

# Fixed Income Update Week 19

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# FRN auctions coming up

- May refinancing auctions will resume again next week, as usual dominated by FRNs.
  - Last Friday, we published a research note providing an overview of what we currently know about the offering from the various issuers – see [here](#).
  - We will return with details as we receive more information regarding final auction volumes etc from the issuers.
  - **We will hold our usual teams presentation on the auctions on Wednesday 13 May at 9:30 – so please mark your calendars!**
- With an expected FRN auction offering of DKK 80 billion, the FRN auctions in May this year will be smaller than we have been used to (supply has been DKK 105–115 billion over the past three years).
  - The smaller FRN auction round this year partly reflects issuers' efforts to reduce the size of their refinancing dates, including by refinancing and issuing in (slightly) longer-dated FRNs. As a result, FRN maturities at the July payment date next year are currently smaller than usual (just under DKK 77 billion).
  - In May 2028, however, we can look forward to "floatergeddon", as FRN maturities at the July 2028 payment date currently stands at a record-high DKK 194 billion, mainly because this payment date has become a large FRN refinancing point across all issuers.

## Outstanding FRNs after the maturity date

Payment date	Total	NYK	RD	NDA	BRF	DLR
2026-07-01	88,885	29,230	37,359	8,017	3,909	10,369
2026-10-01	37,905	37,905	0	0	0	0
2027-01-01	65,560	17,629	0	35,142	0	12,789
2027-04-01	38,269	38,269	0	0	0	0
2027-07-01	76,703	28,085	19,295	0	19,309	10,015
2027-10-01	66,109	65,959	150	0	0	0
2028-01-01	61,269	33,008	0	15,336	0	12,925
2028-04-01	17,733	17,733	0	0	0	0
2028-07-01	194,191	66,864	64,454	35,753	16,779	10,341
2028-10-01	47,371	47,371	0	0	0	0

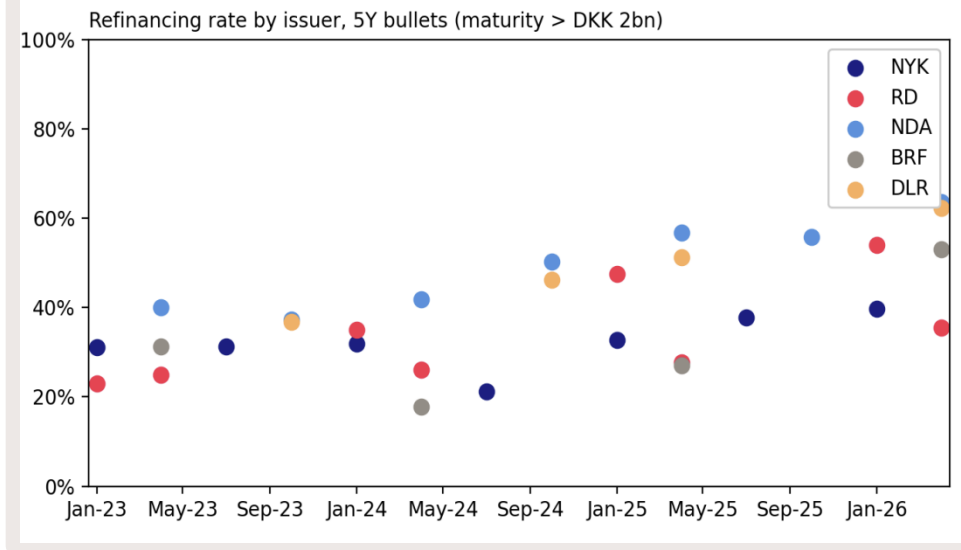
# Expected bullets auction volumes

- Bullets maturing on 1 July will come to almost DKK 35 billion, primarily from NYK, which has a maturity of DKK 34 billion, while JRK has a smaller maturity of DKK 1 billion.
- The majority of bonds maturing consists of (originally) 5Y bullets.
- Over the past several auction rounds, we have seen a shift away from 5Y bullets, as borrowers have refinanced from noticeably lower rates – which is also the case this time.
  - This time, 5Y bullet borrowers are coming from a rate of around 0%, while the current rate on 5Y bullets is just below 3%.
- NYK has tended to have lower refinancing percentages in 5Y bullets than the other issuers (see bottom chart), which argues for fewer 5Y bullets.
- Conversely, we have recently seen a stronger borrower preference for 5Y bullets, with the majority of end-of-March issuance coming in 5Y bullets.
  - We assume that recent market turmoil and interest rate increases may have motivated more borrowers to lock in their loan rate for a longer period.
  - This argues for a higher refinancing percentage in 5Y bullets.
- We therefore expect DKK 10-12 billion-worth of 5Y bullets, DKK 6-8 billion-worth of 3Y bullets and DKK 1-2 billion-worth of 1Y bullets.
- The offering of 1Y bullets could, however, end closer to DKK 1 billion if JRK's borrowers refinance into their new product Jyske Frihed, which is funded with CIBOR 3M FRNs.

Bullet maturity at 1 July 2026

Issuer	Total	1Y	2Y	3Y	4Y	5Y	6Y+
NYK	34,232	886	872	8,233	1,997	22,245	0
RD	0	0	0	0	0	0	0
NDA	0	0	0	0	0	0	0
BRF	1,167	1,167	0	0	0	0	0
DLR	0	0	0	0	0	0	0
LRF	0	0	0	0	0	0	0
Total	35,399	2,053	872	8,233	1,997	22,245	0

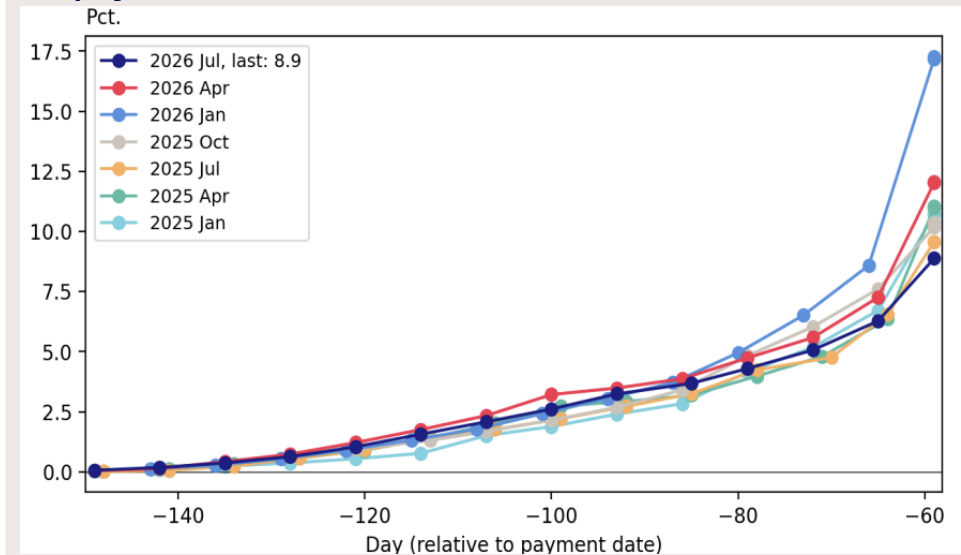
Historical refinancing percentages for 5Y bullets



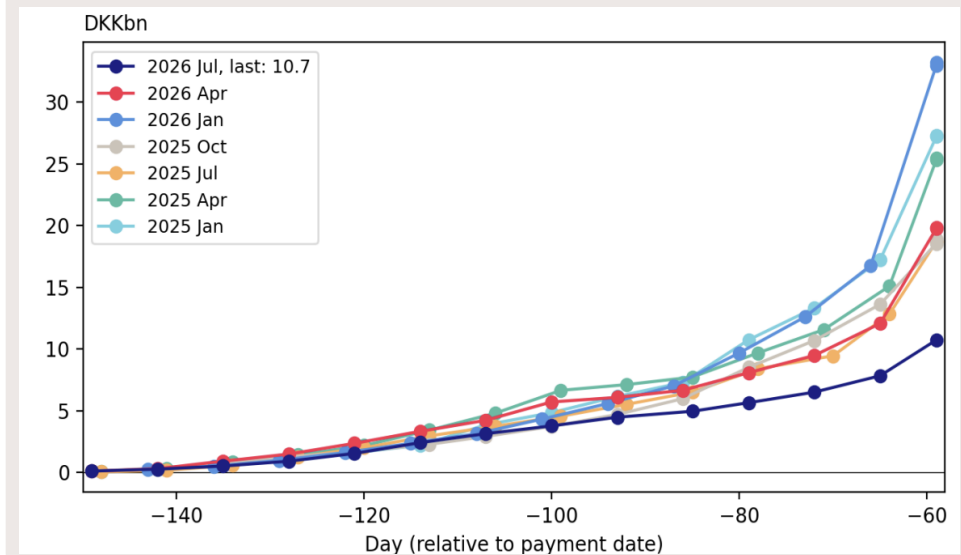
# CK93 – just as expected

- We are now past the July payment date, and today's CK93 data therefore provides a picture of the final prepayments.
  - Currently, we have data for all institutions except DLR.
  - In short, 1 July prepayments are ending as expected.
- In percentage terms, prepayments in 5% bonds average around 9%, in line with our expectation that prepayment rates will gradually decline.
  - RD's prepayments in 5% bonds, however, ended higher – just over 15% – exactly as we forecast last week (see slide 3 [here](#)).
  - Overall, the low prepayment levels are thus driven by low prepayments at NYK, JRK and NDA.
  - Another round of manageable prepayments in 5% bonds could provide some tailwinds to the segment given the currently relatively cheap pricing.
- Overall, prepayments in callables amount to around DKK 11 billion.
  - This is significantly lower than at the previous payment dates, driven both by lower prepayments in 5% bonds and very limited prepayments in 4% bonds (which, as is well known, have traded below par during the period when prepayments typically occur).

Prepayments, 5% 30Y



Total preliminary prepayments



# Lower prepayments, higher net growth?

- Do the lower total prepayments of callables in Q2 2026 suggest higher net growth for the segment?
  - The short answer is no!

- The (slightly) longer answer:

Net growth = Net issuance during the quarter

- prepayments
- ordinary redemptions/repayments

- We are now looking at:

Net issuance of DKK 15-20 billion during the quarter.

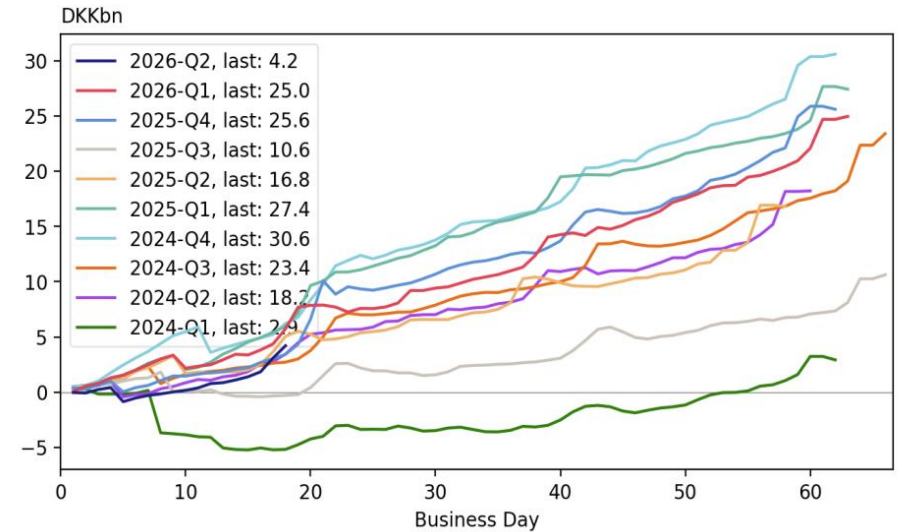
Prepayments of DKK 11 billion.

Ordinary redemptions/repayments of just under DKK 8 billion.

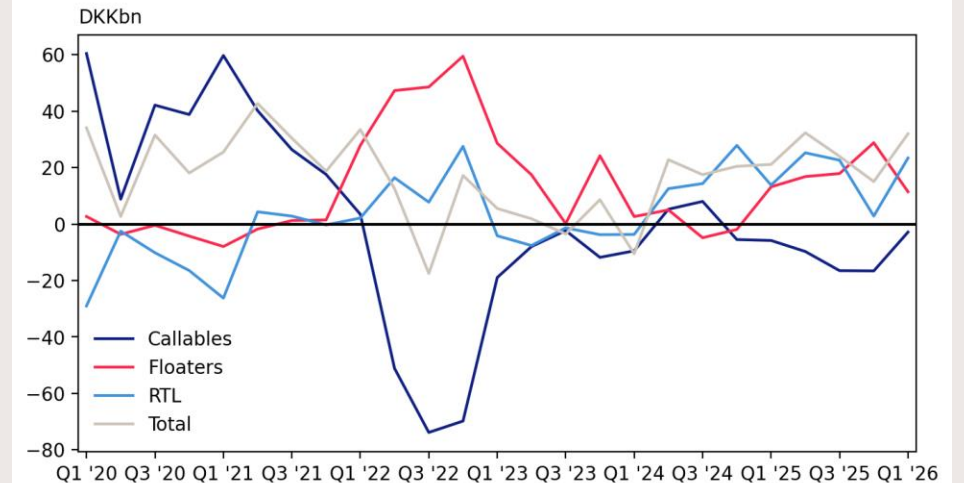
= Net growth in Q2 2026 of about DKK -4 to 1 billion.

- This implies a repetition of the net growth seen in Q1 2026.

Current net issuance of callables (based on outst. amount)



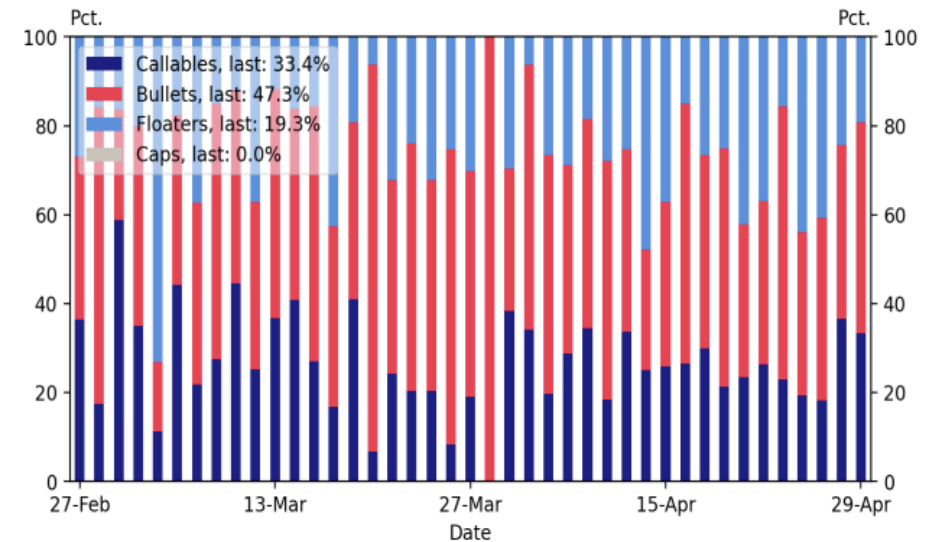
Net growth in main segments



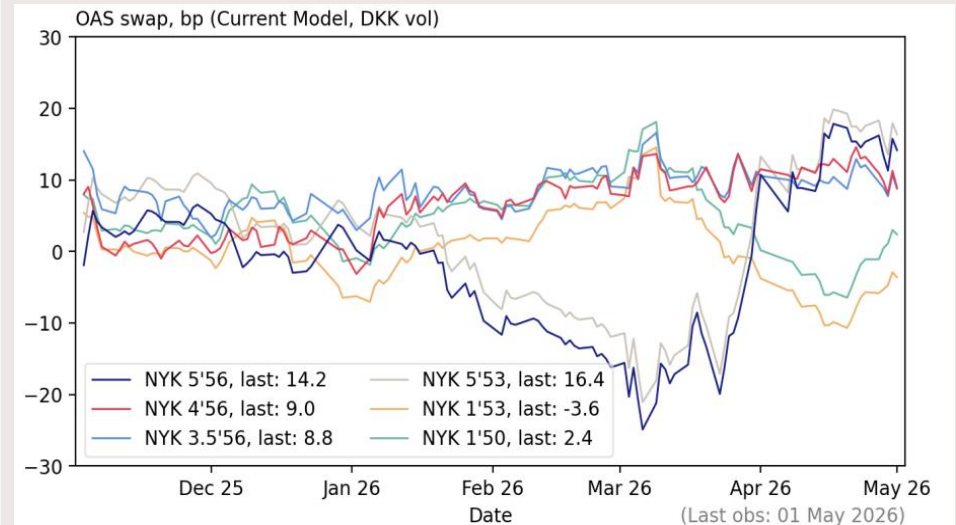
# Callables

- "The less said the better", the saying goes.
  - And callables are living quietly.
- Issuance remains below 30% (except in the days leading up to month-end, where it is slightly above 30%) of daily covered bond issuance ...
  - ... and the still marginally negative net issuance is certainly helping the segment.
- Callables also appear to have been more or less immune to the war between the US and Iran (in OAS terms).
  - Rate and volatility changes have been priced in, while higher credit spreads – eg iTraxx – have been almost completely ignored.

Composition of issuance by day (outst.)



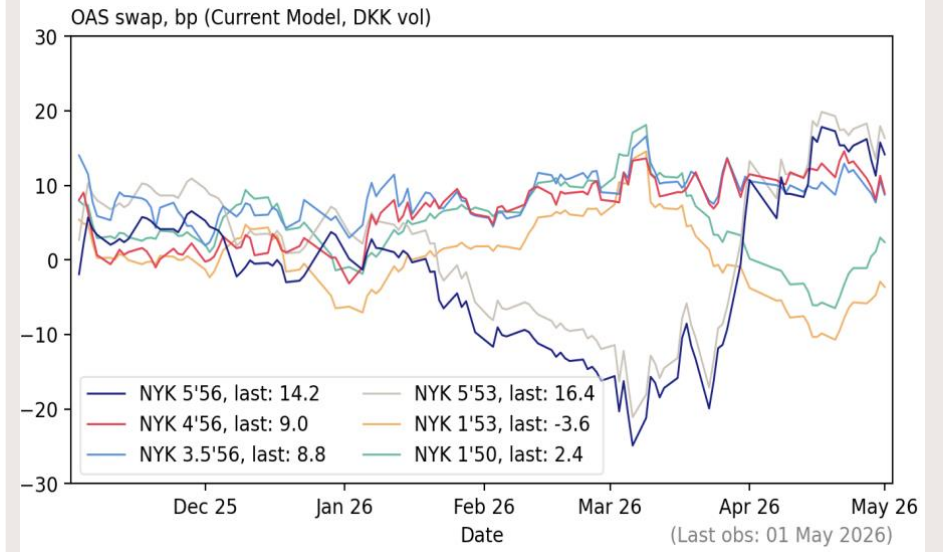
30Y callables: OAS swaps



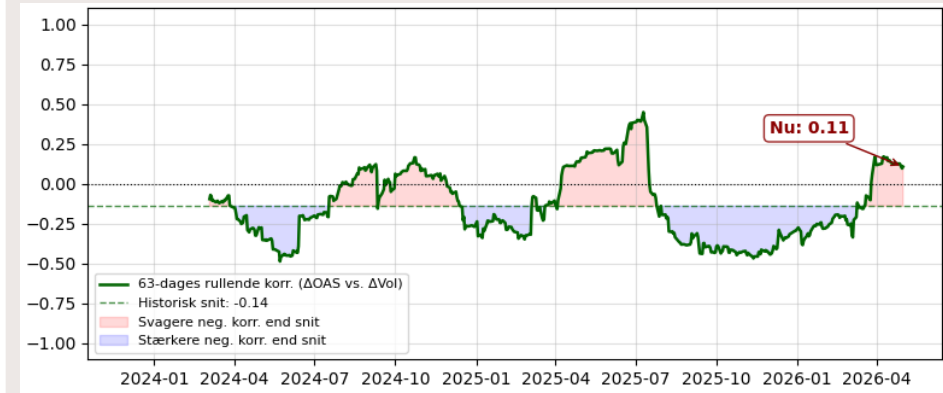
# Callables

- In fact, callables have priced in volatility changes during the ongoing war more quickly than has historically been the case.
- We interpret this as a sign that market makers are currently more attentive to the larger market movements that affect pricing ...
- ... and are not quite willing to wait and see whether things reverse tomorrow.

## 30Y callables: OAS swaps



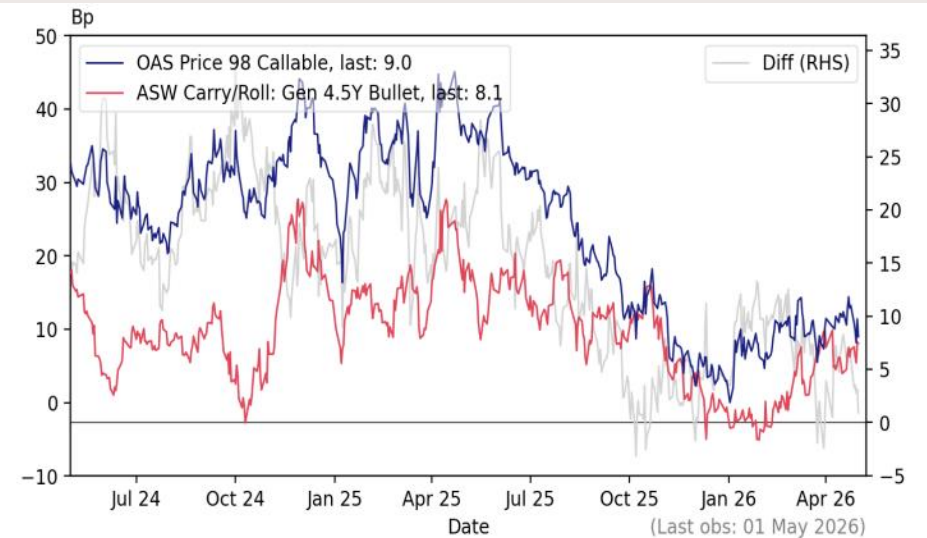
## Correlation $\Delta$ OAS vs $\Delta$ EUNE310 Norm Vol



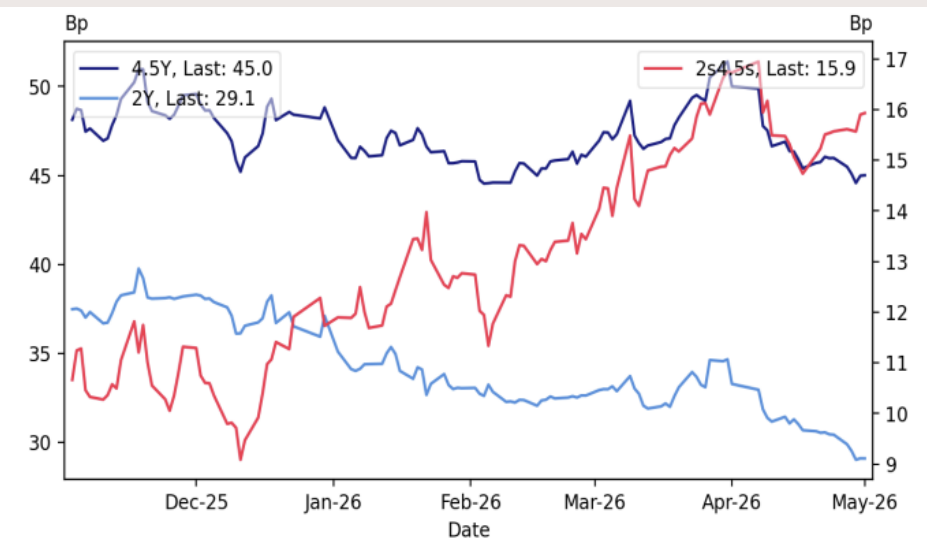
# 5Y bullets > callables

- After last week, callables once again look expensive relative to 5Y bullets when comparing carry/roll-down vs swap on 5Y bullets with OAS on callables (see top chart).
  - This is primarily a consequence of the steepness of the bullets spread curve.
  - We see a risk of spread widening in callables relative to 5Y bullets (or greater potential for OAS performance in 5Y bullets towards quarter-end).
- We therefore open a recommendation of 5Y bullets vs callables (1:1 market value, hedged and funded), with 5Y bullets combined with overlays to replicate/hedge the volatility exposure in callables. Either:
  - EUR 1Y10Y swaption straddle: Short nominal 200 (100 in both payer and receiver swaptions)
  - EU051030 swap barbell: nominally 250 in a 10Y receiver swap (and 50:50 duration-equivalent in 5 and 30Y payer swaps)
  - These conditions are based on what has worked well as replication/hedging in 2026.

OAS of OTR callables vs ASW carry/roll-down on 5Y bullets



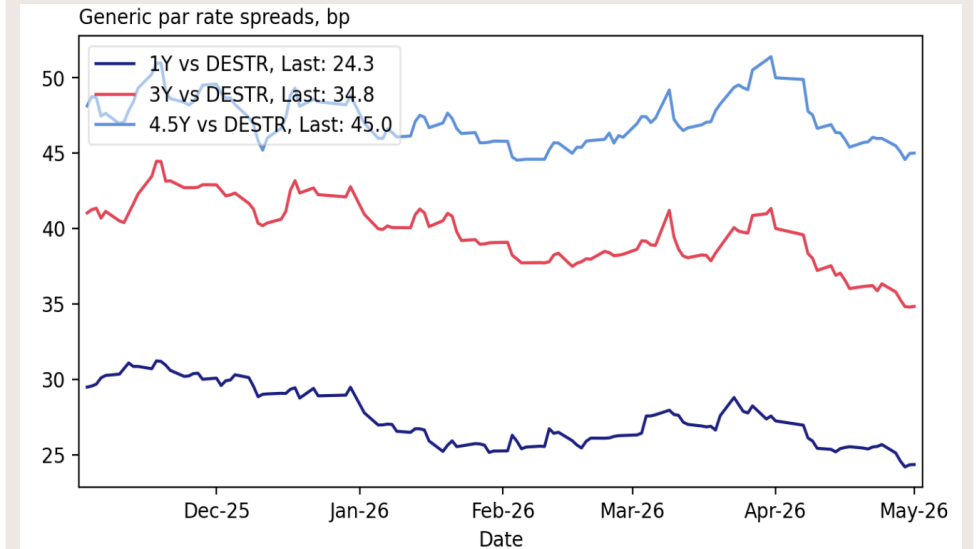
Bullets: Spreads vs DESTR



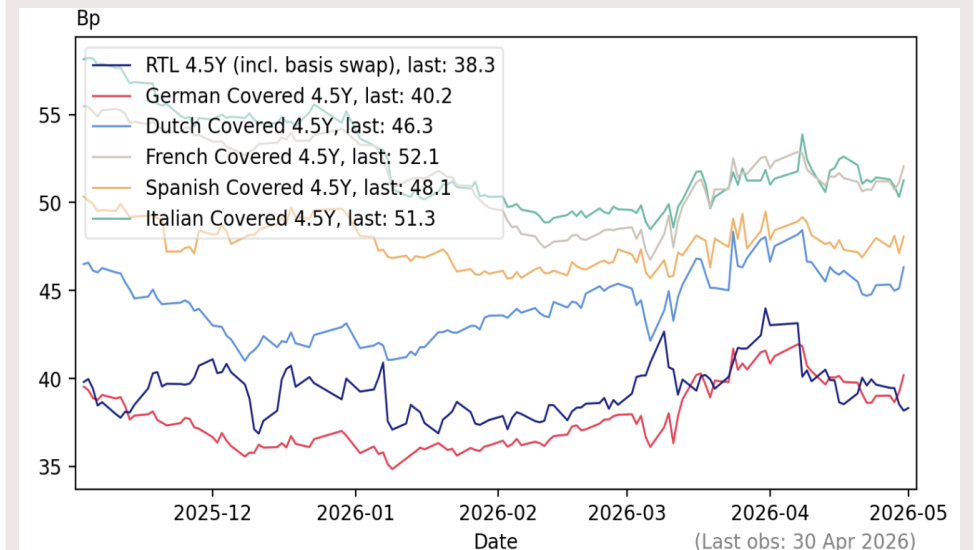
# Scope for spread widening in bullets this week

- Bullets performed around 1–2bp at the start of last week. Towards the end of the week, 5Y bullets then marginally underperformed again (–0.5bp), while 3Y bullets and 1Y bullets held steady.
- The bullets-DESTR spread curve thus continued to steepen last week, and 2Y-4.5Y bonds are almost back to the elevated level seen when it peaked at the start of April (16bp now vs 17bp in early April).
- Issuance of 5Y bullets continued in April, but we still expect a decline over the rest of Q2 (see also next slide).
- European covered bonds underperformed vs ESTR last week, which could argue that 5Y bullets should widen slightly this week.
- At the same time, we still expect the bullets spread curve to flatten at the end of the quarter.
- If 5Y bullets lose more value this week, we thus expect the shorter-dated bullets to begin widening.

**Bullets: Spreads vs DESTR**



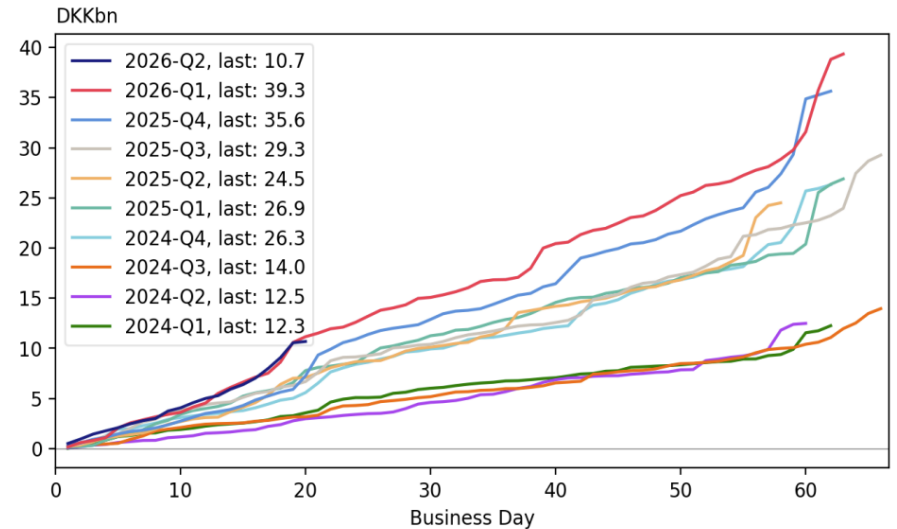
**Bullets and EUR covered bonds: Spreads vs ESTR**



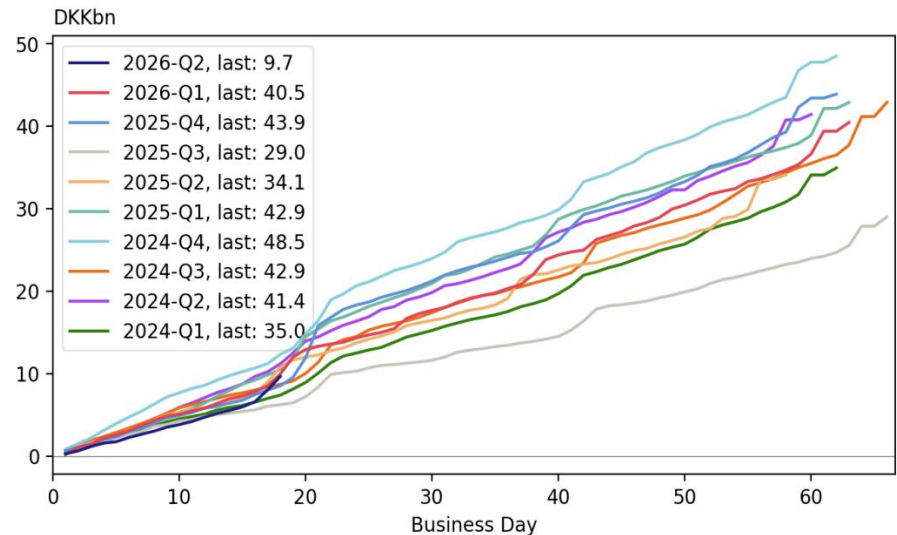
# Issuance – 5Y bullets still dominate

- So far, roughly the same amount of 5Y bullets has been issued in Q2 2026 as at the same time in Q1.
  - As expected, RD has issued fewer bullets, as they have no bullet maturing at the July payment date (and therefore has not been able to refinance ahead of the auctions).
  - NDA and DLR, by contrast, have issued slightly more.
- For the remainder of the quarter, we still expect lower 5Y bullets issuance.
  - Lower overall 5Y bullet maturities – and especially (originally) 5Y bullets – imply both lower offering of 5Y bullets at the refinancing auctions in May and prospects of a lower offering of 5Y bullets in connection with the end-of-quarter issuance in June.
  - In addition, we are now past the July payment date, which should lead to a lower offering of 5Y bullets related to fixed-to-variable refinancing.
- The issuance of callables slowed somewhat during March and remains at the low end.

5Y bullets issuance excl refi auctions (OMX-based)



Callables issuance (based on outstanding amounts)



# Recommendations

- Several of the recommendations based on our outlook for 2026 have been affected by the turmoil related to the war in the Middle East.
  - 4'56 vs 5'56 and 1.5'53 IO have outperformed over the past week due to spread widening in low-coupon bonds, which still look expensive.
  - With respect to bullets vs FRNs, we see limited downside and potential upside, as there is scope for FRN spreads to widen vs bullets up until the auctions.
  - We will continue to monitor the performance of all these recommendations until we publish our outlook for H2 2026.
- We maintain all our recommendations this week.
  - In addition, we open 5Y bullets + overlays vs callables.

## Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	0.01	0.00
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	-0.01	0.05
2026-01-12	RTL5 vs. RTL3	-0.01	-0.10
2026-01-15	RTL vs FRN	-0.00	-0.04
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	0.17	-0.52
2026-01-26	4'56 vs RTL5	0.00	-0.16

## Current recommendations

Opening date	Name	Return 5bd	Total return
2026-02-23	RTL5 vs. RTL1	-0.00	-0.04
2026-04-23	5'56 vs RTL	-0.07	-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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