

Fixed Income Update Week 3

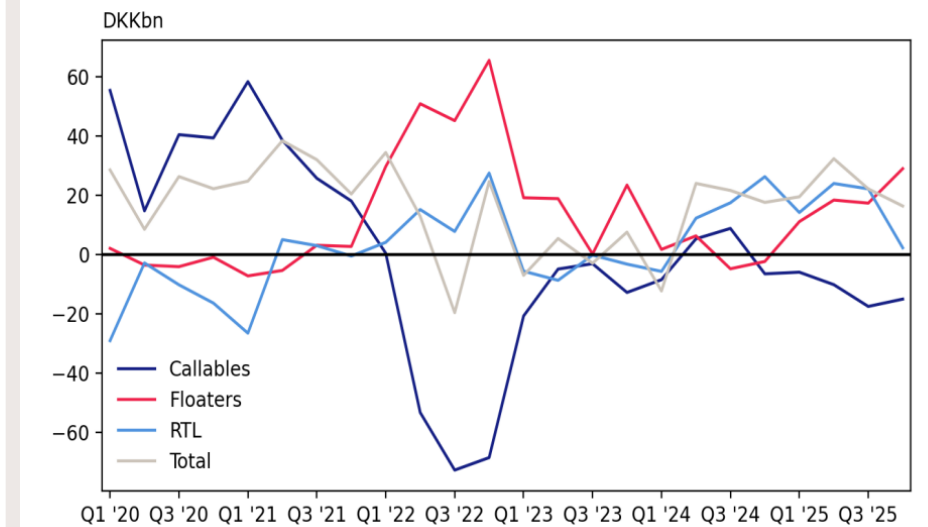
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Net issuance: Status after 2025

- The callables segment shrank by DKK 15 billion in Q4.
 - This is slightly less than the DKK 17.5 billion by which the segment shrank in Q3 2025.
- The FRN and bullet segments grew by DKK 29 billion and DKK 2.5 billion, respectively, in Q4.
 - Thus, the FRN segment took over the net growth leader role (as expected, see page 3 [here](#)), which had otherwise been the bullet segment for the past six quarters.
 - This is partly due to a large maturity of bullet bonds as of 1 January, where some of the borrowers in 5Y bullet loans have migrated down the curve (including towards FRN). In this connection, JRK also refinanced DKK 10 billion-worth of 1Y bullet loans with a new CITA 12M FRN – but even without this manoeuvre, the FRN segment would have grown more than the bullet segment.
 - In addition, 3.5'56 reached a price that led some 5% borrowers to refinance into lower coupons rather than from fixed to variable loans in connection with the January prepayments.
- We expect the FRN segment to remain the leading segment in terms of net growth in Q1 2026, and the callables segment to shrink less than in Q3 and Q4 2025 (due to lower levels of fixed-to-variable refinancing among 5% borrowers).

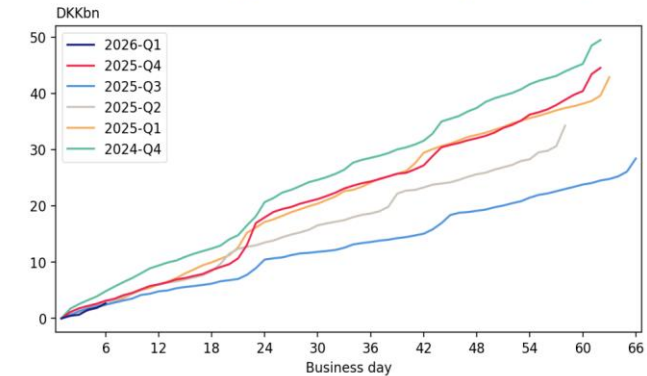
Net growth in the three main segments



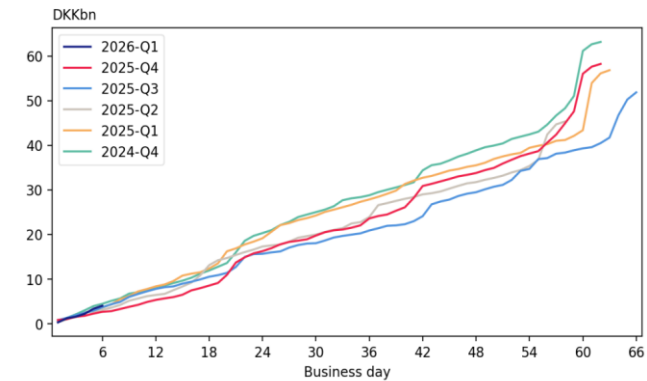
Issuance in 2026: Still limited news

- There is not yet much new to trace in the issuance, which for Q1 2026 is so far difficult to distinguish from previous quarters.
- However, RD came up with a DKK 640 million bullet issue last Thursday in Apr'30. We assume that this is an early refinancing of the 5Y bullets maturity for the April payment date, as we have seen from RD before (since RD continues to issue 5Y bullets primarily in Apr'30, this is where issuance appears).
 - Today's CK93 data does not indicate that it was issuance from fixed-to-variable refinancing from 5% callables.
 - It is not inconceivable that there will be more "early refinancing" from RD this January, which could provide a little extra bullet issuance.
 - Apart from this issuance activity, we expect a lower bullets offering (in particular 5Y) in 2026 due to lower levels of fixed-to-variable refinancing.

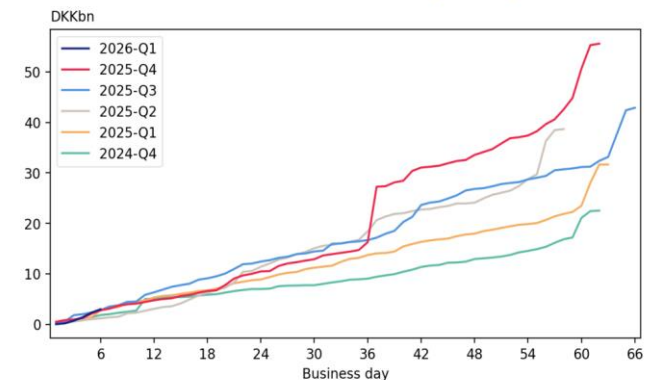
Callables: Acc. gross issuance (CIRMIL)



Bullets: Accumulated issuance (OMX)



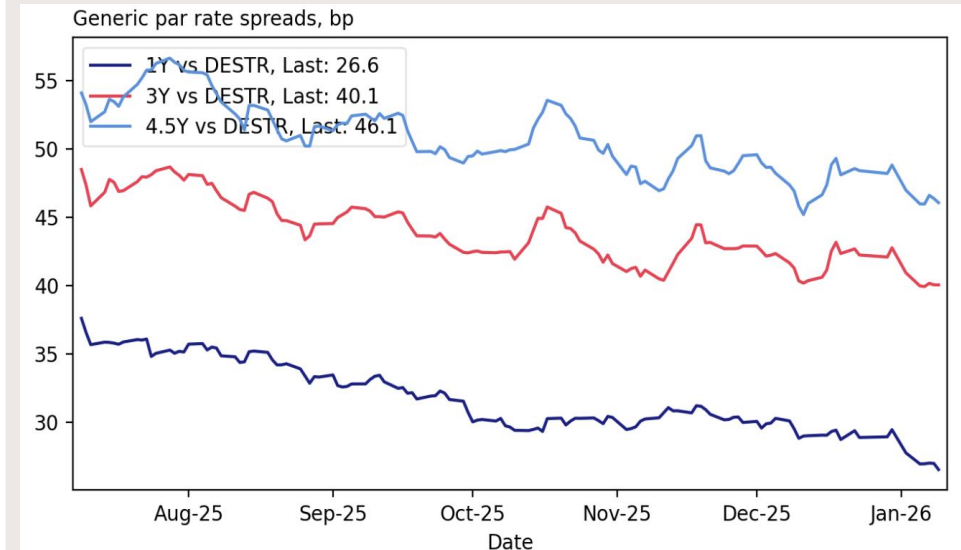
FRN: Accumulated issuance (OMX)



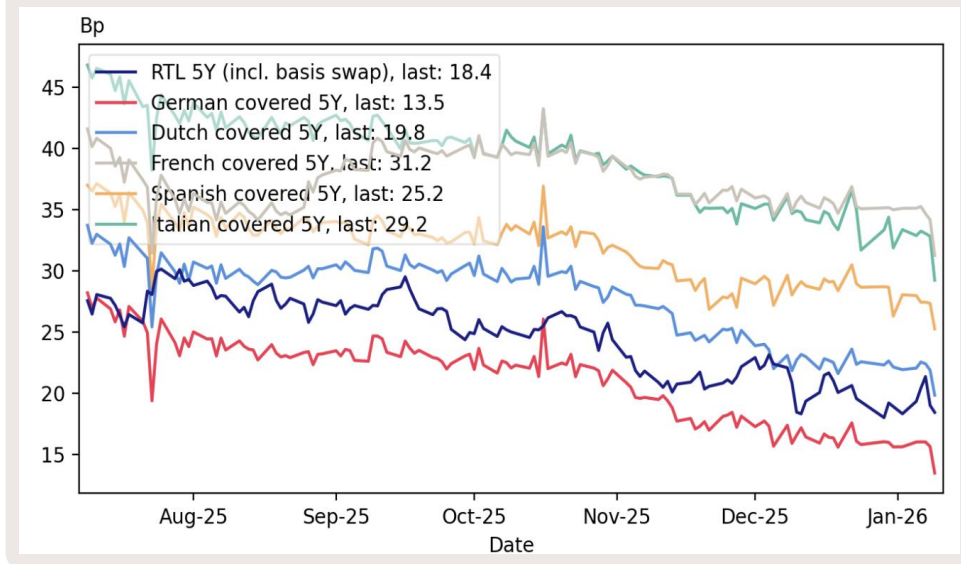
Fair bullet spreads for the time being

- The development in bullet spreads was roughly flat last week, as expected.
- Bullets continue to look fairly priced against European covered bonds.
- Short-dated bullets are gaining slightly more, presumably due to the current liquidity abundance.
- It is our expectation that the bullet spreads will continue their flattening trend this week, but 5Y bullets may gain a bit relative to 3Y bullets (see next page).
- If callables continue to lose, and the situation around Greenland intensifies further, it may give rise to spread widening in bullets.

Bullets: Spreads vs DESTR

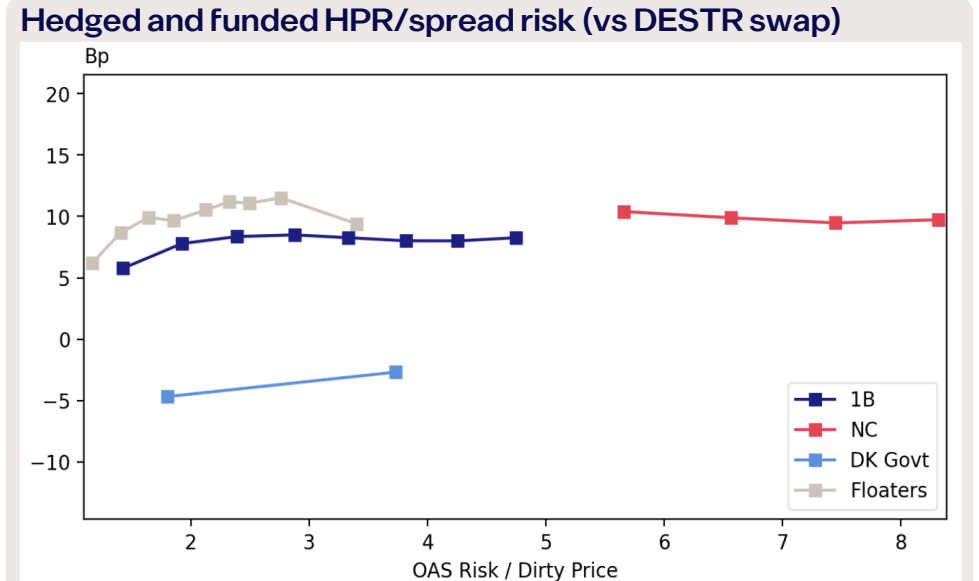


Bullets and EUR covered bonds: Spread vs swap (6M)



Slight preference for 5Y bullets vs 3Y bullets

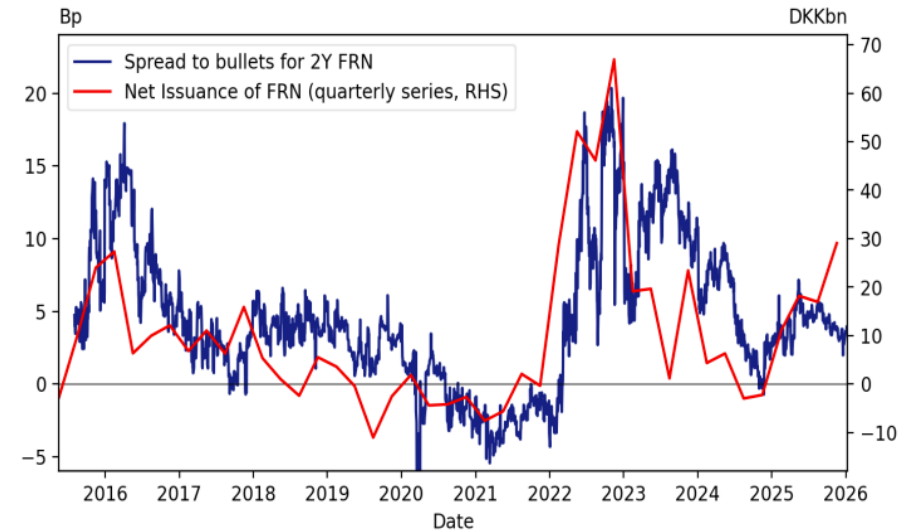
- The hedged and funded returns per spread risk unit are the same for 5Y and 3Y bullets, but we have a slight preference for 5Y bullets.
- When the slope of the bullet curve has reached levels like the current one, there has been a tendency in recent months towards a subsequent curve flattening (see bottom chart).
- There may therefore be a bit of performance potential in 5Y bullets vs 3Y bullets in the short term.
- In the slightly longer term, issuance and a lower refinancing offering also speak for the 5Y bullets.
 - We again expect a refinancing percentage of around 50% in 5Y bullets at the upcoming refinancing auctions.
 - Borrowers who opt out of 5Y bullets are primarily expected to choose 3Y bullets instead, and 3Y bullets are thus not facing a low refinancing percentage (on the contrary).
 - It is also our expectation that daily issuance will comprise fewer 5Y bullets as a result of less fixed-to-variable refinancing.
- We open a recommendation of 5Y vs 3Y bullets in a risk-neutral spread ratio (hedged and funded).



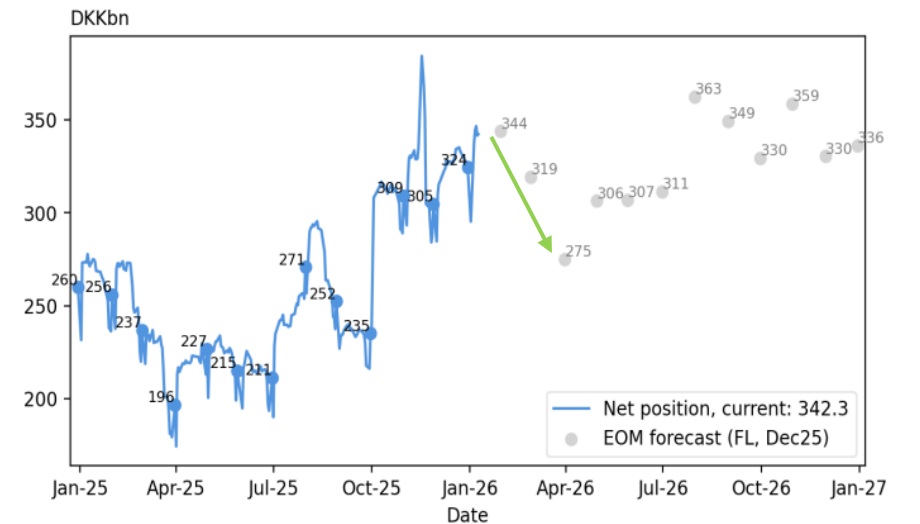
FRN spreads and net issuance

- Since the middle of 2025, FRN spreads vs the bullet curve have tightened a few points, while net issuance has increased (see chart).
- Historically, there has otherwise been a reasonable correlation between the two.
- However, the increase in net growth in the FRN segment is primarily driven by JRK's refinancing of 1Y bullet loans with a new CITA 12M FRN, and therefore does not reflect generally higher issuance pressure in the segment.
- We do not foresee any major changes in the net supply of FRNs in Q1 2026.
- Ample liquidity at this point lends support to the current FRN spreads.
- However, the net position is expected to be reduced by around DKK 70 billion in Q1 2026.
- Given the prospect of lower bullet issuance – at least when we get to the other side of the refinancing auctions in early February – we currently prefer bullets over FRNs.

FRN spreads vs bullets and net issuance



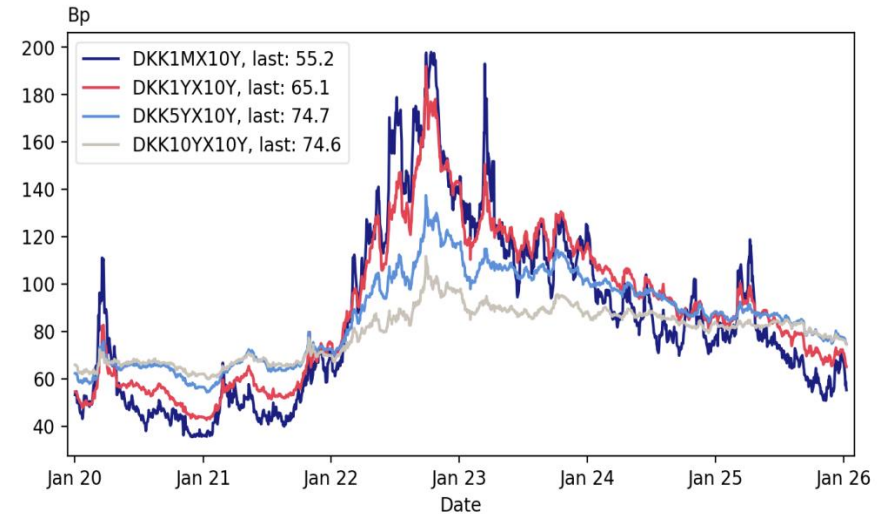
Ample – but declining – liquidity in Q1 2026



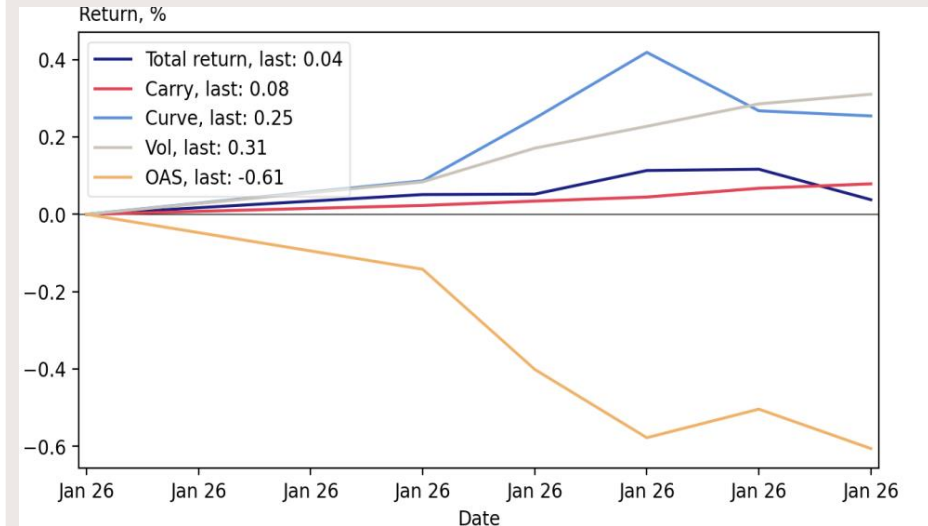
Callables expected to perform

- We expect roughly 5bp performance in callables today (Monday) and tomorrow (Tuesday).
- The vol decline last week has, as usual, given rise to spread widening as a result of insufficient pricing.
- It is our expectation that the vol decline will be priced in in the coming days – as is usually the case – and this should give rise to performance in the region of 5 OAS bp.
- The way the OAS acts as a buffer in the event of vol changes is evident in a breakdown of the return. It can be seen here that the vol decline should have given rise to performance of about DKK 0.30, but that last week's OAS widening has eroded this return.
- On the other side of vol pricing, we are still concerned about more general spread widening in callables, where relative pricing continues to look expensive.

Implied volatilities

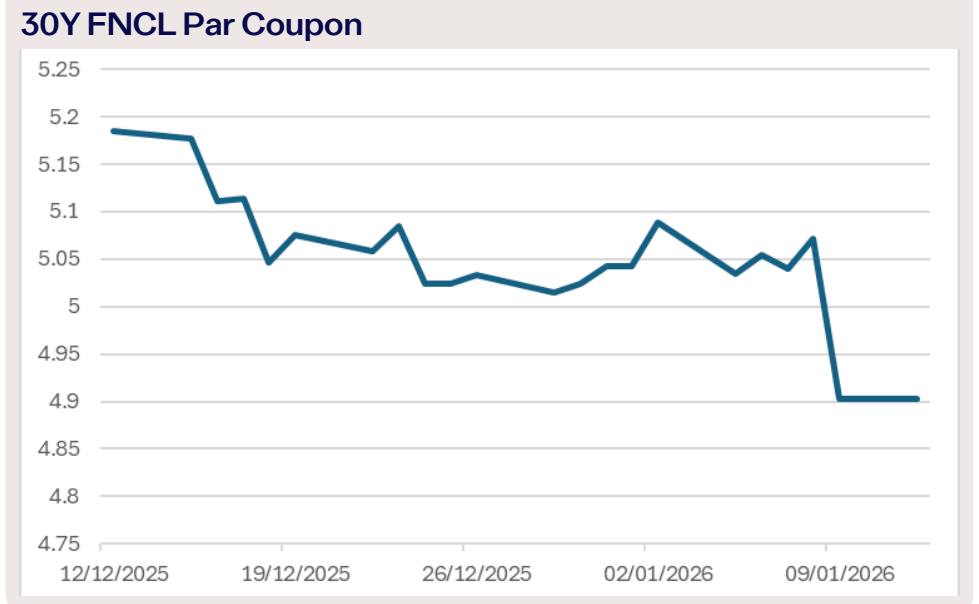
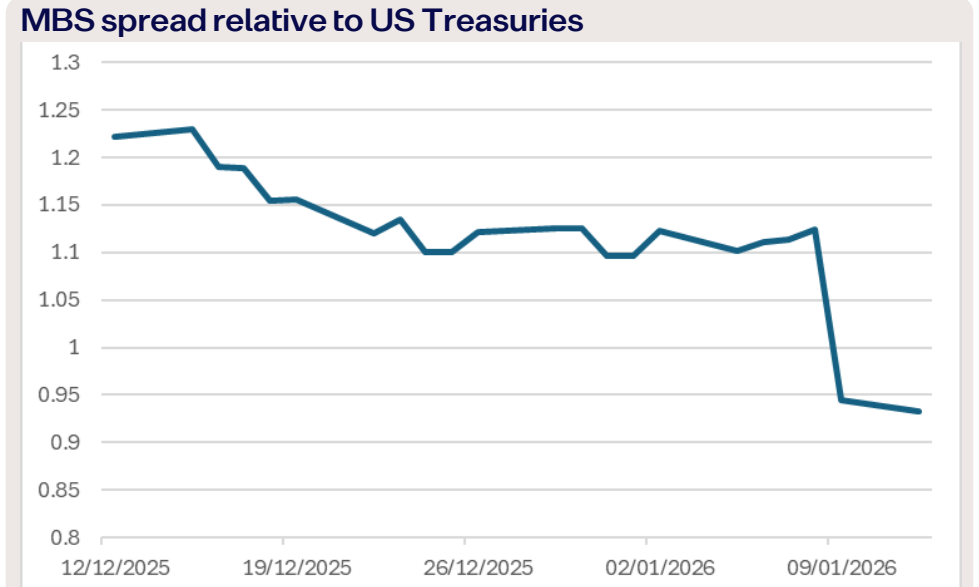


NYK 4'56: return components



Lower US MBS yields – beneficial for Danish covered bonds?

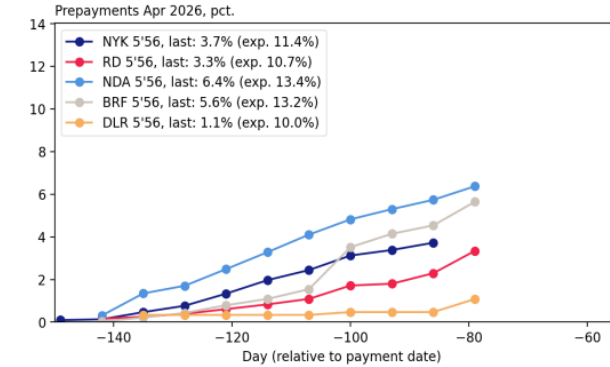
- US President Donald Trump has ordered Fannie Mae and Freddie Mac to buy USD 200 billion-worth of MBS to boost housing affordability.
- The news has led to a very pronounced drop in US MBS yields of nearly 0.2 percentage points.
- The US MBS market is huge, and USD 200 billion corresponds to approx 2% of the outstanding amount – which is equivalent to Danish mortgage banks buying approx DKK 20 billion-worth of Danish callables.
- The purchase is expected to take place relatively quickly, and we are unsure whether there will be a lasting effect of a one-off purchase of MBS.
- At the end of last year, we saw increased US appetite for Danish covered bonds, and if the effect on MBS yields becomes permanent, this appetite may further intensify.



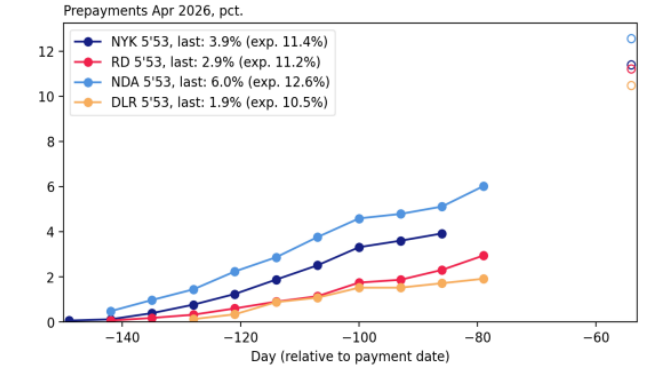
CK93

- Today's CK93 data continues to support our expectation of average April prepayments in the region of 10% in 5% callables.
 - However, NYK will not publish this week's CK93 data until tomorrow, so we do not yet have the full picture.
- We see a slightly faster pace of prepayments in today's data, but this primarily reflects the fact that we are now past the Christmas holidays.

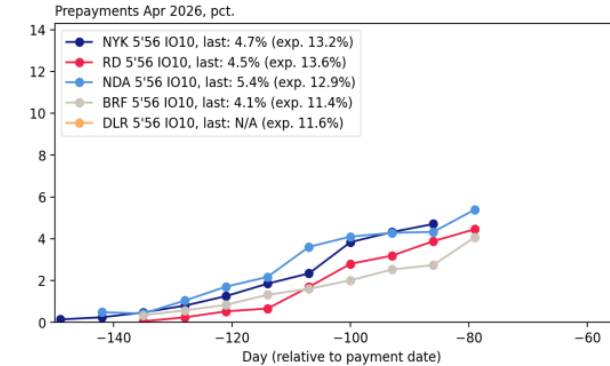
Preliminary prepayment rates in 5'56A, Apr 2026



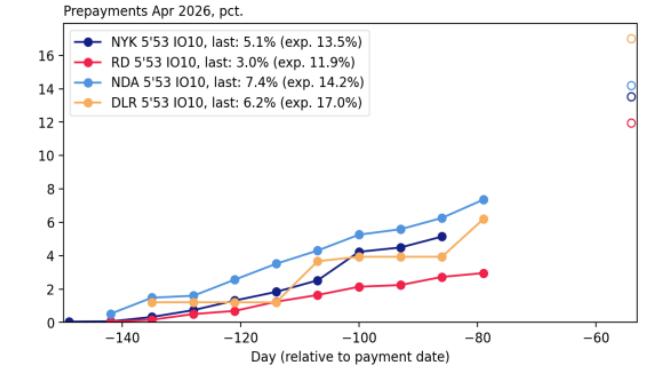
Preliminary prepayment rates in 5'53A, Apr 2026



Preliminary prepayment rates in 5'56IO, Apr 2026



Preliminary prepayment rates in 5'53IO, Apr 2026



Recommendations

- We maintain our open recommendations.
- We open a new recommendation of 5Y vs 3Y bullets (hedged and funded at a spread risk-neutral ratio).

Recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.01	0.04
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.00	0.03
2025-12-15	DGBi'30 vs DGB'29 and DGB'31	-0.17	-0.03

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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