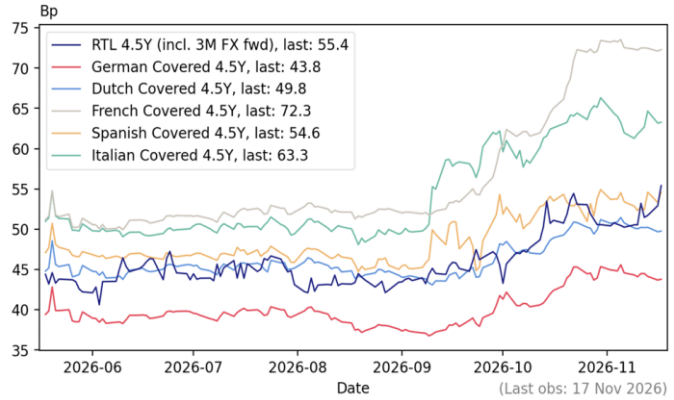
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- Danish bullets are cheaper than Spanish covered bonds!?
- We thought we were ready for the auctions – turns out we weren't!
- Where do spreads go from here?

Danish bullets have widened by 4-5bp this week, despite stable to stronger European covered bonds, as demand at the auctions has been weaker than expected. The prospect of substantial end-of-year issuance in December, another large auction in February, a declining net position and fully utilised repo lines may explain the subdued investor demand. FRNs have widened largely in line with bullets vs swaps, and we have thus seen no signs of the FRN-bullet spread widening at the auctions.

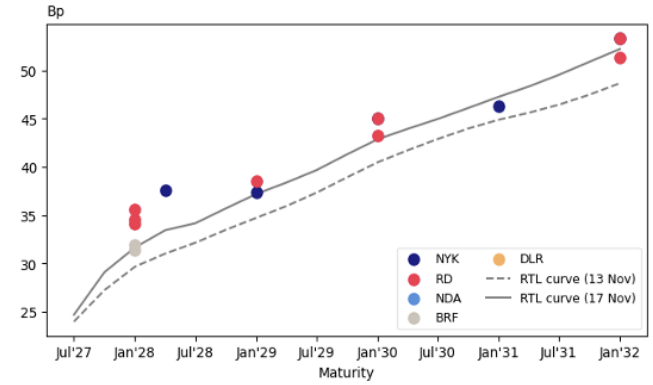
Bullets and EUR covered bonds: Spreads vs swaps (ESTR)



Incl 3M FX hedge to EUR, Danish bullets are now cheaper than corresponding Spanish covered bonds.

Source: Nykredit Markets

Bullet auctions: Spreads to DESTR (at the time of auction)



The auctions ended up cheaper than expected, which pushed the existing curve wider.

Source: Nykredit Markets

Ready for auction? It would seem not!

Last week, we said that, provided EUR covered bonds did not widen any further, we believed Danish bullets were ready for the auctions.

That has proved not to be the case. Bullets have widened by 4-5bp this week, despite European covered bonds not widening any further. Quite the opposite, in fact.

So, although Danish bullets widened in line with Dutch and German covered bonds in September and October, this was evidently not enough for the market to absorb the volumes on offer in this round of auctions.

On top of this, we expect substantial end-of-year issuance in December (DKK 20-25 billion, although mainly in FRNs), followed by another large auction in February. Why buy bullets at rich levels now when there will be another opportunity in just a couple of months?

At the same time, all market participants now seem keenly aware of the liquidity situation, particularly the prospect of a deterioration in the net position towards year-end, followed by the usual decline in Q1 2027.

Limited capacity on repo lines has also been cited as a possible explanation for the subdued investor demand.

Even though the auction results have been weaker than expected, bid volumes at the auctions have been fairly large. Bid-to-cover ratios have typically ranged between 2 and 4, suggesting that the issue is not so much a lack of investor demand, but rather the price investors are willing to pay.

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However, the bid-to-cover ratio does not in itself tell us how strong the underlying demand is, as many bids may have been submitted at very cheap levels.

The bullet curve is trying to keep pace

The auctions cleared 1-2bp cheaper than forecast each day, prompting market makers to mark the outstanding bullets wider as well; see also the bottom chart on the previous page.

That is not necessarily a given. At previous auctions, we have seen that the outstanding bullet curve and auction levels do not necessarily have to move in lockstep. At this auction, however, the bullet curve has been marked a couple of basis points wider each day as the bullets at auction have, so far, cleared at progressively softer levels.

FRNs have largely followed bullets wider

Demand at the FRN auctions has been reasonable, at least judging by the spreads to bullets, which have so far come in broadly in line with our expectations. Yesterday, NDA's green Jan-30 FRN cleared at 6bp to the bullet curve, while NDA's conventional Jul-30 FRN cleared at 8bp. However, allowing for the fact that the bullet auctions themselves cleared a couple of basis points wide of the bullet curve, the implied FRN-bullet auction spreads were closer to 4-6bp, broadly in line with our expectations ahead of the auctions.

FRNs have therefore more or less followed bullets wider and have not underperformed bullets independently in this round.

What happens next?

The cheaper levels and today's tightening in iTraxx are likely to whet investors' appetite, and we do not expect bullets to widen much further from here, albeit with the caveat that we said something very similar last week.

However, the spread widening seen at the auctions so far means that bullets are starting to look attractive relative to, for example, EUR covered bonds, rather than merely fairly valued. Nor do we expect bullets to be available at the same levels once the auctions are over.

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