

Fixed Income Update Week 9

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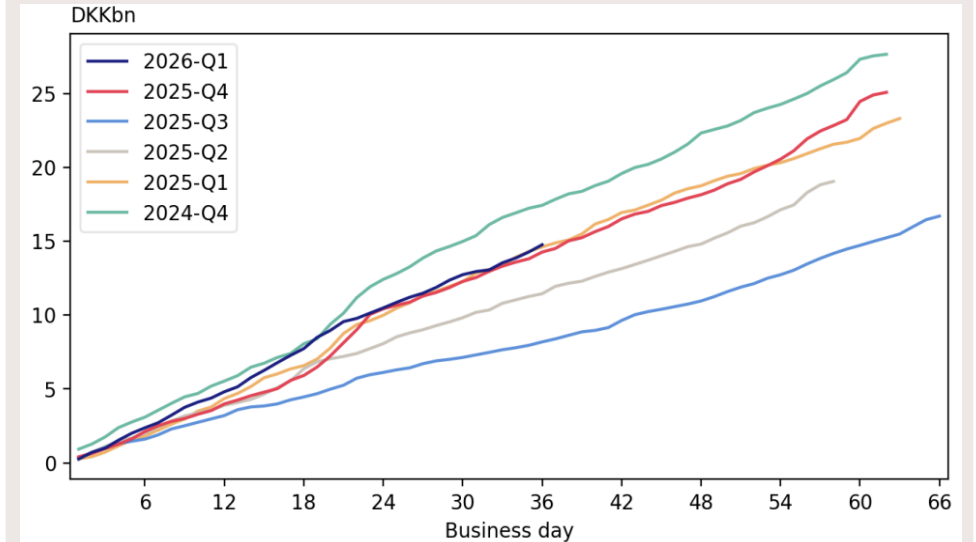
Jacob Skinhøj



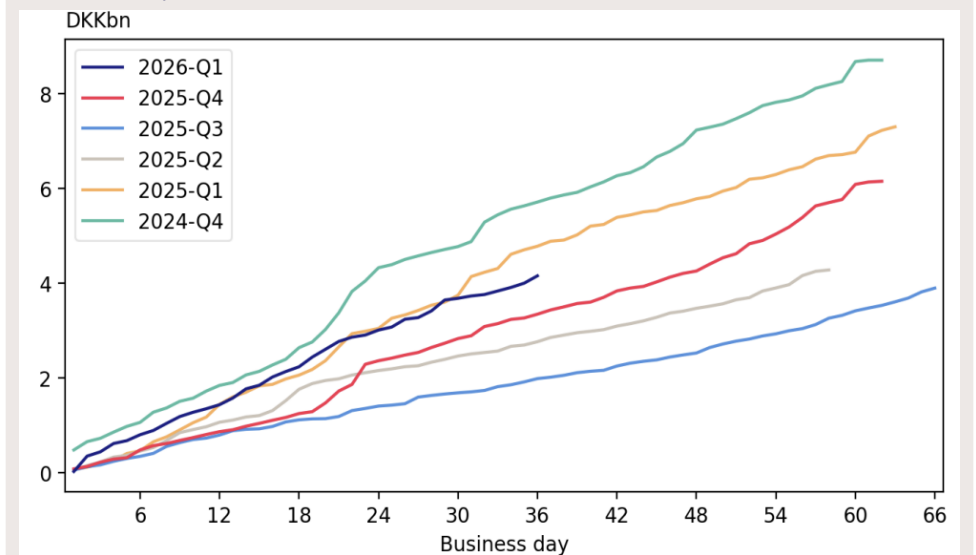
No more bank-issued home loans?

- Callables issuance for Q1 2026 is so far on a par with that of Q4 2025.
- The strong level of issuance of callables should be seen in the light of the fact that the 3.5% bond is currently trading around the price of 97, down from around 97.5 in the previous quarter.
- Thus, it is unlikely that a larger new issuance callables (than in the previous quarter) is driving the current callables issuance.
- The few borrowers who are already terminating their loans at the July payment date, are, in our view, either awaiting or undertaking fixed-to-variable refinancing in 3-5Y bullets, and we therefore do not believe that the issuance is driven by refinancing into lower coupons.
- On the other hand, it is our expectation that it is primarily due to decreasing traffic to Danske Boligfri.
- RD's issuance of callables in Q1 2026 is thus somewhat higher than what we saw in the last three quarters of 2025 (see bottom chart).

Callables, accumulated issuance (OMX)



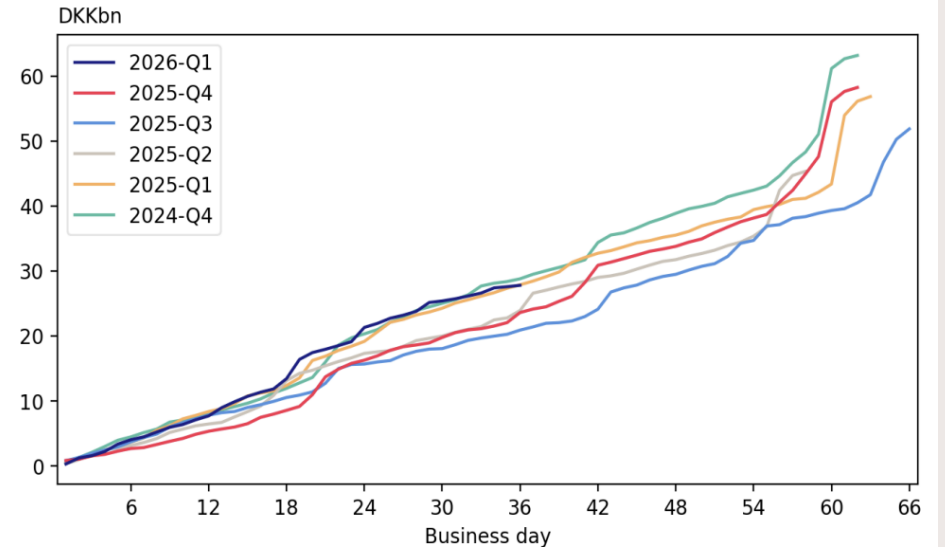
Callables, RD: Accumulated issuance (OMX)



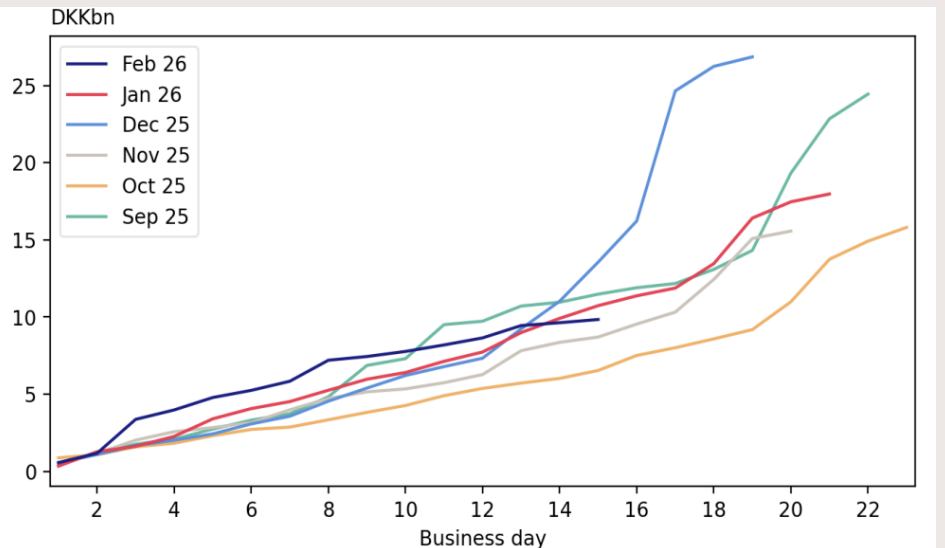
Continued decline in 5Y bullet issuance expected from here

- The issuance of bullets is so far on the high side compared with the last few quarters of 2025 (see top chart).
 - This is primarily due to RD's decent issuance of 5Y bullets in January, which we expect is largely due to early refinancing of the April maturity.
 - This is also supported by RD's low refinancing percentage in 5Y bullets (33%) at the refinancing auctions.
- So far, the February issuance is only marginally below the January issuance, but the pace of the bullet issuance appears to be starting to slow down (see bottom chart).
- We continue to expect bullet issuance to slow down in the coming months.

Bullets: Quarterly accumulated issuance (OMX)



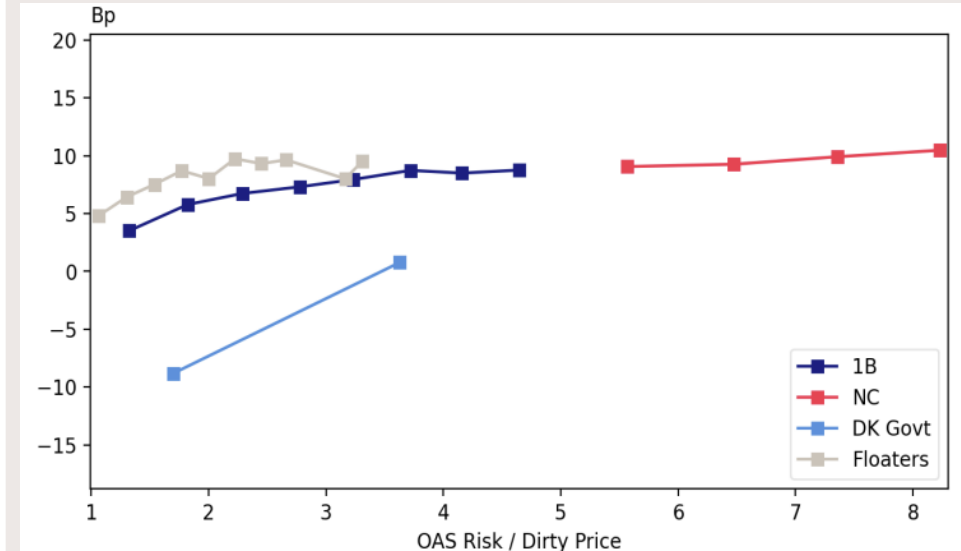
Bullets: Monthly accumulated issuance (OMX)



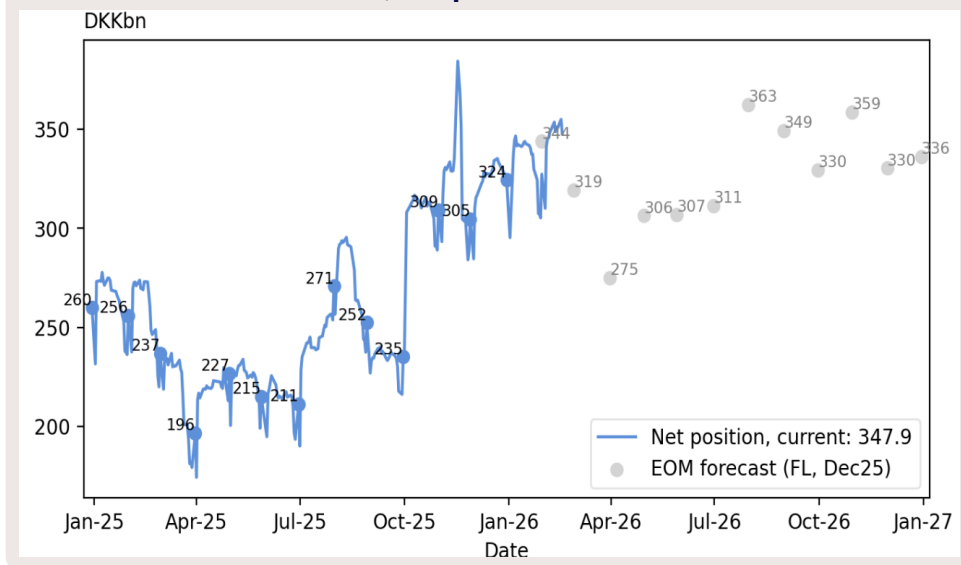
Short-dated bullets have become expensive

- 1Y bullets has gained around 4bp vs DESTTR since the turn of the year, which we attribute to the current liquidity abundance.
- The net position is expected to decrease between now and 1 April as a result of pension investment return tax and corporation tax payments.
- Although there is a prospect of an improvement over April, partly in connection with the payment of outstanding tax, there is no indication that the net position will reach the same high levels again anytime soon.
- The hedged and found 12M HPR per spread risk unit also indicates that the 1Y bullets have become too expensive relative to longer-dated bullets (see dark blue curve in the top chart).
- In our view, this is partly a result of 5Y bullets currently trading cheap and partly a result of 1Y bullets trading expensive.
- Given this, it is our expectation that 1Y bullets could lose 2-3bp by the end of March.
- We therefore open a recommendation of DESTTR vs 1Y bullets— trading costs will likely eat up most of the return on the recommendation, and it should therefore be seen as an expression of the currently too expensive pricing of 1Y bullets.
- If you have a investment need, we recommend longer-dated bullets, by way of our recommendation of 5Y bullets vs 1Y bullets.

Hedged and funded HPR / spread risk (vs DESTTR swap)



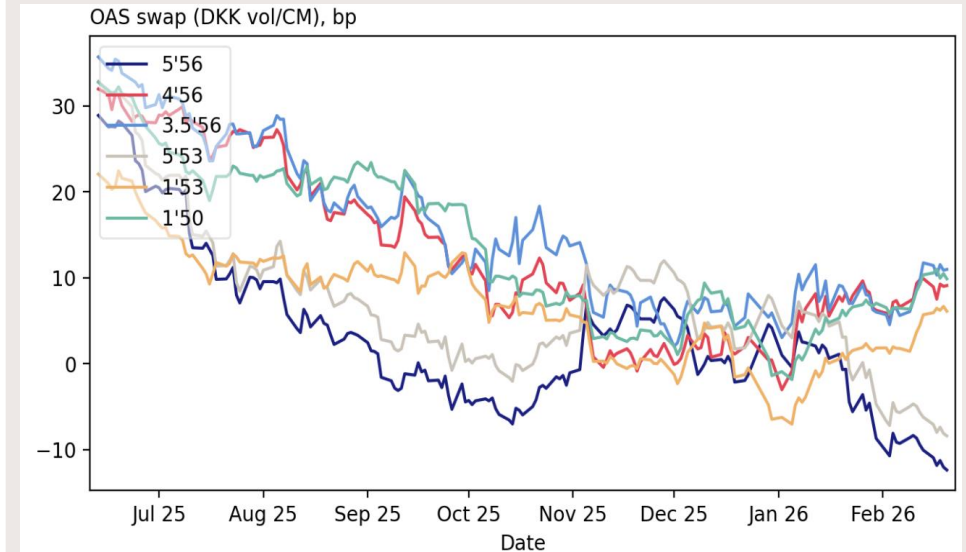
Danmarks Nationalbank, net position forecast



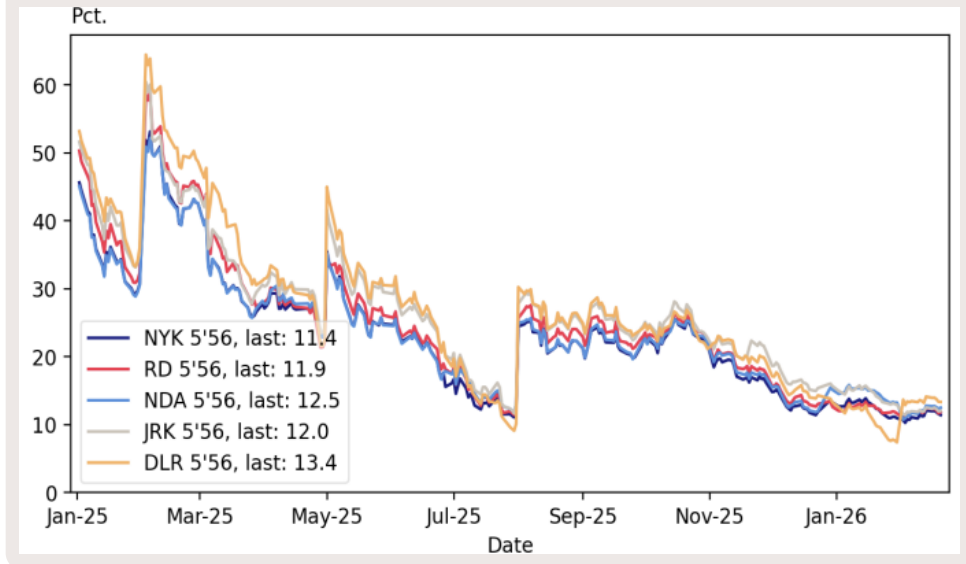
5% bonds are (again) starting to look expensive

- Breakeven prepayments in 5% have reduced to 12–14% (IO 13–16%).
- With 3.5% at the price of 97, it seems likely that July prepayments will be marginally higher than this.
- However, prepayments will depend on the price of 3.5% coupons in April, when prepayments peak.
- Currently, we therefore consider the potential of 5% coupons to be exhausted.

OAS swap of 30Y callables



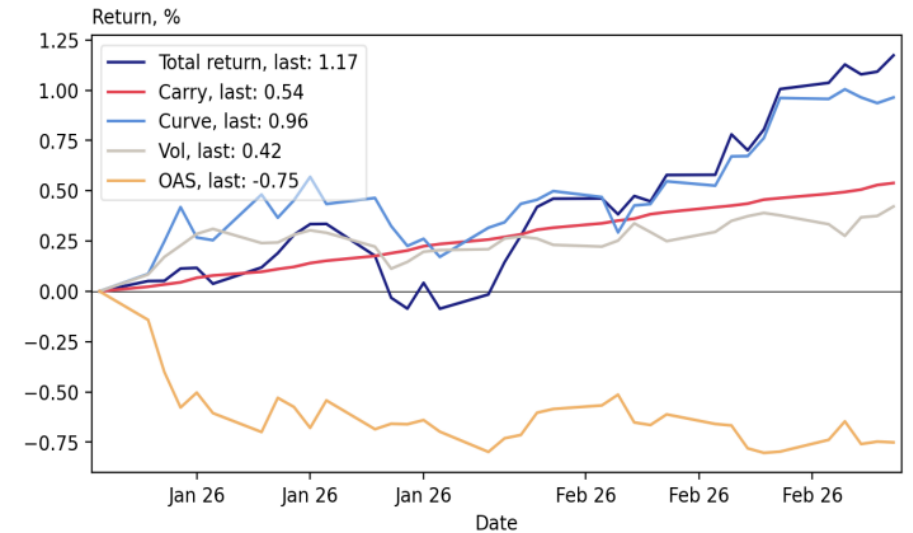
Breakeven prepayments vs dur eq Bullets: 5% 56 A



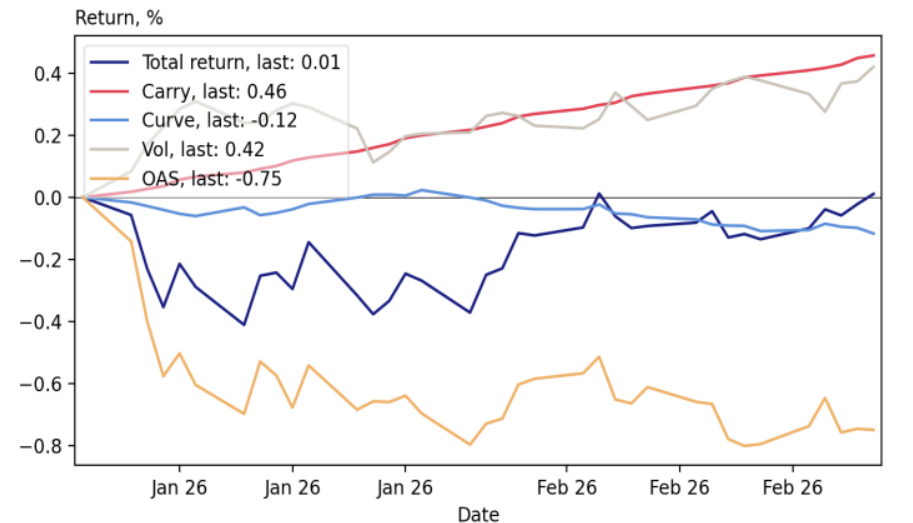
4% coupons

- Outright, on-the-run callables (3.5% and 4%) have delivered a decent return YTD due to falling interest rates and lower volatility.
- However, hedged returns are not impressive.
- Hedging duration using Bunds or 10Y swaps have resulted in a YTD return of 0, corresponding to this year's OAS widening having eliminated the entire return from carry and vol.
- We consider callables to be neutrally priced and expect returns to depend on the global risk sentiment as well as geopolitical developments.

NYK 4'56: YTD return (outright)



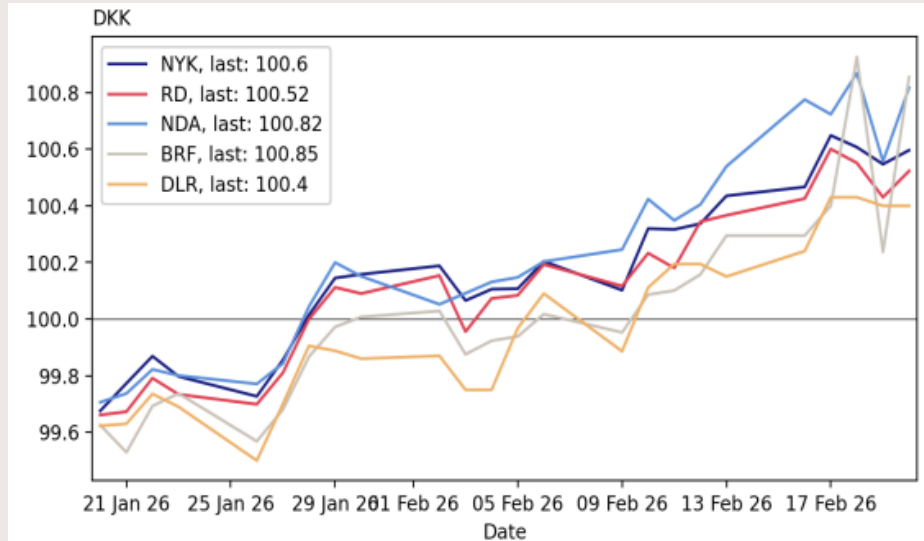
NYK 4'56: YTD return (hedged w 10Y swap)



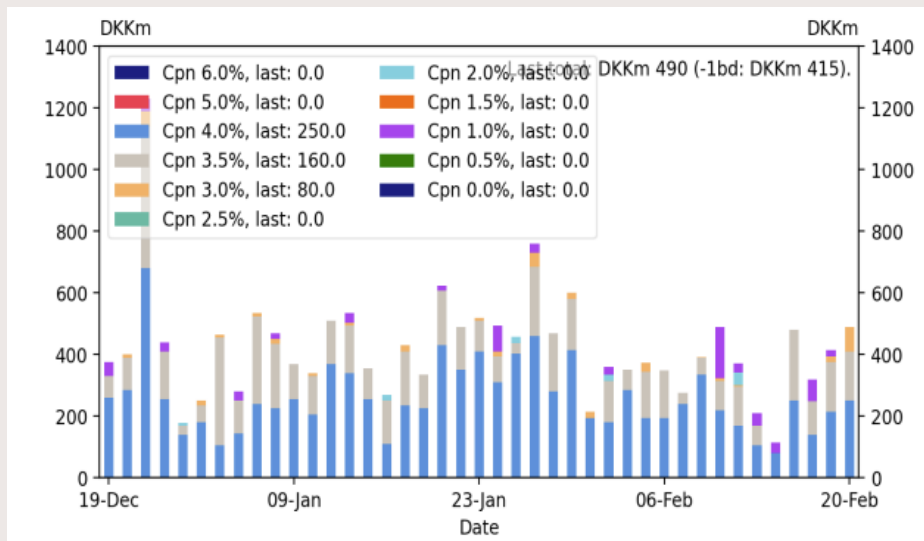
3.5% coupons

- Now, barely three weeks after the closing of 4% 2056, issuance has really started to shift down into 3.5% coupons.
- These currently account for approximately 50% of the daily callables issuance.
- 3.5% and 4% have been closely correlated in terms of OAS, and therefore an issuance premium has not yet arisen in the 3.5% coupons.
- We expect the issuance premium to be 4-6bp between 3.5% and 4%.

Prices of 4% 56A (CSE)



Callables: Daily issuance (OMX)



Recommendations

- We open a new recommendation of 5Y bullets vs 1Y bullets at a spread risk-neutral ratio, as well as of DESTR vs 1Y bullets (both hedged and funded).
- We maintain our recommendation of 4'56 vs 5Y bullets for now, but if 4'56 goes much above 101, we'll move the recommendation down to 3.5'56 vs 5Y bullets.
- Our recommendations of 5Y bullets vs 3Y bullets and of bullets vs FRNs have had a few underperforming weeks. However, declining issuance and declining net position should support both in the coming weeks.
- Despite the fact that we believed that DGBi30 was priced to "withstand" the expected drop in inflation as a result of the discontinuance of electricity tax, this has not been the case, and the recommendation has lost further value. However, we maintain the recommendation for now.

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	0.01	0.03
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.02	0.06
2025-12-15	DGBi'30 vs DGB'29 and DGB'31	-0.12	-0.48
2026-01-12	RTL5 vs. RTL3	-0.02	-0.06
2026-01-15	RTL vs FRN	-0.00	-0.05
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.07	0.18
2026-01-26	4'56 vs RTL5	0.19	0.31

Nykredit

markets

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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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