The overlooked callables

We prefer 4'59

19 November 2026 14:53 Marketing communication

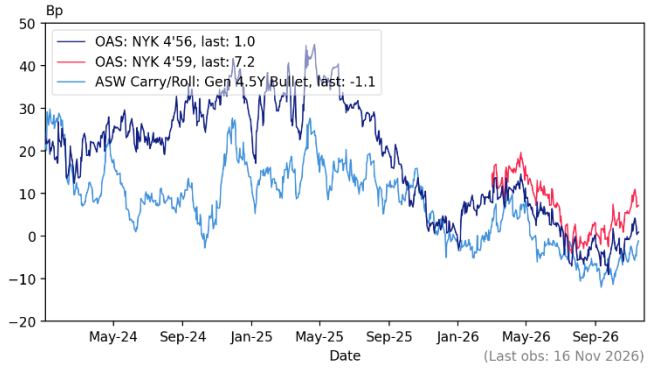
Veronica Bergstrøm, Senior Analyst, vbm@nykredit.dk, +45 44 55 13 63

Jakob Friis Frand-Madsen, Analyst, jafm@nykredit.dk

- Callables have partly escaped the spread widening that hit bullets this week
- The maturity class spread of 4'59 vs 4'56 widened when issuance temporarily shifted to 5'59 A/IO, but has yet to tighten again
- We expect the maturity class spread to tighten to 2–3bp across issuers and therefore recommend 4'59.

This week's spread widening in bullets, and the limited spillover into the callables segment, has reinforced our view that callables are too expensive relative to bullets. In the callables segment, however, we see relative value in 4'59 bonds vs 4'56 bonds. The maturity class spread is currently 6–8bp, depending on the issuer, and with an aggregate series volume of almost DKK 12 billion, which is (slowly) growing, we consider this spread too wide. We expect the OAS spread to tighten by 2–3bp over the coming months.

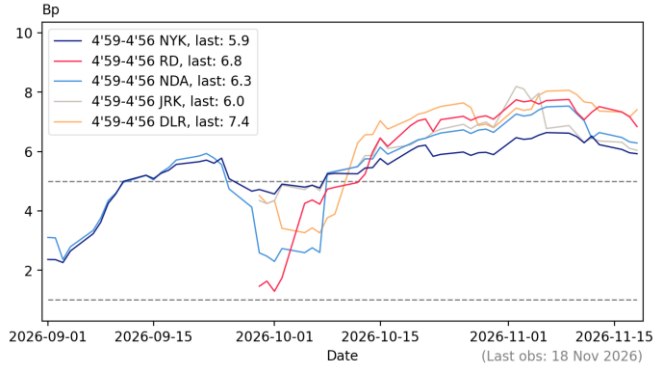
Callables are too expensive relative to 5Y bullets



Shows OAS of 4'59 and 4'56, respectively, vs ASW carry/roll-down on a generic 4.5Y bullet covered bond.

Source: Nykredit Markets

Maturity class spread between 4'59 and 4'56 is too wide



Shows OAS spread of 4'59 vs 4'56 based on CK92NYK.

Source: Nykredit Markets

Overlooked callables

This week has been dominated by refinancing auctions, with the weak bullet auctions weighing on outstanding bullets, wiping out all of last week's gains and more, as spreads widened by around 3bp against DESTR across the curve. In the meantime, callables appear to have been somewhat overlooked. They have lost only a couple of basis points, thereby retaining part of last week's spread performance. This once again leaves callables looking expensive relative to 5Y bullets. The last time 5Y bullets traded at spread levels similar to current levels, at around 49bp vs DESTR, 4'56 traded at an OAS of around 100bp, compared with just 2bp currently. Meanwhile, the OTR 4'59 trades at a spread of around 8bp. Callables are once again benefitting from low issuance, which could support the relative valuation of the 4'59 bonds vs 5Y bullets, although the 4'56 bonds appear too expensive. We therefore move our recommendation of 5Y bullets vs 4'59 (including swap overlays to hedge the volatility exposure) to 5Y bullets vs 4'56 instead.

Maturity class spread is too wide

Within the callables segment, we prefer 4'59 to 4'56. When issuance briefly shifted to 5'59 A/IO in mid-September, the maturity class spread between the 4% bonds widened to 6-8bp. Issuance has since shifted back to 4'59, but even with 5'59 now firmly closed, 4'59 still trades 6-8bp wider than 4'56, which we consider too cheap!

Not a question of skewed debtor distributions

In the early stages of a bond's life, debtor distributions can lead to misleading OAS figures if a particular bond series has a disproportionate share of either small or large loans. In this research note, we have therefore calculated OAS using our CK92NYK debtor distributions, which are a weighted blend of the current and expected future debtor distributions (see more here). The currently wide spread between maturity class spread

This research is a marketing communication and constitutes non-independent research prepared by Fixed Income & Nordic Research in Nykredit Markets. The research is not objective and independent investment research and is thus not subject to the legal requirements applicable to independent investment research. Therefore, it is not subject to any prohibition on dealing ahead of the dissemination of the research.

is therefore not attributable to skewed debtor distributions in the 4'59 bonds.

Slower build-up of the 4'59 series

We previously concluded that a maturity class spread of 1-5bp was fair. This research note was based, among other things, on the build-up of the series and the maturity class spread at the previous transition from 4'53 to 4'56 (see more here).

Since then, callable issuance has fallen further, with daily issuance of 4'59 currently running at around DKK 150-250 million. All else equal, this means that it will take longer to build up liquidity in 4'59 and achieve index inclusion, which may have contributed to the more limited appetite for 4'59 over the autumn.

The amount outstanding in 4'59 is currently just under DKK 12 billion. Although this is naturally a far cry from the approx DKK 165 billion outstanding in 4'56, the current DKK 12 billion should be sufficient to allow investors to enter and exit positions in 4'59 at reasonable levels.

As regards index inclusion, the smallest series currently included in Nykredit's Danish Mortgage Bond Index is Apr'28, with a total amount outstanding of DKK 56 billion. The amount outstanding in 4'59 therefore needs to exceed DKK 60 billion to secure a meaningful weight in the index. Given the current pace of issuance, and assuming issuance remains in 4'59, this could take up to 8-14 months.

Callable issuance may pick up slightly after the turn of the year when the FRNs reset to the new, higher coupon. This could bring 4'59 closer to the eight-month rather than the 14-month end of the range for entering the mortgage bond index.

However, we believe that liquidity is the primary driver of the maturity class spread, while index inclusion plays a secondary role.

The maturity class spread should tighten

We expect the maturity class spread to tighten to around 2-3bp across issuers over the coming months, from 6-8bp currently. All else equal, this corresponds to a tightening of the price spread between 4'59 and 4'56 by around DKK 0.20-0.40, depending on the issuer, as shown in the table at the top of the page. We therefore open a recommendation of 4'59 vs 4'56.

The risk to the recommendation is that issuance shifts back to 5'59, or that the yield curve flattens sufficiently to create issuance pressure in 4'59. Either scenario would support a wider maturity class spread than 2–3bp. However, we currently consider both scenarios less likely.

The price spread is forecast to tighten by DKK 0.20-0.40

		Kursspænd 4'59-4'56 (DKK) hvis OAS-spændet er:				
Udsteder	Kursspænd nu	5 bp	4 bp	3 bp	2 bp	1 bp
NYK	-0.93	-0.86	-0.79	-0.72	-0.65	-0.58
RD	-1.03	-0.90	-0.84	-0.77	-0.70	-0.63
NDA	-1.01	-0.92	-0.85	-0.78	-0.71	-0.64
JRK	-1.03	-0.96	-0.89	-0.82	-0.75	-0.68
DLR	-1.06	-0.89	-0.83	-0.76	-0.69	-0.62

(Last obs: 18 Nov 2026)

The price spread at the different OAS spreads is the current price spread plus the change in the OAS spread multiplied by the average OAS risk of the two bonds.

Source: Nykredit Markets

DISCLOSURE

This material was produced by Fixed Income Research, which is part of Nykredit Bank A/S ("Nykredit Bank" or "the Bank"). Nykredit Bank is a financial undertaking subject to the supervision of the Danish Financial Supervisory Authority.

Nykredit Bank participates in market-making schemes for Danish government and mortgage bonds and can, in its capacity as market maker, hold positions in Danish government and mortgage bonds.

Over the previous 12-month period, Nykredit Bank or companies of the Nykredit Group may have been lead manager or co-lead manager of any publicly disclosed offering of Danish government or mortgage bonds. Further information is available on request.

Nykredit Bank or companies of the Nykredit Group are not involved in corporate finance activities or any other investment services or activities or ancillary services for companies referred to in the material.

This material contains information recommending or suggesting an investment strategy and was not produced by an independent analyst. Instead, it was produced by strategic analysts, whose recommendations are based on their experience or knowledge in the financial area. It was not produced in accordance with regulation aiming to promote the independence of investment research and is therefore considered marketing material and not investment research. No prohibition applies to trading in any financial instruments referred to in the material prior to its dissemination.

Nykredit Bank and companies of the Nykredit Group have not entered into any agreement with the issuer on the production of this material. This material has not been presented, in full or in part, to the company.

This material was finalised and released for distribution for the first time on the date and time stated at the top of the material.

Financial models and methods used

Calculations and presentations are based on ordinary econometric and financial tools and methods as well as publicly available sources. Assessments of Danish callable mortgage bonds are modelled using a proprietary model consisting of a stochastic yield curve model and a statistical prepayment model calibrated to borrowers' historical prepayment behaviour.

Recommendation and risk assessment structure for government and mortgage bonds (incl covered bonds)

Nykredit Bank typically focuses on isolating relative value in fixed income and derivatives markets. Therefore, the interest rate and/or volatility risks of the strategy are typically hedged through other bonds or derivatives (swaps, swaptions, caps, floors etc).

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.

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

Risk warning

Any assessments and recommendations made in this material may involve substantial risk. Such risk, including a sensitivity analysis of the relevant assumptions, is stated in the material. All investors should consider the purpose of their investment and make their own decisions as regards any kind of investment in financial instruments referred to in this material.

Regular updates of the recommendation are not scheduled, and any updates will therefore be on an ad-hoc basis.

Unless otherwise stated, all price information in this material is as at the trading day prior to the date stated on the front page.

For a list of all Nykredit Bank's government and mortgage bond recommendations in the last 12 months, including specific information on the individual recommendation, please see here.

Nykredit Bank has significant financial interests in relation to Nykredit Realkredit A/S in the form of general banking services and investments in bonds issued by Nykredit Realkredit A/S.

Nykredit Bank is a wholly-owned subsidiary of Nykredit Realkredit A/S. The material may contain a recommendation to buy bonds issued by Nykredit Realkredit A/S. This entails a conflict of interest between Nykredit Bank and customers, as Nykredit Bank has a particular interest in selling bonds issued by companies of the Nykredit Group.

Information about Nykredit Bank

Nykredit Bank has adopted internal rules to prevent and avoid conflicts of interest in the preparation of research and to ensure effective communication barriers. Analysts at Nykredit Bank are obliged to refer any communication that may affect the objectivity and independence of investment research to the

Head of Research and the Compliance unit. Employees of Nykredit Bank must at all times be alert to any potential or actual conflicts of interest between Nykredit Bank and customers, between customers, and between an employee on the one hand and Nykredit Bank or customers on the other, and must endeavour to avoid conflicts of interest. Nykredit Bank has adopted a conflicts of interest policy on the identification, management and disclosure of conflicts of interest in connection with securities trading and related services provided by Nykredit Bank for customers. If becoming aware of circumstances that may constitute a conflict of interest, Nykredit Bank's employees are obliged to disclose such information to their line manager and to the Compliance unit, which will then determine how to proceed.

Fixed Income Research in Nykredit Markets operates independently of the units Debt Capital Markets & Sustainability and Financial Institutions Group and is organised independently of, and does not report to, any other business units of the Nykredit Group. Employees are remunerated partly based on Nykredit Bank's overall performance, which includes income from investment banking transactions, but do not receive bonuses or other remuneration directly related to specific corporate finance or debt capital transactions. Persons involved in the production of the material do not receive remuneration related to investment bank transactions conducted by companies of the Nykredit Group.

Distribution of recommendations

The table below shows the distribution of Nykredit Bank's direct investment recommendations in investment research on government and mortgage bonds in the most recent quarter. No significant investment firm services have been provided to issuers in the period. Current distribution of direct investment recommendations:

Recommendation	
Buy	50%
Sell	50%

As at 13.12.2024

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

DISCLAIMER

This material was produced by Nykredit Bank for the personal information of the investors to whom the Bank has distributed the material. The material is based on information available to the public and own calculations based on such information.

Nykredit Bank does not accept any liability for the correctness, accuracy or completeness of the information in the material. Recommendations are not to be considered as offers to buy or sell the financial instruments in question, and Nykredit accepts no liability for transactions based on information presented in the material.

Information on previous returns, simulated previous returns or future returns presented in the material cannot be used as a reliable indicator of future returns, and returns may be negative. Information on price developments presented in the material cannot be used as a reliable indicator of future price developments, and price developments may be negative. If the material contains information on a specific tax treatment, investors should bear in mind that the tax treatment depends on the investors' individual situation and may change in future. If the material contains information based on gross returns, such returns may be reduced by fees, commissions and other costs.

Nykredit Bank and/or other companies of the Nykredit Group may buy, sell or hold positions in securities referred to in the material, and these companies may be involved in corporate finance activities or other activities for companies referred to in the material.

This material may not be reproduced or redistributed without the prior consent of Nykredit Bank.

Special rules on crisis management in banks (bail-in):

Special rules apply to crisis management in banks. The rules prevent the use of taxpayers' money in times of crisis, meaning that banks will not be bailed out by rescue packages paid by the public. Instead, losses will be borne by the shareholders and bondholders of crisis-stricken banks. This is called "bail-in".

It may be difficult for investors to predict the implications of the complex rules, and a crisis may hit very suddenly. If you invest in bank shares or securities issued by a bank, be aware of the special risk of a write-down or a complete loss of your investment. A potential or current banking crisis will also have a huge impact on the liquidity of your investments.

Nykredit Bank A/S – Sundkrogsgade 25 – DK-2150 Nordhavn – Tel +45 44 55 10 00 – Fax +45 33 12 04 34