Fixed Income Update Week 46



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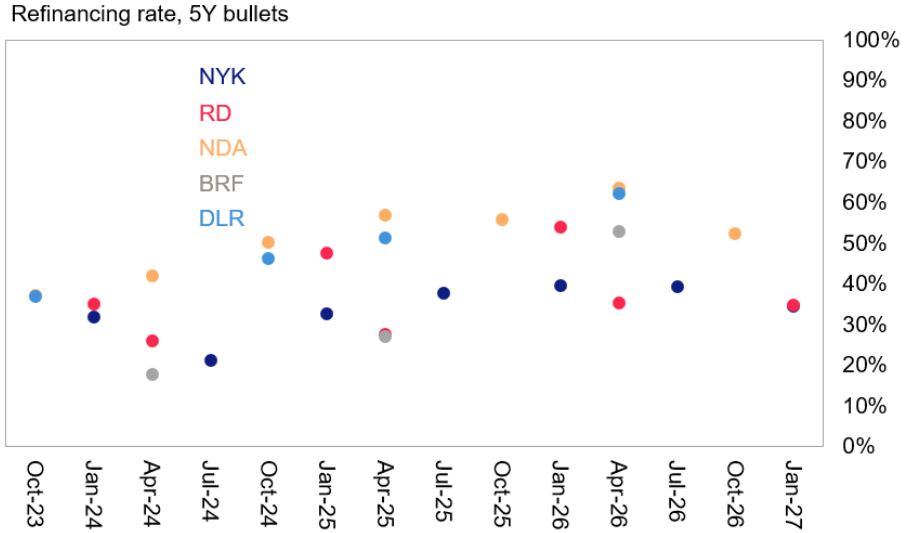
Final auction offering includes fewer 5Y bullets than expected!

- The final bullet offering at next week's refinancing auctions amounts to DKK 106 billion, of which
  - 1Y bullets: DKK 59 billion
  - 3Y bullets: DKK 21 billion
  - 5Y bullets: DKK 22 billion
- The 1Y bullet offering is thus higher than projected, while the 5Y bullet offering comes in slightly lower, and the 3Y bullet offering is in line with our expectations.
- The 5Y bullet refinancing percentage is only 35% for both RD and NYK.
  - This is likely partly due to RD continuing to refinance some of its 5Y bullet maturities outside the auctions.
- Overall, the 5Y bullet offering this quarter will probably end up lower than one might have expected given the substantial maturity.
- **Tune in to our auction call on Friday, 13 November at 9:30 am, where we will discuss the offering, issuance outlook and our expectations for auction spreads.**

Bullet offerings at November refinancing auctions

	Total	1Y	2Y	3Y	4Y	5Y
NYK	27,800 (54%)	5,000 (545%)	900 (44%)	10,800 (72%)	600 (60%)	10,500 (35%)
RD	59,520 (74%)	35,900 (121%)	2,300 (52%)	9,400 (88%)	450 (19%)	11,400 (35%)
NDA	1,455 (76%)	1,000 (89%)	45 (83%)	350 (75%)	10 (35%)	50 (52%)
JRK	14,400 (76%)	14,400 (76%)	-	-	-	-
DLR	*2,728 (85%)*	*2,291 (85%)*	*370 (81%)*	*19 (109%)*	*41 (709%)*	*7 (40%)*
Total	***106,003 (68%)***	***58,591 (110%)***	***3,615 (51%)***	***20,569 (78%)***	***1,101 (32%)***	***21,957 (35%)***

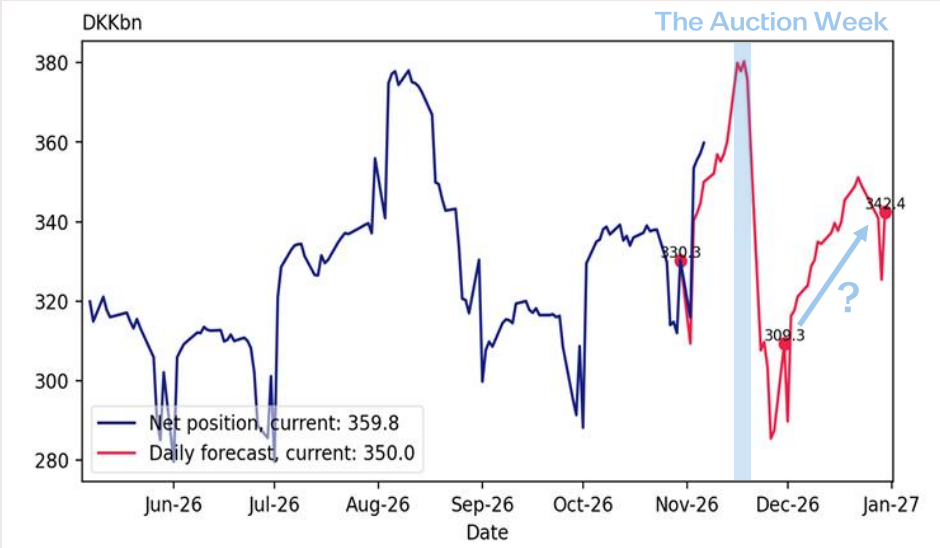
Historical refinancing percentages, 5Y bullets



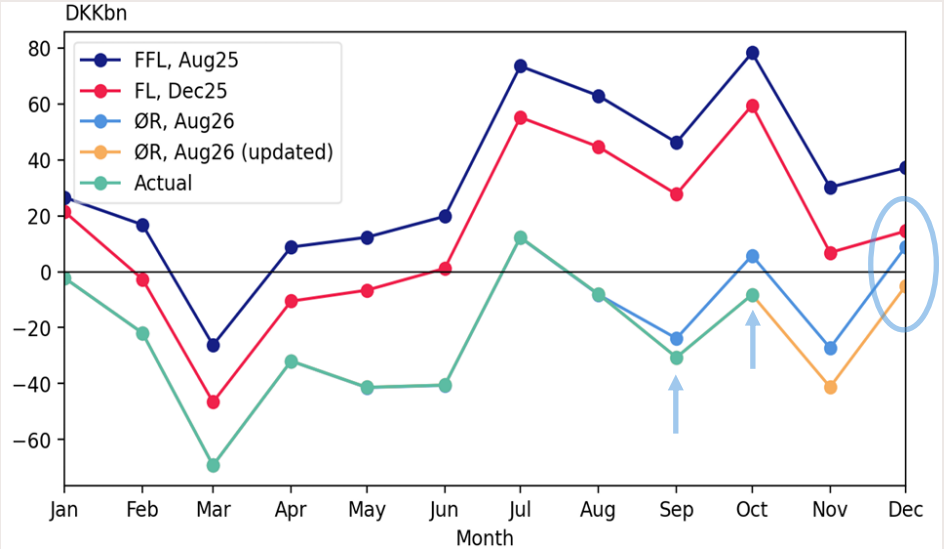
Liquidity on the rise (for now)

- The net position has risen considerably in November and is set to rise even further when the refinancing auctions start next week (due to the maturity of DGB'26).
  - So far, the net position has risen by just under DKK 10 billion more in November than projected in the latest daily forecast.
  - In recent months, however, we have seen a pattern of the net position running ahead of the forecast early in the month, only to fall back towards the forecast later in the month. The increase in November may simply prove to be a repeat of this pattern.
- This makes it all the more interesting to follow the net position to see whether the "catch-up" in the government's net financing requirement in November and December, which is included in the latest monthly forecast (Economic Survey Aug26), actually materialises.
  - Since the latest monthly forecast, the net financing requirement has fallen even further behind the forecast (September and October); see the bottom chart.
  - If the forecast "catch-up" in the net financing requirement does not materialise towards year-end, we will have a less favourable starting point ahead of the seasonal decline in Q1 2027.
  - We wrote more about this in a research note from last Thursday.

Net position incl daily forecast



Government net financing requirement: Estimate & actual dev.

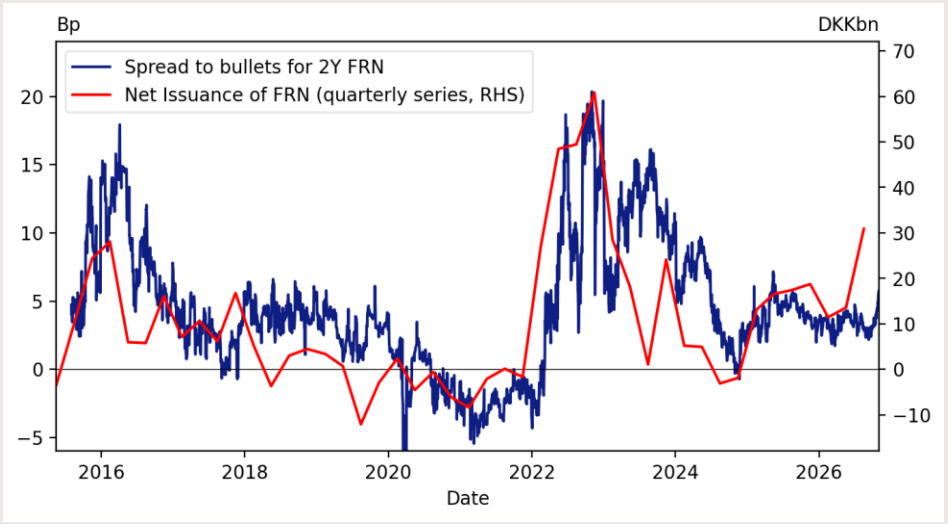


FRNs – ready for auction?

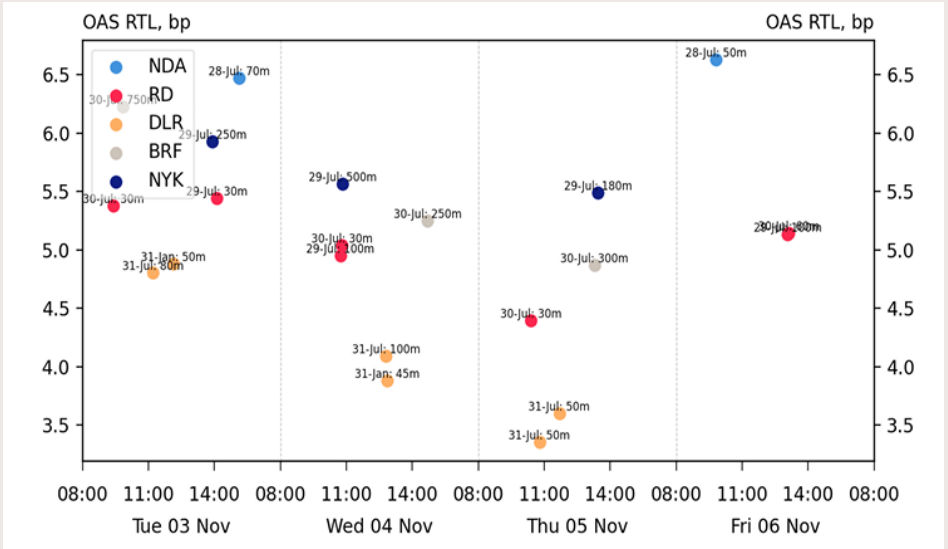
- The FRN spreads vs the bullet curve appear to have stabilised after the higher FRN issuance pushed them wider by around 2 bp.
  - There is a possibility that FRNs could come in on the weak side at the auctions, but we do not expect more than 1 bp, or at most 2 bp, of widening relative to current tap levels.
- Despite the spread widening, FRN spreads vs bullets remain on the tight side given the historical relationship with net growth in the FRN segment.
  - With FRN issuance likely to ease as fixings rise from the turn of the year, we do not expect FRN spreads to widen further.
  - For the time being, FRN issuance has also eased slightly in November compared with October (when it was particularly high).
  - In addition, we also expect to see demand for FRNs if they were to widen slightly further, so a more pronounced issuance-driven spread widening is not on the cards.

- Today, Nykredit switches from offering loans funded by its Jul29 FRN (955469) to offering loans funded by a Jan30 FRN (955582).

FRN: Net issuance and bullet spreads



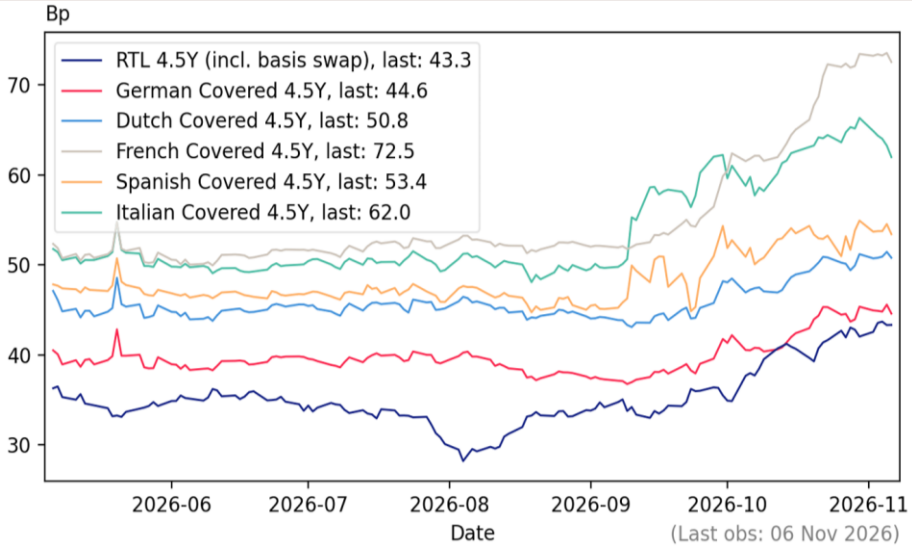
FRN: Spreads vs bullets at latest taps



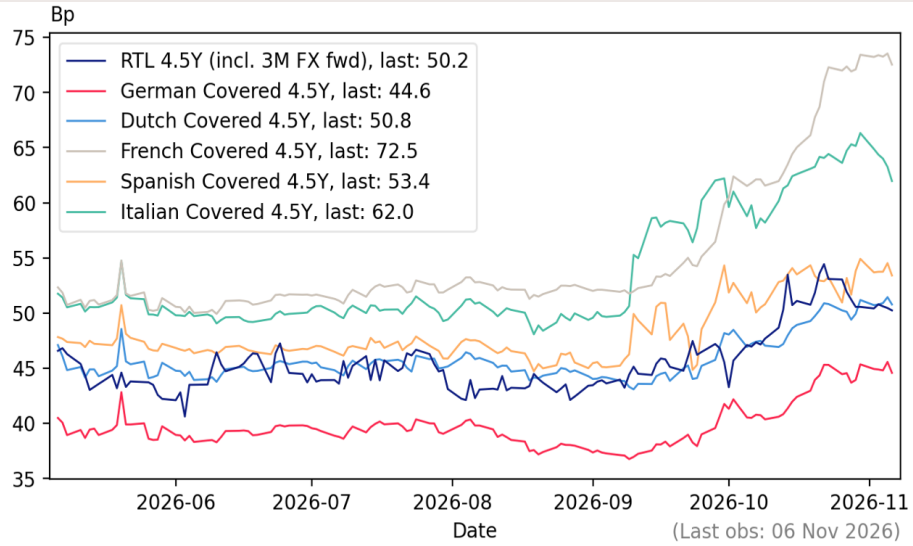
Spreads on longer-dated bullets – it all depends on EUR covered bonds

- The spread widening in longer-dated bullets has since the beginning of September been in line with the movement in EUR covered bonds.
- Bullet spreads vs swaps are currently driven primarily by broader market themes, including the situation in France, the war in Iran and appetite for AI equities.
  - Denmark- and mortgage-specific factors therefore currently play a more limited role in spread developments.
  - We expect this also to be the case in the run-up to and during the refinancing auctions.
- At present, we do not see much relative value in longer-dated bullets.
  - Danish bullets remain on the expensive side relative to EUR covered bonds when measured on a swap-spread-to-ESTR basis, with bullets swapped into EUR via a maturity-matched basis swap.
  - Using a 3M forward instead, they look roughly fair at the current levels. Viewed this way, however, bullets may be adversely affected by a decrease in DKK liquidity towards the end of Q1 2027 (see above).
- The sizeable spread widening in EUR covered bonds could prompt some investors to look there instead, reducing demand for 5Y bullets at the auctions

Bullets and EUR covered bonds: Spread to ESTR



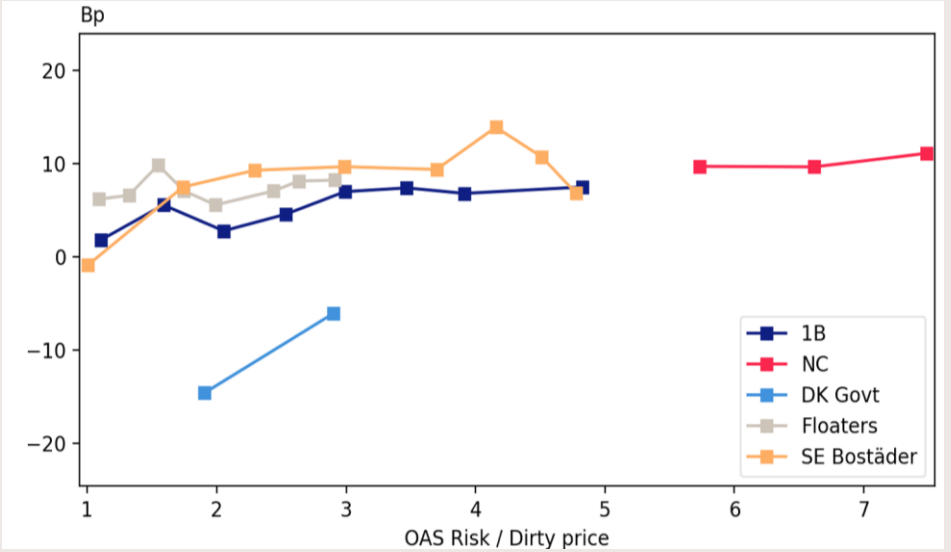
Bullets and EUR covered bonds: Spread to ESTR (FX fwd)



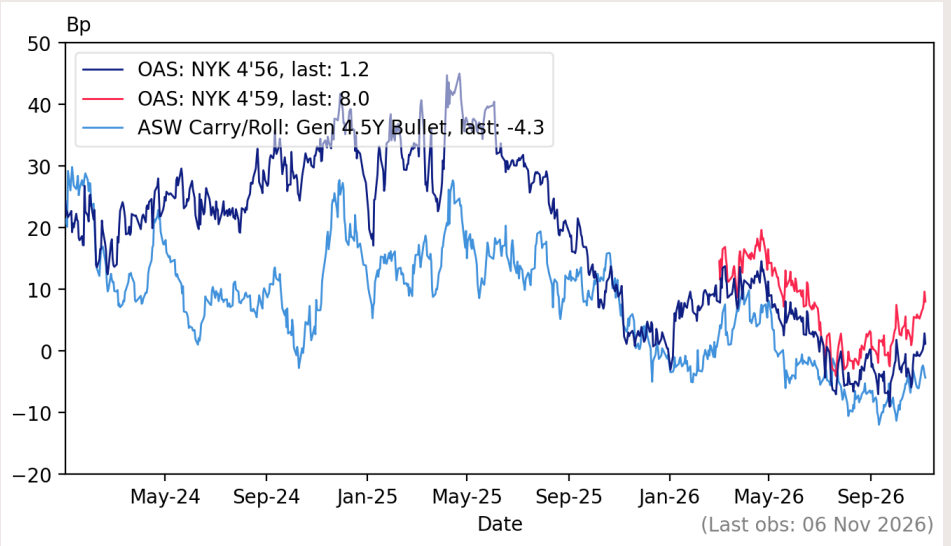
Limited relative value in 5Y bullets

- Longer-dated bullets have underperformed shorter-dated bullets, which has improved the roll-down around the 3Y point.
  - We therefore prefer 3Y bullets to 5Y bullets at the current levels.
- Swedish Bostäder likewise continue to offer better hedged and funded HPRs than comparable Danish bullets.
  - We believe this will particularly affect hedge fund demand for longer-dated bullets.
- A counterargument may be that hedge funds may buy longer-dated bullets at the auctions to maintain their repo lines.
  - Given the widening in FRN-bullet spreads over the past month, we expect hedge funds to primarily buy FRNs, either at the auctions or through daily issuance, to the extent that the objective is to maintain their repo lines.
- Relative to callables, the longer-dated bullets look somewhat more attractive, as callables have richened on the back of yet another decline in issuance.
  - We continue to prefer 5Y bullets to 4'56 (including swap overlays to hedge the vol exposure).

Hedged and funded HPR / spread risk (vs 3M swap)



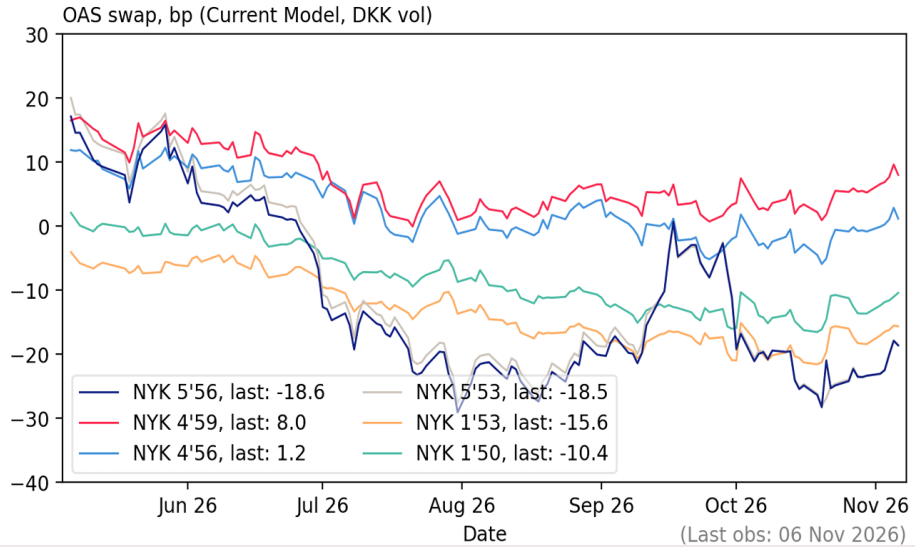
OAS 4'59 & 4'56 vs ASW carry/roll RTL4.5 (CIBOR6M)



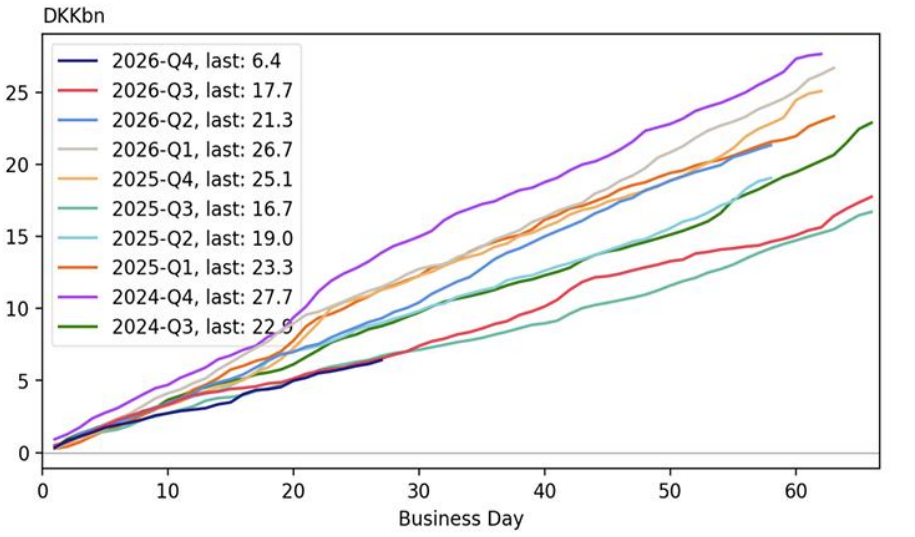
Unshakeable callables

- While bullets and FRNs have lost ground over the autumn, callables have held up surprisingly well in OAS terms.
  - They have lost a little over the past week, ending the week a couple of bp down on the previous week.
- In our view, callables are once again being supported by a (further) decline in issuance.
  - The recent rise in yields has contributed to the issuance of callables failing to recover following yet another weak Q3.
  - There is no prospect of a recovery of the issuance of callables any time soon.
- Although callables are on the expensive side – particularly the old 4'56s – relative to 5Y bullets, we do not believe that any significant spread widening is imminent for callables.
- 4'59s currently offer 7 OAS points more than 4'56s.
  - Although investors should be compensated for the smaller series size and uncertainty regarding debtor distributions and cash flows, the spread seems to be on the high side.
  - We therefore prefer 4'59 to 4'56 at the current levels.

30Y Callables: OAS Swap



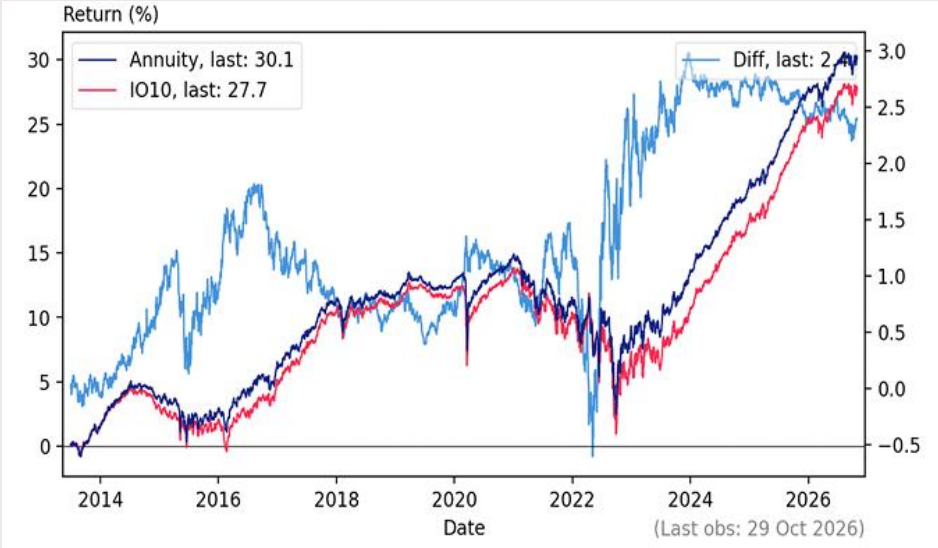
Quarterly issuance of callables (OMX)



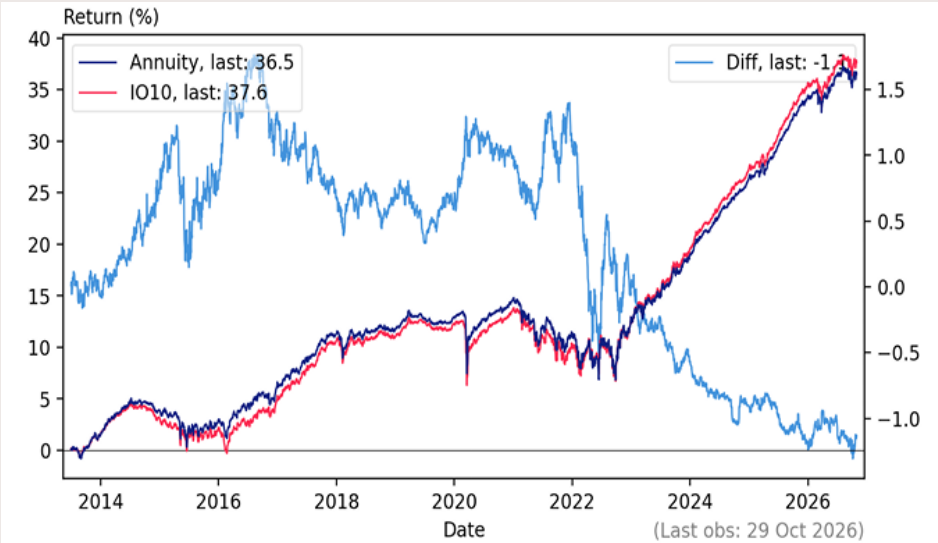
A vs IO10:

- Last week, we published a research note examining the historical relative returns of 30Y annuity bonds and IO10.
- Some of the key takeaways from the research note are:
  - The IO10s have higher carry than the annuity bonds, partly reflecting the fact that they (in the model) have more negative convexity and higher vega.
  - In practice, however, annuity bonds appear to have outperformed the IO10 bonds since 2014. This is attributable to the excess return generated in 2014-2017 and in 2022 (see top-left chart).
  - The excess return on annuity bonds in 2022 was largely driven by the repricing of IO10 bonds relative to annuity bonds amid heavy foreign selling of IO10 bonds. This particularly affected the 1'50 IO10 bond (relative to 1'50 A), and excluding this series, the excess return of annuity bonds relative to IO10 bonds in 2022 is substantially lower.
  - The large buyback surges in 2022 led to (temporary) outperformance of IO10 vs annuity bonds, driven by higher buybacks in IO10 bonds. Had the bonds been sold once their price fell below 90 (or 85), this "extra buyback gain" would have been realised, and IO10 bonds would have substantially outperformed annuity bonds in 2022 (see bottom-left chart).
- At present, the best case for IO10 over annuity bonds is probably an expectation that the primary issuance coupon for 30Y callables will remain in the 3.5-5% range for some time yet, in which case IO10 bonds may be able to realise their higher carry.
- Read much more here

Return on twin portfolios of 30Y A and IO10



Return on twin portfolios of 30Y A and IO10 (min price 90)



Recommendations

- Our recommendations have had a strong week, with performance across the board.
  - In particular, our recommendation of DGBi'34 vs DGBi'30 has benefitted from some much-needed tailwinds from falling inflation expectations
  - Our recommendation of 5Y bullets vs OTR callables (including a swap/swaption overlay) is in the money, thanks to the overlay hedging the volatility exposure in the callable.

- We maintain all recommendations.

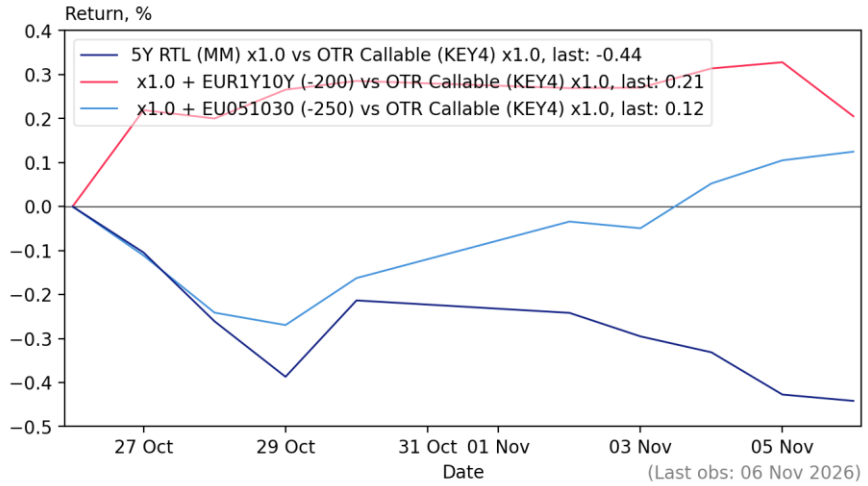
Current recommendations

Recid	Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
420	2026-06-15	DGBi'34 vs DGBi'30 (BOX)	0.04	0.55	-1.16
425	2026-08-21	3Y FRN vs RTL	0.00	0.02	-0.00
431	2026-10-26	jul30 vs jul28 FRN	0.00	0.03	0.09
432	2026-10-26	jul29 vs jul28 FRN	-0.00	0.06	-0.01
433	2026-11-02	RTL jul30 vs jan32	0.01		0.02

Outlook recommendations

Recid	Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
395	2025-08-25	CITA vs CIBOR 3M FRN	0.00	-0.00	-0.03
404	2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.07	0.31	-1.60
407	2026-01-26	4'56 vs RTL5	0.04	0.38	0.69

5Y bullets + overlay vs OTR callable



Nykredit markets

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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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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.

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