

Fixed Income Update Week 15

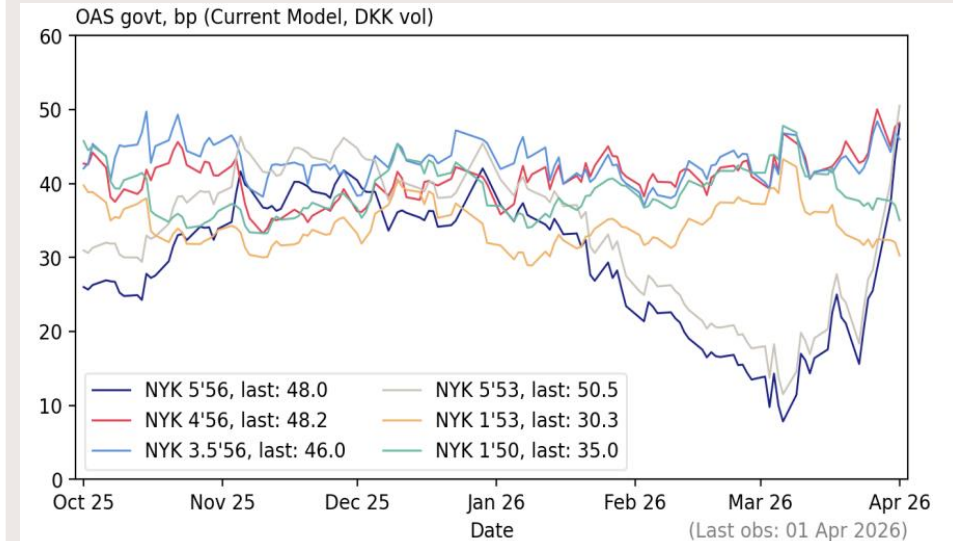
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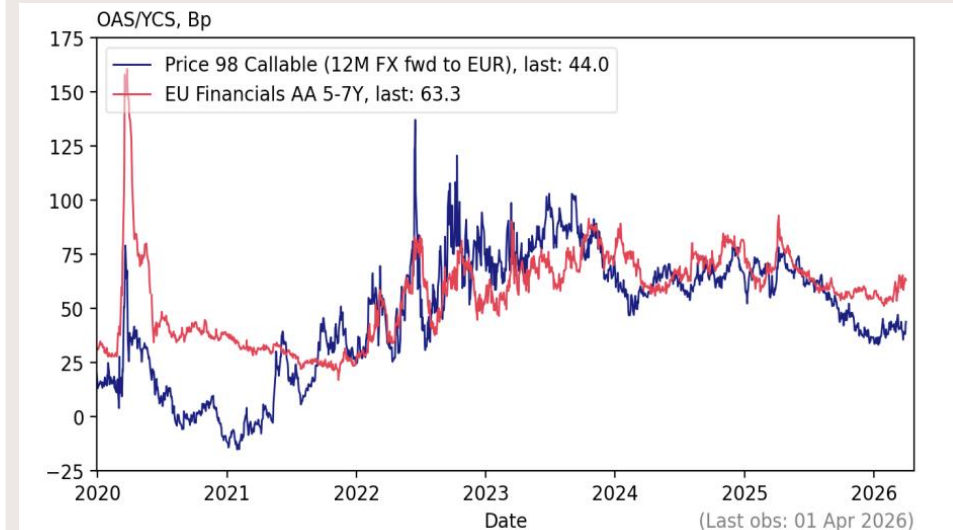
Callables

- Callables have, with the exception of the 5% segment, largely ignored the ongoing war (at least in OAS terms).
- Low-coupon callables have not sold off materially following the cessation of ordinary principal payments, leaving the segment expensive measured in terms of OAS. The turnover in this segment is, however, modest, and the movements are thus mainly driven by screen prices that are not being moved..
- Although credit bonds, led by the iTraxx index, have benefited from some relatively quiet Easter days, there remains a certain decoupling between credit and covered bonds. See the bottom chart on this page.
 - Note in this context that while gross issuance of callables remains moderate/capped, the net growth in the segment is no longer significantly negative (see also below).

30Y callables: OAS Govt



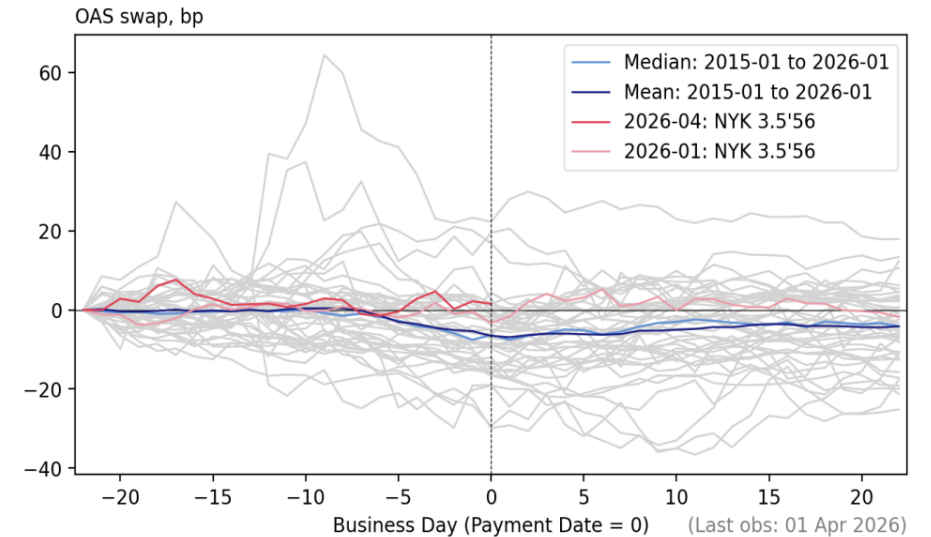
Spread vs swap: Callables and European credit bonds



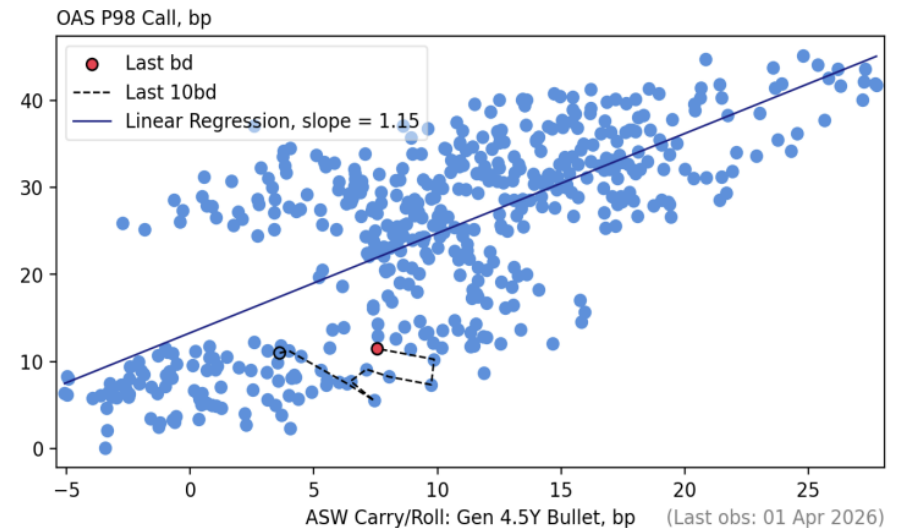
Callables II:

- We have previously written that we did not expect reinvestment performance at this payment date, or rather that any reinvestment performance would be masked by the fact that we would otherwise have seen spread widening.
- Callables are indeed having a good day today with a couple of basis points of OAS performance, but whether this is due to reinvestment performance or performance on the back of credit spreads tightening is uncertain.
- **Relative pricing:**
The relative pricing between callables and bullets favours bullets, and callables need to give at least 10bp before the two segments are even again.

Reinvestment performance in callables



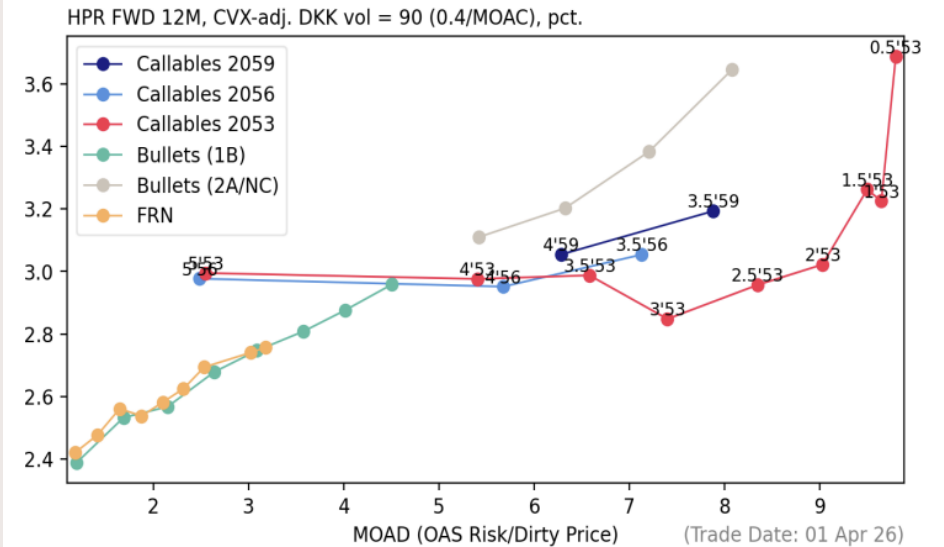
OAS Price 98 Callable vs Gen 5Y Bullet (Start 1 Apr 24)



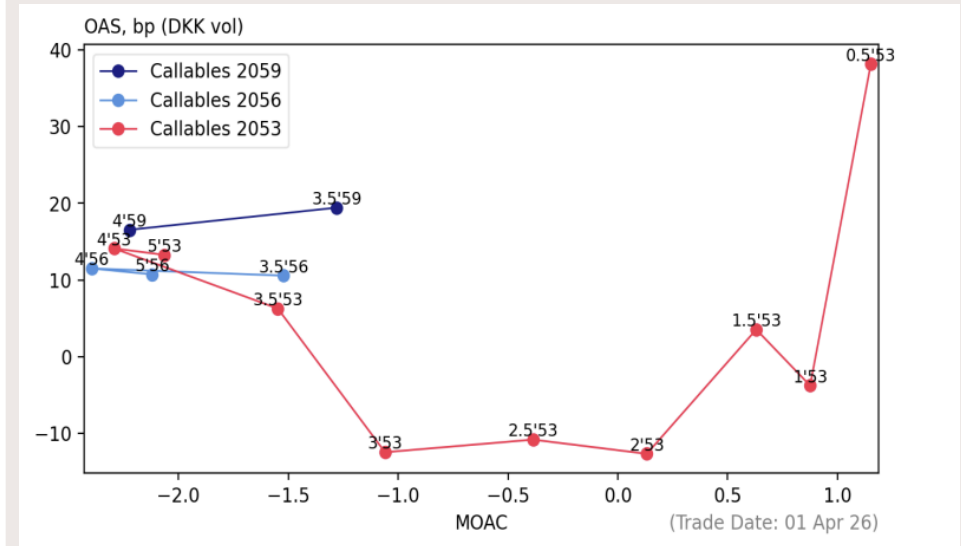
Callables III:

- If the expected return on callables is adjusted for negative convexity using the current volatility, there is no excess return on callables relative to the longest-dated bullets.
- The correction using DKK volatility is relatively aggressive, but conversely provides an indication of the future return if the quoted volatility is realised.
- The chart below shows OAS vs negative convexity, and this chart shows that there is no extra payment in 4'56 relative to 3.5'56, even though 4'56, due to the higher exchange rate, has somewhat greater negative convexity.

HPR FWD 12M (DKK vol), CVX adj by vol level



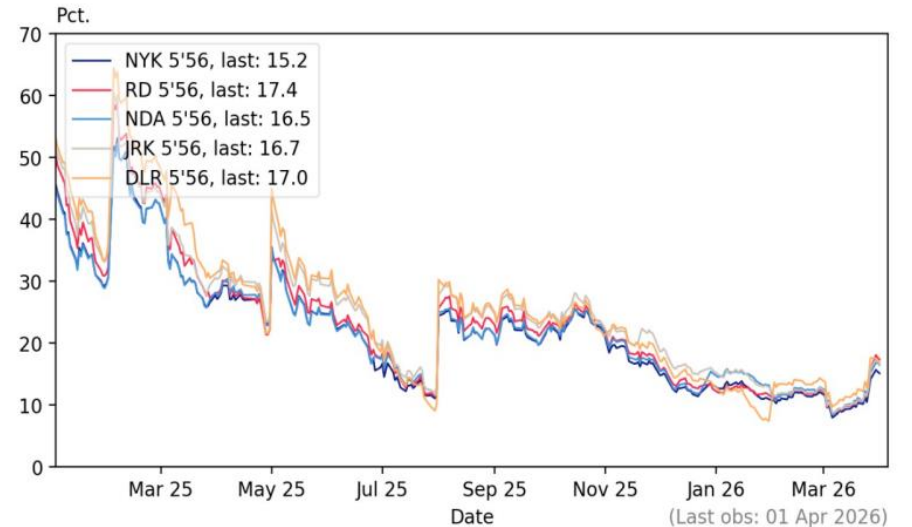
OAS vs MOAC (DKK vol)



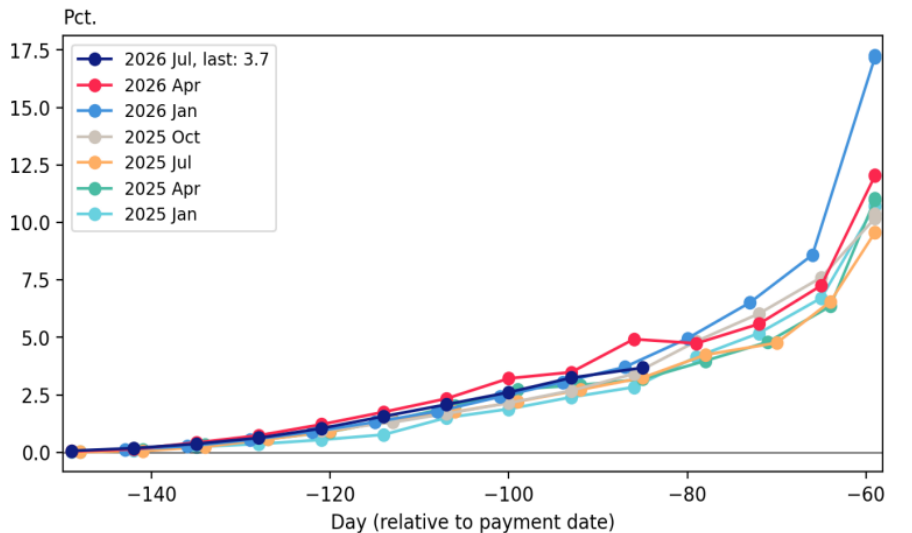
5% bonds (and CK93)

- 5% bonds have undergone a price correction, which now makes them appear more fairly priced.
 - As a result – unlike before – there is a bit of breathing room between, on the one hand, the break-even prepayment on for instance 5'56 A, which is now at 15-18% vs duration-equivalent bullets, and, on the other hand, expected prepayments for the July payment date of around 10%.
 - That means you now once again receive some compensation for the greater risk in 5% bonds.
 - See also [this research note](#)
- Today's CK93 data does not change the fact that July prepayments will probably land at around 10% for the 5% bonds overall.
 - The redemption pace was slightly lower than last week, which is probably due to Easter.

Break-even prepayments vs MOAD equivalent bullets



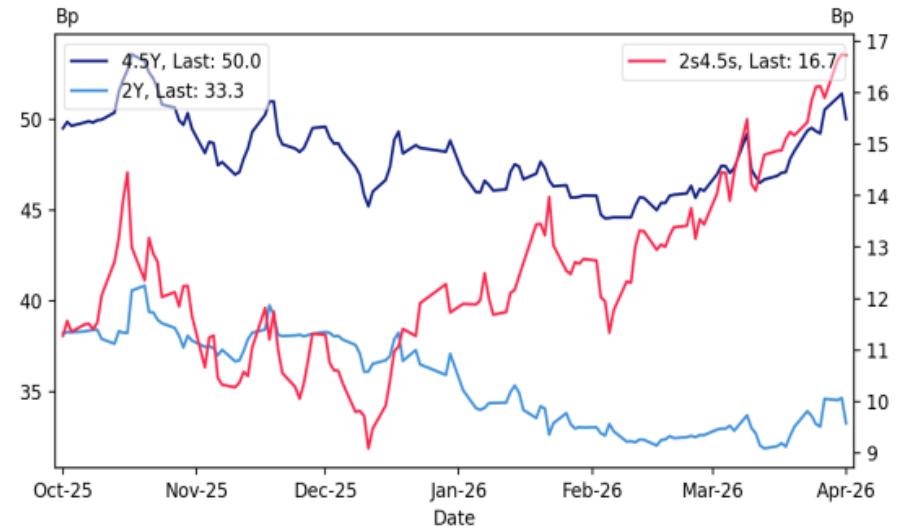
Total preliminary prepayments in 5% callables



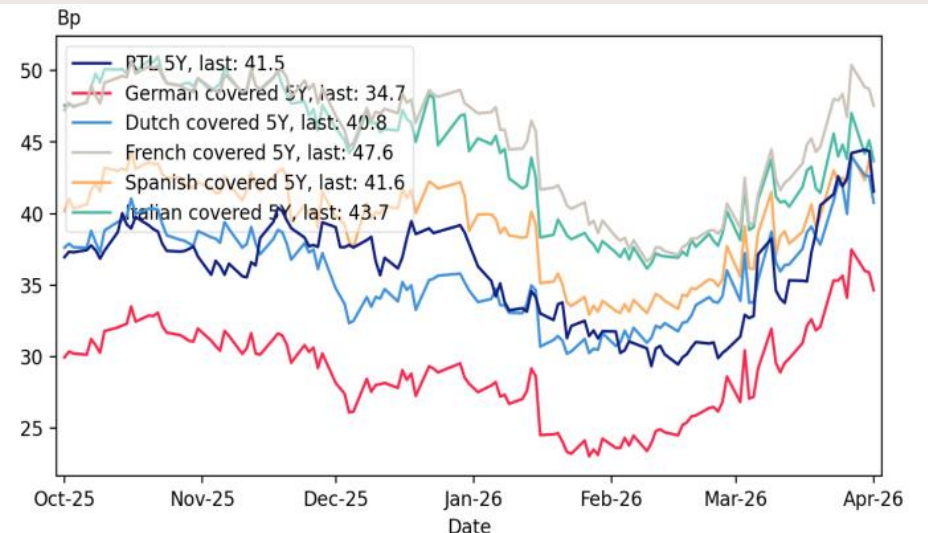
Bullets still look reasonable

- Bullet bonds had a good day on Wednesday, which is in line with the usual payment date pattern, where bullets perform slightly when we pass a payment date and the corresponding end-of-quarter issuance.
- 5Y bullets still look reasonable when looking at the steepness of the bullet-DESTR spread curve (see top chart).
 - The recent month's spread widening in 5Y bullets has basically followed EUR covered bonds when looking at spreads vs DGB/DBR – and here 5Y bullets therefore appear fair.
 - The same applies when looking at the spread vs EUR swap on bullets (including basis swap) vs EUR covered bonds.

Bullets: Spreads vs DESTR

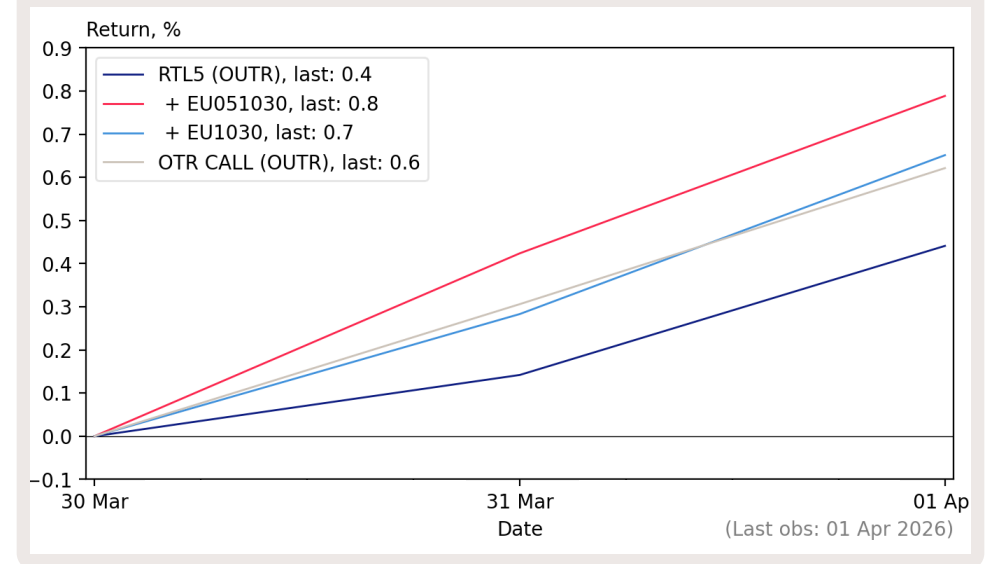
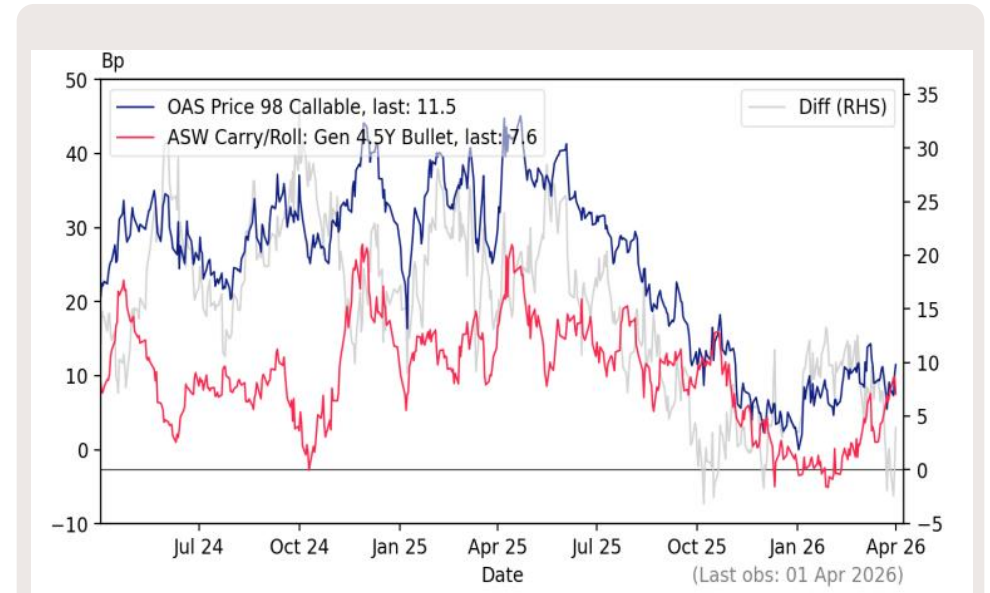


Bullets and EUR covered bonds Spread vs DGB/DBR



Bullets vs callables

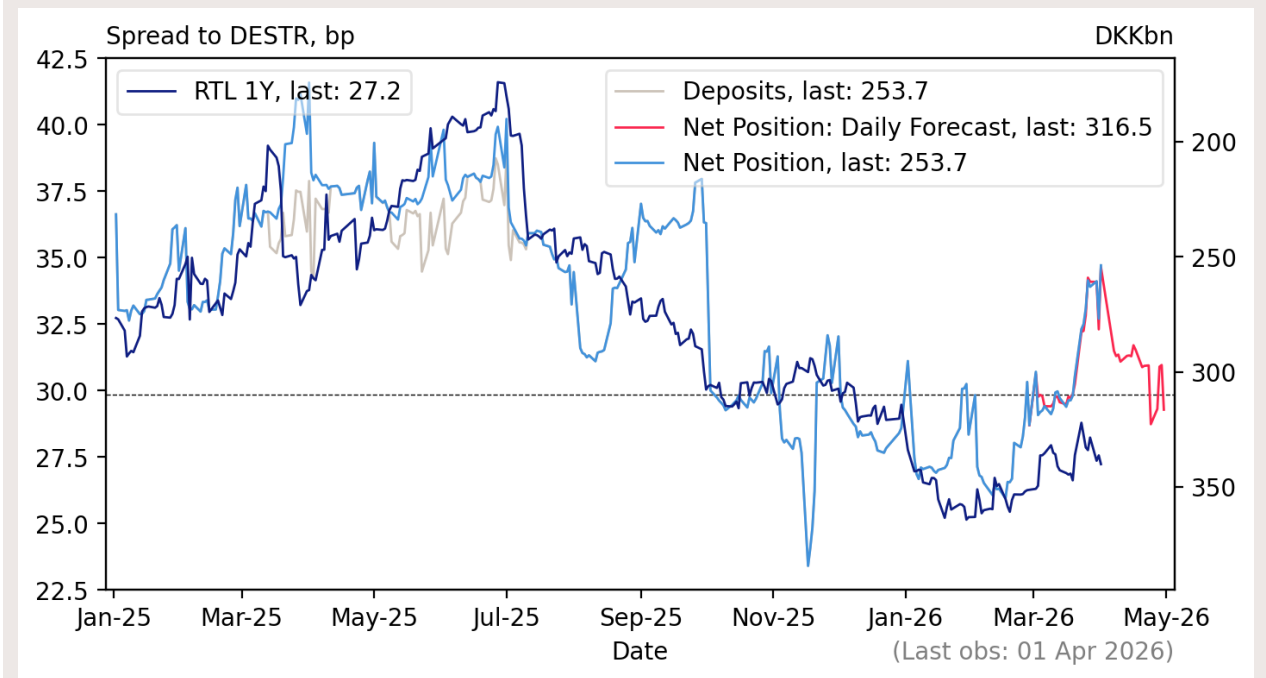
- 5Y bullets, however, look cheap compared to callables when comparing ASW carry/roll-down on a 5Y bullet with OAS of on-the-run callables (see top chart).
 - Or rather: Callables look expensive!
- This is also the reason why, on Monday, we opened a recommendation of 5Y bullets over callables – where 5Y bullets are combined with an EU1030 curve steepener (or EU051030 swap barbell) to hedge – or replicate – the normalisation potential in callables.
 - In the few days since the opening, this recommendation has performed well – and we continue to see value in it.



The net position has hit rock bottom!

- The net position reached DKK 254 billion on Wednesday, which is expected to be the "bottom" for 2026.
 - In the coming month, the net position is expected to rise to just over DKK 300 billion – a level that it is expected to maintain until the summer holidays (after which it will rise further).
- While 1Y bullet bonds have widened vs DESTR since mid-January, this has not occurred to an extent corresponding to the correlation between the net position and the 1Y bullet-DESTTR spread since early January 2025 (see chart).
 - While this is probably related to the fact that the current "dip" in the net position is relatively short-lived (and forecast in advance), the liquidity situation immediately suggests that the short-dated bullets could lose a couple of points further against DESTTR.

Correlation between net position and 1Y ARM-DESTTR spread since January 2025



End-of-quarter issuance completed

- The end-of-quarter issuance of bullets and FRNs ended slightly higher than expected (we wrote about our expectations on page 8 [here](#))
 - It was no surprise that there were more bullets than FRNs (approx DKK 15 billion vs DKK 8.5 billion), or that among the bullets, 5Y bullets, worth DKK 8 billion, were the most popular maturity among borrowers.
 - Looking at 1Y bullets and FRNs together, short-dated bonds (just under DKK 10.5 billion) still exceed 5Y bullets (DKK 8 billion).
 - 3Y bullets decreased by about DKK 4 billion.

End-of-quarter issuance: 20260401

Issuer	Callables	Bullets	Float	Caps	Total
NYK	-60	4186	5518	0	9643
RD	92	1517	1025	0	2634
NDA	-85	4441	727	0	5082
BRF	121	4097	392	0	4610
DLR	143	700	807	0	1650
Total	210	14940	8469	0	23619

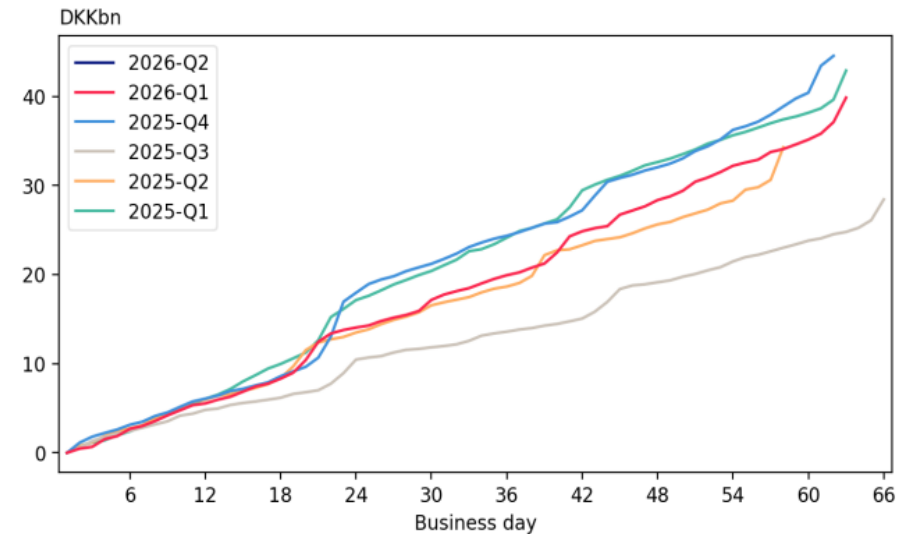
End-of-quarter issuance - Bullets by maturity: 20260401

Issuer	1Y	2Y	3Y	4Y	5Y	+6Y	Total
NYK	29	82	1283	-0	2830	-38	4186
RD	455	153	99	100	602	108	1517
NDA	100	110	1533	85	2622	-10	4441
BRF	1371	150	980	71	1525	0	4097
DLR	0	0	138	60	502	0	700
Total	1955	496	4033	315	8081	60	14940

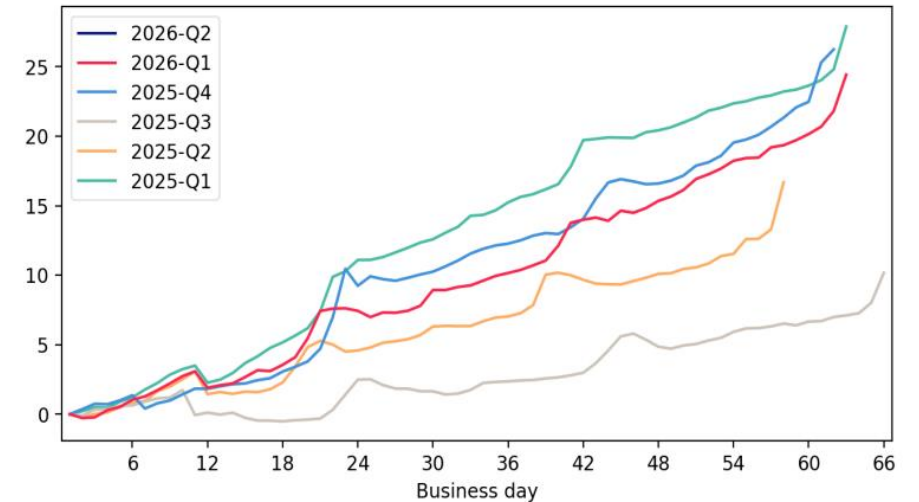
Issuance in general: Callables

- The gross issuance of callables in Q1 2026 is slightly lower than in Q4 2025.
 - The difference is chiefly due to a higher "end-of-month issuance" in the first month of Q4 2025 (October) than in the first month of Q4 2026, see also the chart (around trading days 18-24).
 - The larger "end-of-month issuance" in the first month of Q4 2025 can presumably be attributed to larger January prepayments of 5% callables, resulting in a larger issuance of callables (fixed-price agreements) up to the prepayment deadline at the end of October.
 - Disregarding this difference, the pace of the issuance of callables in Q1 2026 is largely unchanged compared to Q4 2025.
- The net issuance during the quarter (gross issuance minus buybacks) came to just under DKK 25 billion in Q1 2026 – not far from the level in Q4 2025.
 - With total redemptions of DKK 28 billion, the net growth in the callables segment is therefore just barely negative.
 - The negative net growth in the segment of DKK 16-18 billion per quarter, which we saw in the H1 2025, is therefore behind us – just as we expected!

Gross issuance of callables (based on outstanding amounts)



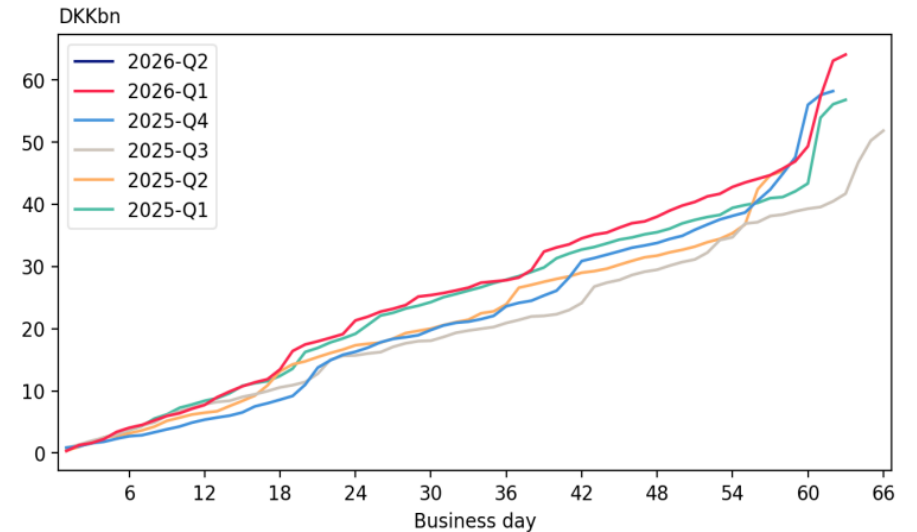
Current net issuance of callables (based on outstanding amounts)



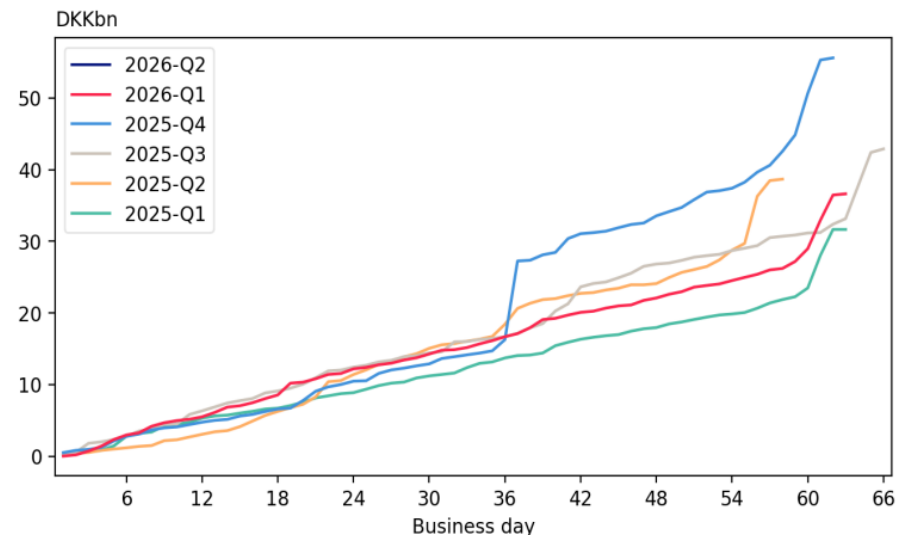
Issuance in general: Bullets and FRNs

- Gross issuance of bullets (excl refinancing auctions) was slightly higher in Q1 2026 than in Q4 2025.
 - This was mainly driven by 4Y-5Y bullets, where the issuance in Q1 2026 actually exceeded Q4 2025, despite a lower volume of redemptions in 5% callable bonds.
 - The issuance of 5Y bullets in Q1 2026 has probably been boosted by the "early" refinancing of 5Y bullets loans (ie prior to the auctions in February) – and we therefore do not expect bullets to maintain the same issuance level in Q2 2026. However, it is also unlikely that there will be a significant decline.
- Gross issuance of FRNs is slightly lower than in recent quarters (Q4 2025 is affected by the issuance of DKK 10 billion worth of JRK's Cita 12M FRN).
 - We expect a little more FRNs during Q2 2026 – including related to the refinancing of the maturity for the July payment date, but even here there will probably not be any major modifications.

Bullets: Gross issuance ex refi auctions (based on OMX)



FRNs: Gross issuance ex refi auctions (based on OMX)



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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