Fixed Income Update Week 47



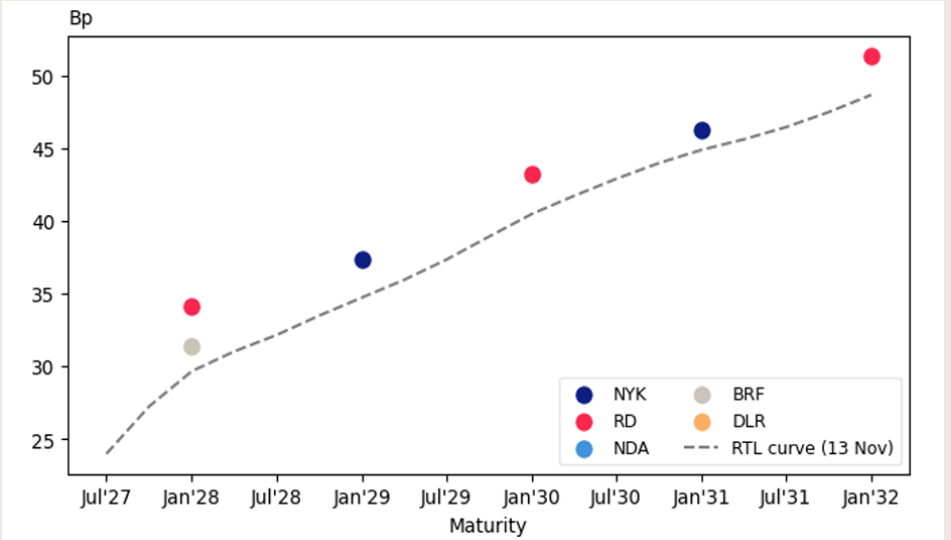
Jacob Skinhøj
Peter Bache
Veronica Bergstrøm

Nykredit

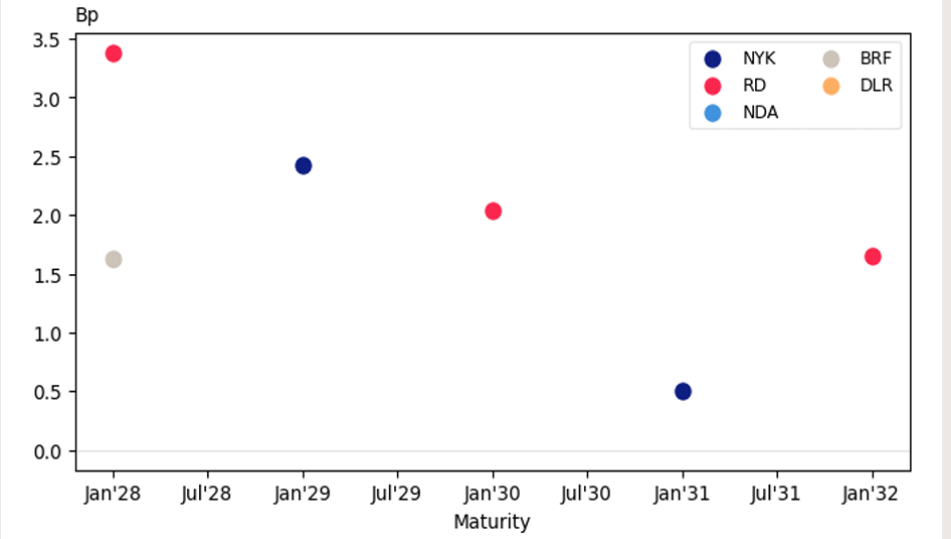
Affordable bullets on auction

- Bullets performed softly at today's refinancing auctions.
  - RD's Jan28, Jan30 and Jan32 bullets were 3.5–4 bp cheaper vs DESTR than equivalent bonds when closing on Friday.
  - JRK's Jan28 as well as NYK's Jan 29 and Jan 31 traded stronger (or slightly less soft) and lost 1–2 bp compared with Friday.
- Today's auction results suggest that it could be a somewhat long week for bullets.
  - Hence, approximately DKK 48 billion of 1Y bullets, DKK 18 billion of 3Y bullets and DKK 19 billion of 5Y bullets remain to be sold.
  - In addition, there are FRNs totalling just over DKK 56 billion, starting tomorrow with DKK 9.6 billion worth of NDA's Jan30 green and DKK 8.75 billion worth of NDA's Jul30 (as well as EUR 10 million worth of NDA's Jan31.
  - See our auction calendar here.
- Today's results point towards higher spreads at the FRN auctions than indicated by our calculations based on Friday's bullet curve.
  - We will update the table in our spread analysis later today, so that it is available first thing tomorrow morning.

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



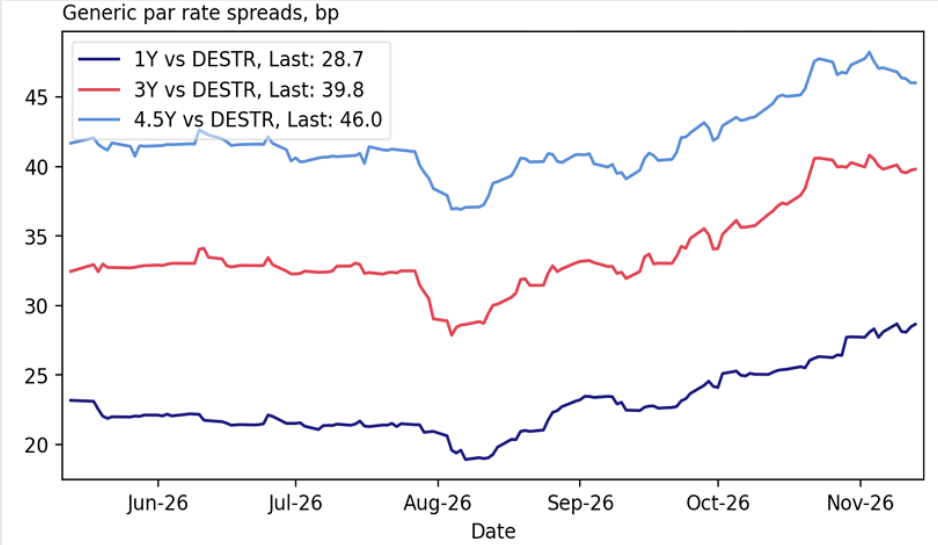
Bullet auctions: Spreads to bullets (at the time of auction)



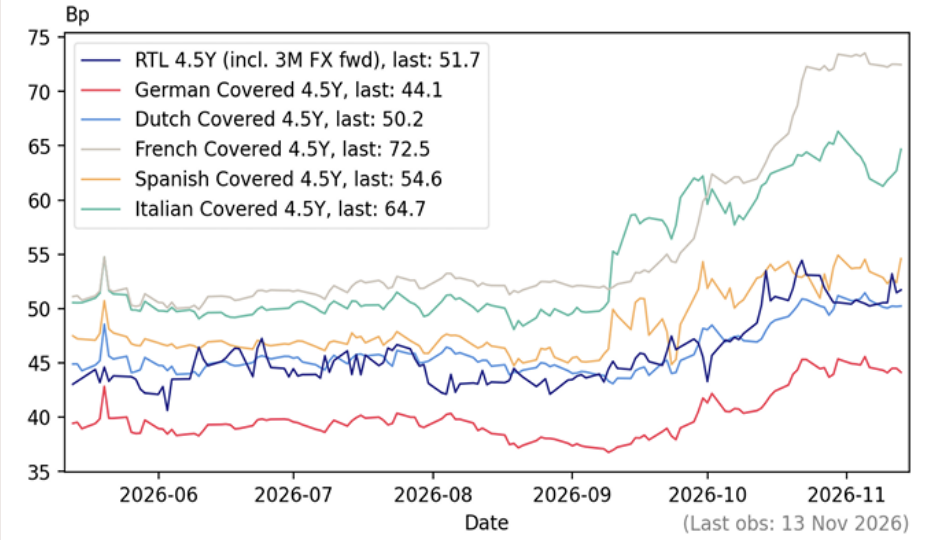
Affordable bullets on auction, part II

- It might otherwise appear that bullets had spent the past month preparing for the auction, but these spread movements have instead been a consequence of the performance of EUR covereds in Europe.
- 1Y bullets continued to widen through November, while 3Y bullets were broadly unchanged, and 5Y bullets performed marginally over the past week.
- The concern we had that the market would exploit the currently high net position to front-load their purchases of (expensive) bullets therefore appears to be unfounded.
- Although the pricing appears to be on a par with where Dutch covereds trade in relative terms – which we normally use as a proxy for the pricing of bullets – the prospect of substantial supply this week, combined with heavy supply again in February and expectations of a significant deterioration in the net position, may nevertheless have caused a number of investors to take a more cautious approach.

Bullets: Spreads vs DESTR



Bullets and EUR covereds: Spreads vs swaps (ESTR)



Liquidity peaking

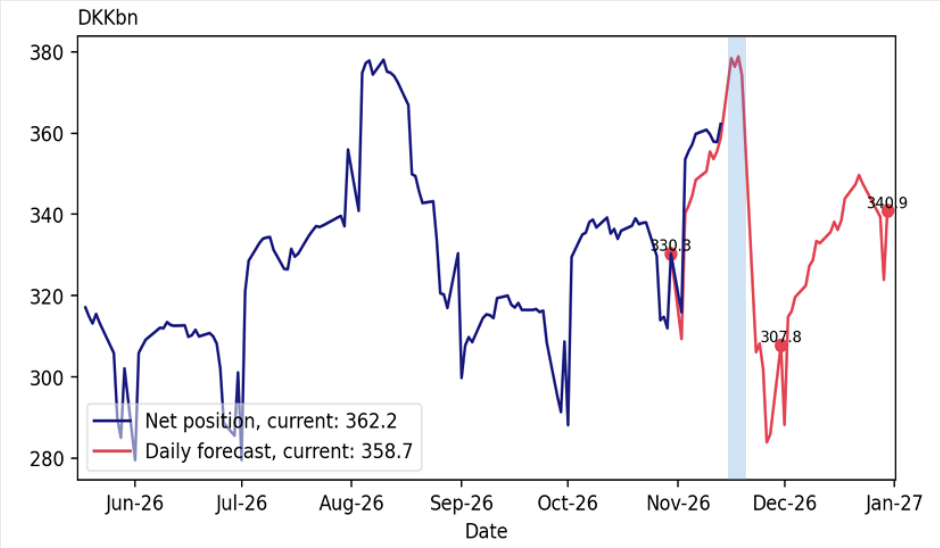
- According to the daily forecast, the net position will peak at around DKK 380 billion in the coming days.
  - A decline towards about DKK 310 billion by the end of November begins on Friday.

- For the time being, the pricing of 1Y bullets – both before and at the auctions – has ignored the prospect of the high liquidity this week.
  - This does, however, make sense, as the liquidity abundance is short-lived and the supply of 1Y bullets at the ongoing refinancing auctions is substantial (just over DKK 58.5 billion in total).

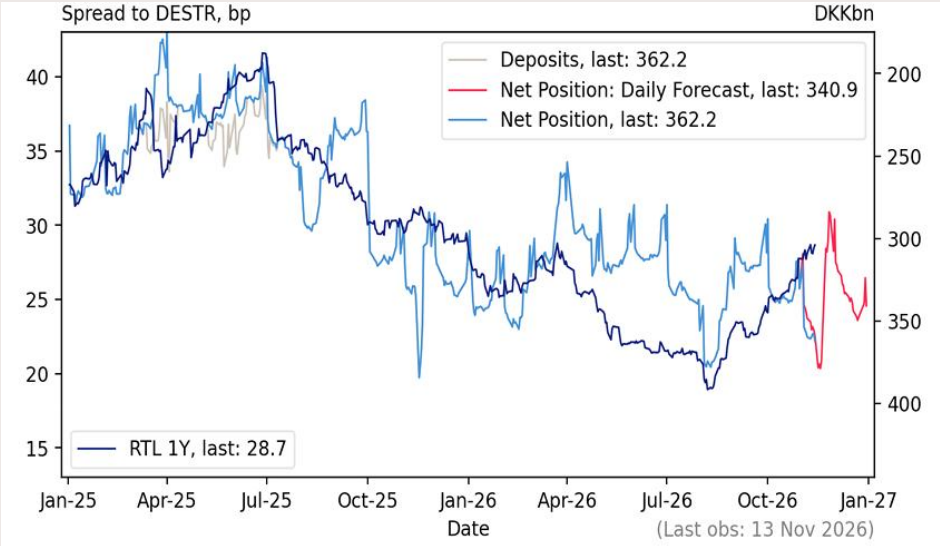
- If it is assumed that the net position will not rise in December (as the current daily forecast otherwise suggests), no liquidity tailwind for short-dated bullets can therefore be expected in the near future.

- The prospect of lower liquidity towards the end of Q1 2027 – and the potential consequences for the pricing of bullets via the short-dated FX forwards – also makes a degree of restraint towards the longer-dated bullets at the ongoing auctions seem sensible.

Net position and daily forecast



1Y bullet-DESTR spread vs Net Position

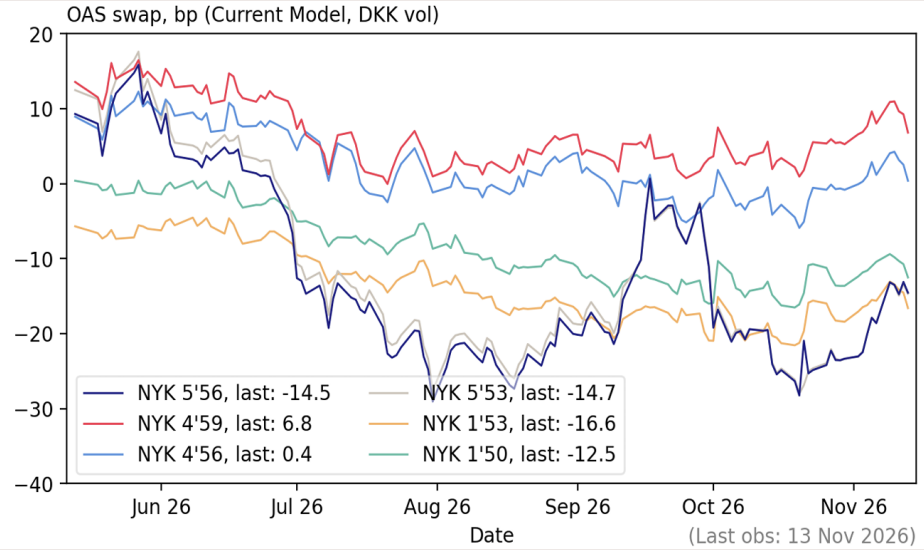


Callables

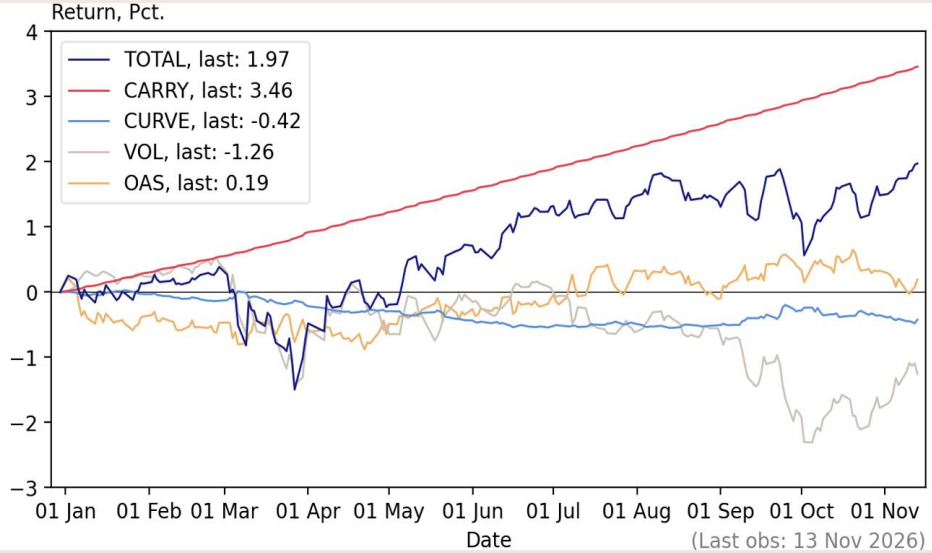
- 4% callables gained approximately 5 bp in OAS at the end of last week.
- Performance does, however, appear to be driven by volatility rising marginally after ticking down recently.
- In general, the recent OAS development appears to have been driven by a lack of (full) pricing-in of changes in volatility. The decrease in volatility that characterised October and November has thus coincided with some OAS widening.
- Overall, OAS performance in OTR callables has been very stable, and given that the issuance picture does not change, it is our expectation that this will continue.
- Callables will probably be somewhat overshadowed by this week's refinancing auctions.

- We generally find the pricing of callables to be on the expensive side and therefore see a greater likelihood of spread widening than tightening.
- We therefore prefer 5Y bullets to callables.

30Y callables: OAS swap



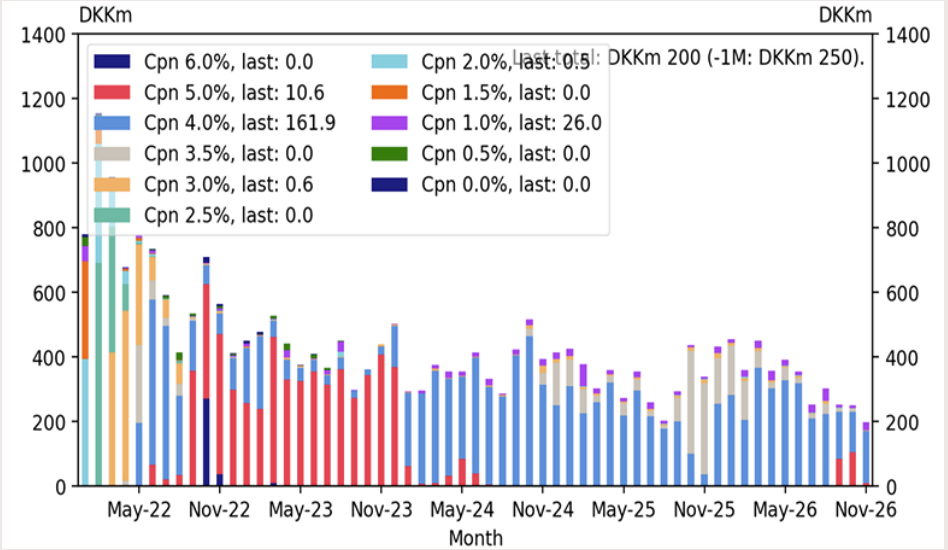
NYK 4'56: Hedged w 10Y swap



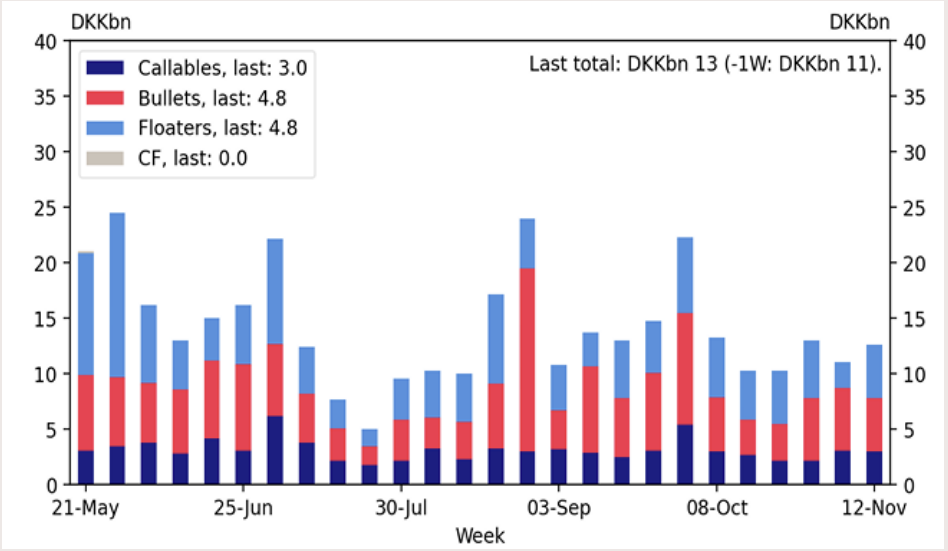
Callables, part II

- Issuance of callables has been further reduced and currently amounts to just DKK 200-300 million per day.
- The issuance consists solely of 4'59, 4'59IO and 4'59IO30, as well as a very modest issuance of 1'59 to fund public housing.
- However, the turnover does not appear to have been reduced equivalently, which we attribute to a small increase in turnover in historical low-coupon bonds.
- This increase in turnover is assumed to be driven primarily by the liquidation of portfolio agreements with asset managers, as borrowers' buybacks in these series are very modest.

Callables: Avg daily issuance by month (OMX)



Avg. daily turnover by week



Recommendations

- Our recommendations were broadly unchanged over the week.
- Our outlook recommendation of 4% vs 5% and 1%, which has previously been significantly loss-making due to the continued expensive pricing of high- and low-coupon bonds, gained marginally last week on the back of increased activity in low-coupon bonds.
- Our linker recommendation has incurred further losses on expectations of slightly higher inflation in the eurozone. This concern is also reflected in curve flattening and inflation swaps.
- Our carry recommendation of 4'56 vs 5Y bullets has achieved what it was designed to do: earned a little extra carry.
- The remaining recommendations are unchanged.

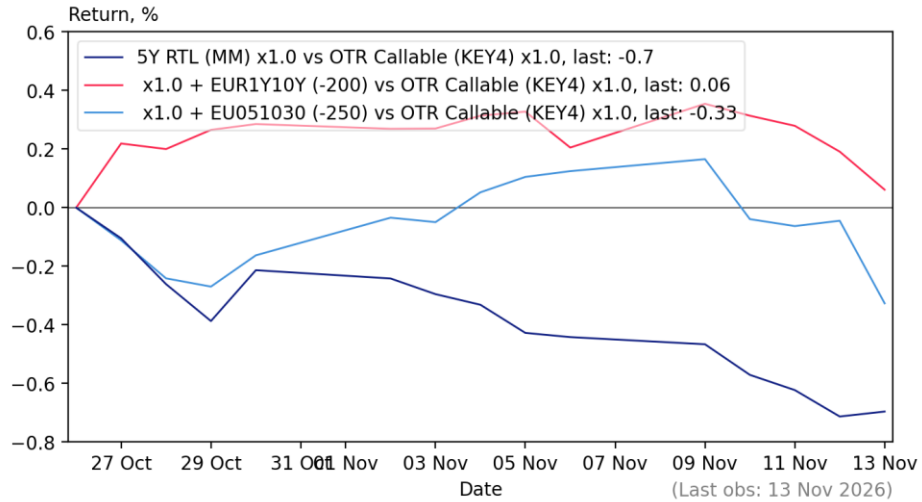
Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	-0.18	-0.12	-1.28
2026-08-21	3Y FRN vs RTL	0.00	0.01	0.01
2026-10-26	jul30 vs jul28 FRN	0.01	-0.01	0.08
2026-10-26	jul29 vs jul28 FRN	0.01	0.00	-0.01
2026-11-02	RTL jul30 vs jan32	-0.00	0.03	0.05

Outlook recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2025-08-25	CITA vs CIBOR 3M FRN	0.01	0.03	0.00
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.06	0.10	-1.51
2026-01-26	4'56 vs RTL5	-0.28	0.05	0.74

5Y bullets + overlay vs OTR callable



Nykredit markets