

# Fixed Income Update Week 16

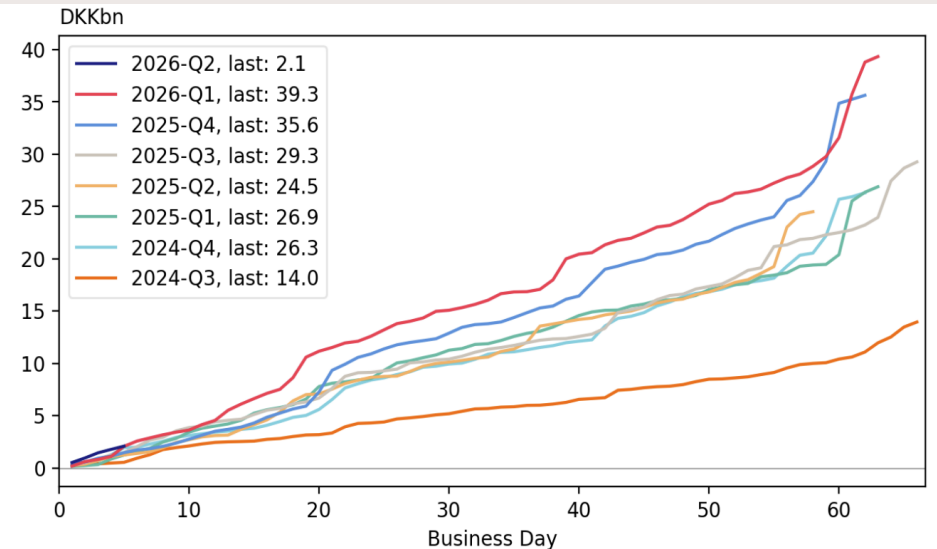
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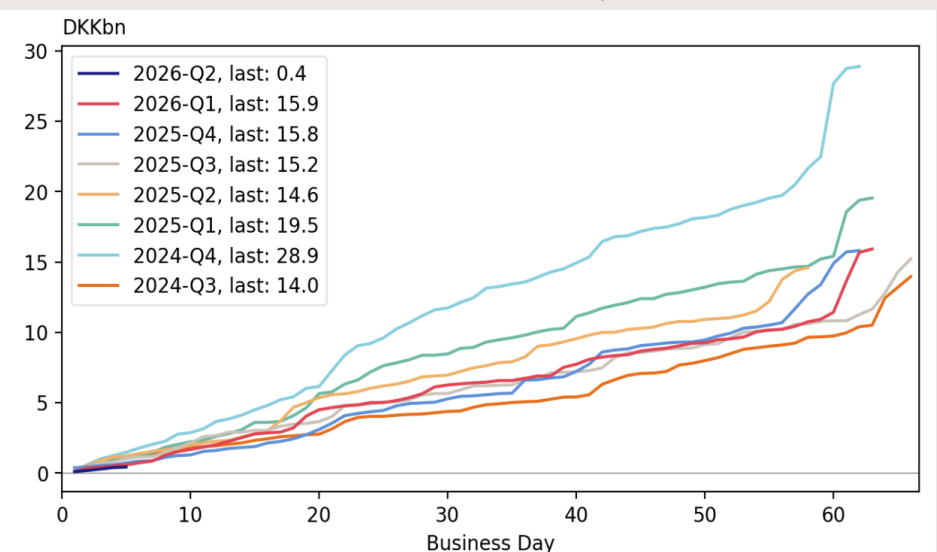
# We are drowning in 5Y bullets

- We have previously pointed out that issuance of 5Y bullets was expected to decline, driven by a lower volume of fixed-to-variable refinancing.
- However, Q1 2026 delivered the highest issuance of 5Y bullets seen in the past eighteen months.
- In our view, it is highly likely that the elevated issuance of 5Y bullets in Q1 reflects refinancing of the (exceptionally) large bullets maturing on 1 April, which has taken place outside the refinancing auctions. Our conclusion is due to:
  - Overall, the refinancing percentage at the February auctions was low (67%).
  - RD, as we have seen before, issued a sizeable amount of 5Y bullets in January, which appears to reflect early refinancing.
  - A large share of the remaining 5Y bullets issuance came as end-of quarter issuance in March.
  - The outstanding amount of bullets has not increased more in Q1 (or Q4 2025) than in previous quarters.
- More borrowers have likely opted for 5Y bullets on this occasion due to the heightened unrest in the financial markets related to the war, combined with the fact that 3Y and 5Y bullet loans are priced at the same level.
- Meanwhile, the issuance of 3Y bullets has fallen back to the level observed before the boost from fixed-to-variable refinancing pushed issuance higher.

Cumulative issuance of 5Y bullets (OMX, net auctions)



Cumulative issuance of 3Y bullets (OMX, net auctions)



# However, this should not continue.

- The large 5Y bullet issuance has likely been a contributing factor to the steepening of the bullet-DESTR spread curve we have seen in the past few months.
- The bullet maturity for the next two payment dates is, as usual, quite capped, and there is thus prospect of fewer bullets needing to be refinanced.
- At the same time, we should see fewer 5Y bullets, due to a lower volume of fixed-to-variable refinancing.
- On balance, the arrow points downwards for the issuance of 5Y bullets over the next six months.
- We expect this to contribute to the bullet-DESTR spread curve flattening by 2-3 bp (4.5Y-2Y).
- We have a recommendation of 5Y bullets vs 3Y bullets, which we maintain based on this expectation.
- Issuance may rise again towards the end of the year, due to large bullet maturities at the January and April 2027 payment dates.



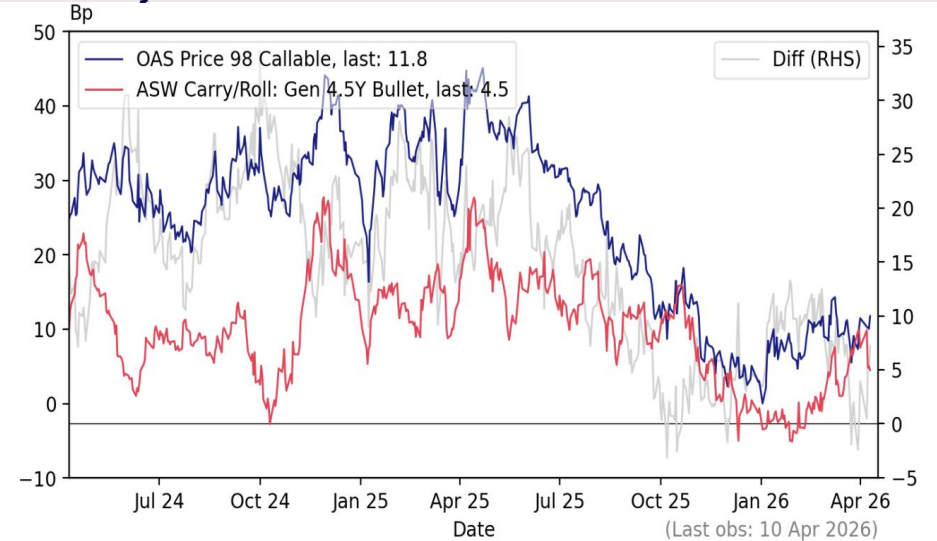
**Bullet maturity for upcoming payment dates by original maturity**

Payment date	Total	1Y	2Y	3Y	4Y	5Y	6Y+
01/07/26	35,532	2,005	876	8,277	2,008	22,365	0
01/10/26	43,373	20,954	687	5,374	368	15,989	0
01/01/27	168,513	60,346	7,534	27,711	3,625	66,317	2,980
01/04/27	145,446	44,745	7,789	33,438	2,999	50,987	5,488
01/07/27	44,703	N/A	1,120	17,152	1,758	24,646	0

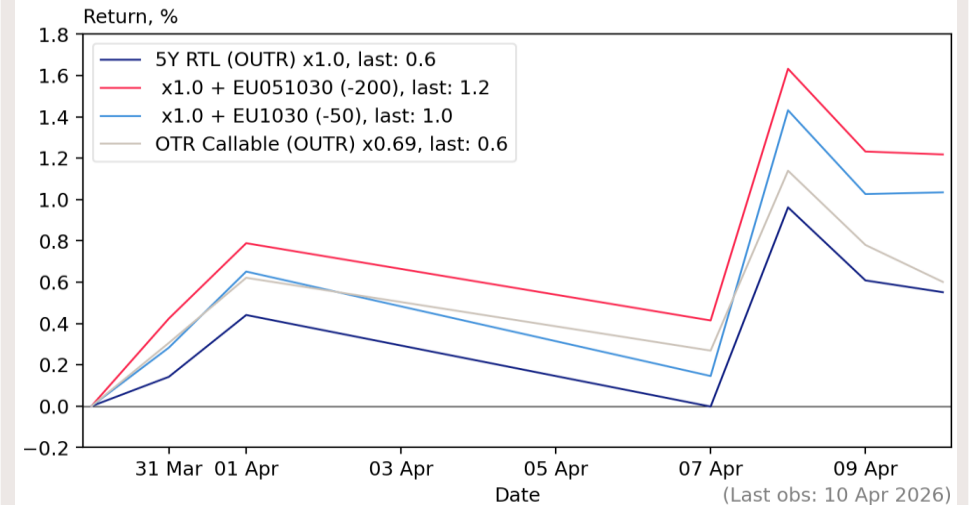
# 5Y bullets vs callables

- Last Monday, we opened a recommendation of 5Y bullets over OTR callables – where 5Y bullets are combined with an EU1030 curve steepener (or EU051030 swap barbell) to hedge – or replicate – the normalisation potential in callables.
- As of EOD on Friday, the recommendation was in the money (for both swap overlays). This is shown in the bottom-right chart, where the profit on the recommendation is represented by the difference between the red or light blue curve and the grey one.
- Had the recommendation not included one of the two swap overlays, it would have been out of the money, as callables have benefited from tailwinds from lower volatility to an extent that offsets/exceeds the relative OAS performance in 5Y bullets.
- After last week's performance in 5Y bullets, the pricing of OTR callables vs 5Y bullets has become more reasonable.
- We still see more value in 5Y bullets (including overlays) and maintain the recommendation!

**OAS of callables trading at a price of 98 vs ASW carry/roll-down on 5Y bullets**



**5Y bullets + overlays vs OTR callables have performed**



# FRNs: Auctions coming up!

- We are slowly approaching the refinancing auctions in May, which as usual will mainly offer FRNs.
  - The maturity of FRNs on 1 July currently totals just under DKK 88 billion.
  - This year's major FRN auctions will therefore be smaller than we have seen in the past three years, where the maturity has totalled between DKK 115-130 billion.
  - The supply of FRNs at this year's May auctions is expected to land at around DKK 80 billion, corresponding to a refinancing percentage of 90%.
- The bullet maturity on 1 July is slightly larger than last year.
  - This is mainly driven by the maturity of originally 5Y bullet bonds this year being just over DKK 22 billion, whereas last year it was just under DKK 17 billion.
  - Refinancing of bullets (both at and outside the refinancing auctions) will, however, be a significantly smaller source of 5Y bullet issuance in the current quarter than we have seen in the previous two quarters.
- We do not yet know the auction times etc., but we expect that the auctions will mainly take place in week 21, ie from 18 to 22 May.
  - We do know, however, that NYK refinances their maturity of Cita 6M FRNs with two new Cita 6M FRNs maturing in July 2029.

## Maturity of FRN 1 July

Issuer	Total	CITA 3M	CITA 6M	CIBOR 3M	CIBOR 6M
NYK	28,078	0	28,078	0	0
RD	37,370	0	10,967	0	26,403
NDA	8,018	0	0	0	8,018
BRF	3,912	0	0	3,912	0
DLR	10,395	0	3,296	0	7,099
LRF	0	0	0	0	0
Total	87,773	0	42,341	3,912	41,520

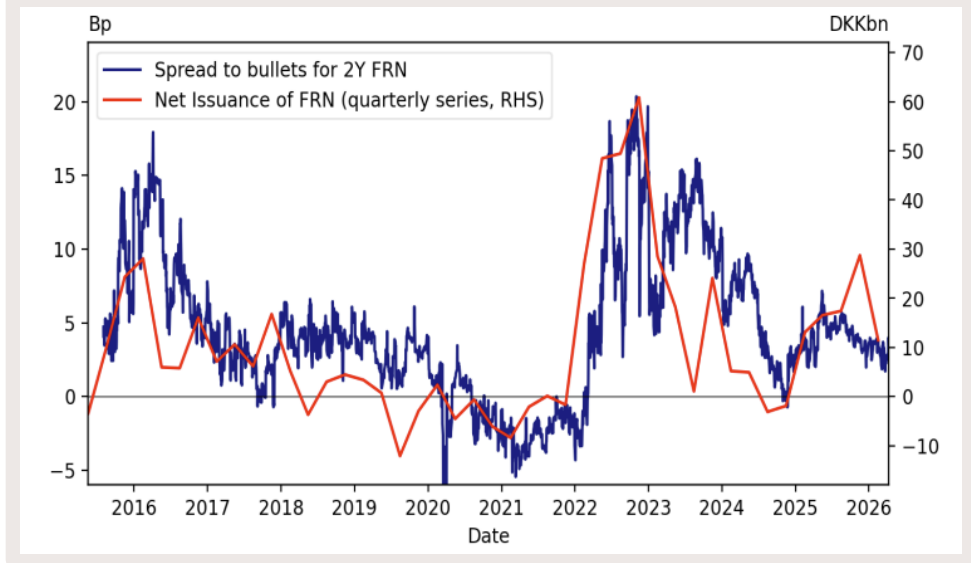
## Maturity of ARM 1 July

Issuer	Total	1Y	2Y	3Y	4Y	5Y	6Y+
NYK	34,417	891	876	8,277	2,008	22,365	0
RD	0	0	0	0	0	0	0
NDA	0	0	0	0	0	0	0
BRF	1,114	1,114	0	0	0	0	0
DLR	0	0	0	0	0	0	0
LRF	0	0	0	0	0	0	0
Total	35,532	2,005	876	8,277	2,008	22,365	0

# FRNs vs bullets

- The FRN spreads vs the bullet curve have generally moved sideways over the past few months.
  - For Q1, the spread also appears to be in line with the historical correlation with the level of net issuance of FRNs (see the chart).
  - This has generally been the case since the end of 2024, at least when adjusting FRN issuance for Q4 2025 for the DKK 10 billion issued by JRK in the new Cita 12M FRN.
- At the beginning of the year, we expected FRN spreads vs the bullet curve to widen slightly – and in this connection, we opened a recommendation of bullets (hedged) vs FRNs.
  - This was based on the projected headwinds to FRNs (relative to bullets) from a lower net position in Q1 as well as the supply at the large FRN auctions in May.
  - FRN spreads vs the bullet curve have taken the decline in the net position in stride, and the strategy has gone sideways.
  - However, we continue to see scope for the FRN spreads to widen slightly vs bullets heading into the May auctions (and find it difficult to see FRNs outperforming bullets from the current level).
  - We therefore maintain our recommendation.

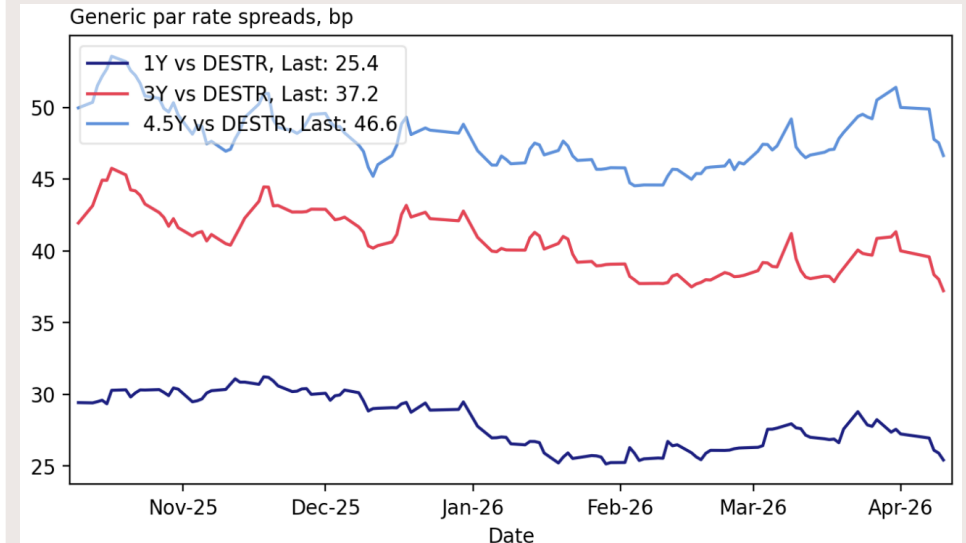
FRN spreads against bullets vs net issuance of FRN



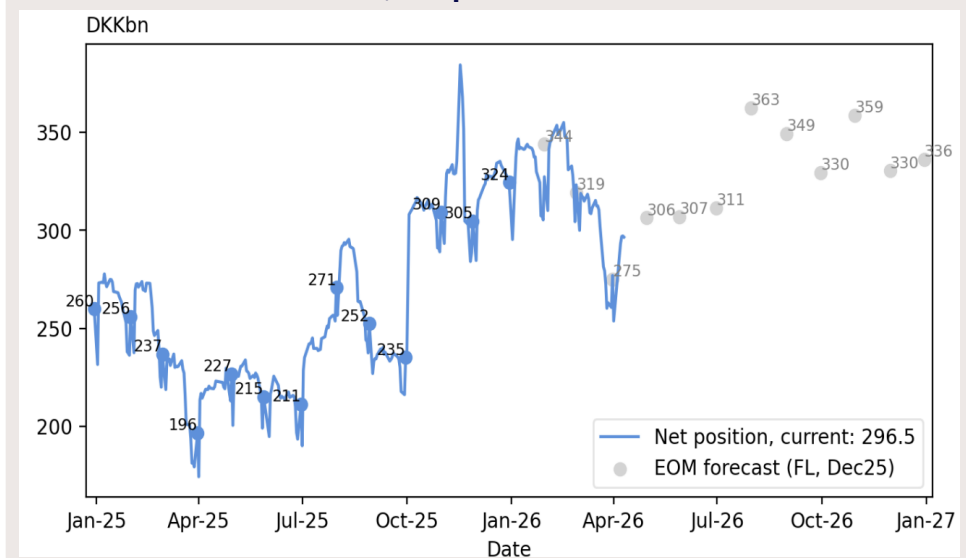
# It was not the net position ...

- We expected spread widening in short-dated bullets towards 1 April, due to reduced liquidity availability as well as pressure from the end-of-quarter issuance.
- Short-dated bullets, however, traded on unchanged spreads over Easter and have subsequently performed well again.
- Accordingly, the short-term lower net position has not had the negative impact on spreads that we expected.
- Instead, it appears that the performance in longer-dated bullets on the back of a more stable situation in the Middle East has spilled over to the short-dated bullets.
- We still believe bullets are priced on the expensive side, but we are closing our recommendation of DESTR vs bullets (at a loss), as the net position is now set to increase steadily again, and at the same time, we are on the other side of the end-of-quarter issuance.

## Bullets: Spreads vs DESTR



## Danmarks Nationalbank, net position forecast



# Recommendations

- To generate greater clarity over our recommendations, we divide them into short-term (time horizon: a few weeks) and long-term recommendations (time horizon: quarters).
- Our recommendation of DESTR vs 1Y bullets was based on a guiding for the lower net position to result in spread widening in 1Y bullets. This has not been the case, and as the net position is set to climb steadily from here, we are closing the recommendation at a loss.
- We maintain our other recommendations.
- We also maintain our (short-term) recommendation of 5Y bullets + overlays vs callables (not shown in the table on the right).

## Short-term recommendations

Opening date	Name	Return 5bd	Total return
2026-02-23	DESTR vs. RTL1	-0.02	-0.05
2026-02-23	RTL5 vs. RTL1	0.03	-0.04

## Long-term recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.01	0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	-0.00	0.06
2026-01-12	RTL5 vs. RTL3	0.01	-0.10
2026-01-15	RTL vs FRN	0.03	-0.01
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.10	-0.74
2026-01-26	4'56 vs RTL5	0.02	-0.16

# 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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