

Fixed Income Update Week 21

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Refinancing auctions ahead!

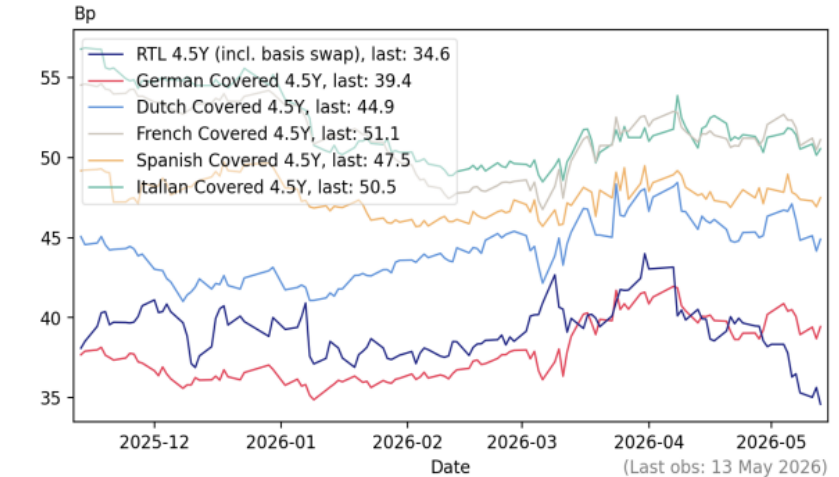
- This week marks the start of the refinancing of bonds maturing at the July payment date.
 - The bullet auctions start tomorrow (Tuesday, 19 May), with 1Y bullets, 3Y bullets and 5Y bullets up for auction, running until Friday (22 May).
 - The FRN auctions start on Wednesday (20 May) and run until next Thursday (28 May).
 - Our [auction calendar](#) provides the full details
- On Wednesday morning, we hosted a Teams presentation on the refinancing auctions, where we shared our views on expected volumes, issuance outlook and relative value.
 - Slides from the presentation are available [here](#)
 - A link to the recording of the presentation can be obtained upon request by contacting Nykredit Markets Fixed Income Sales or Research.
 - In addition, we discuss the auctions in our podcast, which is available [here](#)
 - Later on Wednesday afternoon, we published a research note outlining our expectations for OAS levels and reference rate spreads on the FRNs coming to auction.
 - The research note is available [here](#)
 - We will update our estimates for the reference rate spreads once the outcomes of Tuesday's bullets auctions are known.

Sum of Offer		DKKm						EURm	
		1Y	2Y	3Y	4Y	5Y	CF	FRN	FRN
19 May (Tue)	10:30 DK0009550865 (RTL 1 NYK H apr 27 SDO DK)	2,800							
	11:30 DK0009552218 (RTL 1 NYK H jul 31 SDO DK)					2,250			
	13:00 DK0009545196 (RTL 1 NYK H jul 29 SDO DK)			3,000					
19 May Total		2,800		3,000		2,250			
20 May (Wed)	10:00 DK0009419137 (FRN JRK E jul 30 SDO DK)							3,000	
	10:30 DK0009552721 (FRN NYK H jul 29 SDO DK)							13,400	
	11:00 DK0002065556 (FRN NDA 2 jan 30 SDRO DK)							6,375	
	11:30 DK0009552218 (RTL 1 NYK H jul 31 SDO DK)					2,250			
	11:45 DK0002065473 (FRN NDA 2 jan 30 SDRO DK)							275	
	13:00 DK0009545196 (RTL 1 NYK H jul 29 SDO DK)			3,000					
	TAP DK0009534315 (RTL 1 NYK H jul 27 SDO DK)	200							
	DK0009542334 (RTL 1 NYK H jul 28 SDO DK)		650						
20 May Total		200	650	3,000		2,250		23,050	
21 May (Thu)	10:30 DK0009552648 (FRN NYK H jul 29 SDO DK)							11,300	
	11:30 DK0009552218 (RTL 1 NYK H jul 31 SDO DK)					2,250			
	13:00 DK0009548539 (RTL 1 NYK H jul 30 SDO DK)				850				
21 May Total					850	2,250		11,300	
22 May (Fri)	10:30 DK0009552564 (CF NYK H jul 34 SDO DK)						650		
	11:30 DK0009552218 (RTL 1 NYK H jul 31 SDO DK)					2,250			
22 May Total						2,250	650		
26 May (Tue)	11:00 DK0004634425 (FRN RD T Jul 30 SDRO DK)							9,000	
	TAP DK0004634698 (FRN RD T Jul 29 SDRO EU)								30
26 May Total								9,000	30
27 May (Wed)	10:30 DK0006363049 (FRN DLR B jul 31 SDO DK)							9,300	
	11:00 DK0004634268 (FRN RD T Jul 30 SDRO DK)							8,300	
	12:30 DK0004629508 (FRN RD T jul 28 SDRO DK Green)							2,000	
	TAP DK0006362660 (FRN DLR B jan 31 SDO DK Green)							250	
27 May Total								19,850	
28 May (Thu)	11:00 DK0004634342 (FRN RD T Jul 30 SDRO DK Green)							12,400	
28 May Total								12,400	
Total		3,000	650	6,000	850	9,000	650	75,600	30

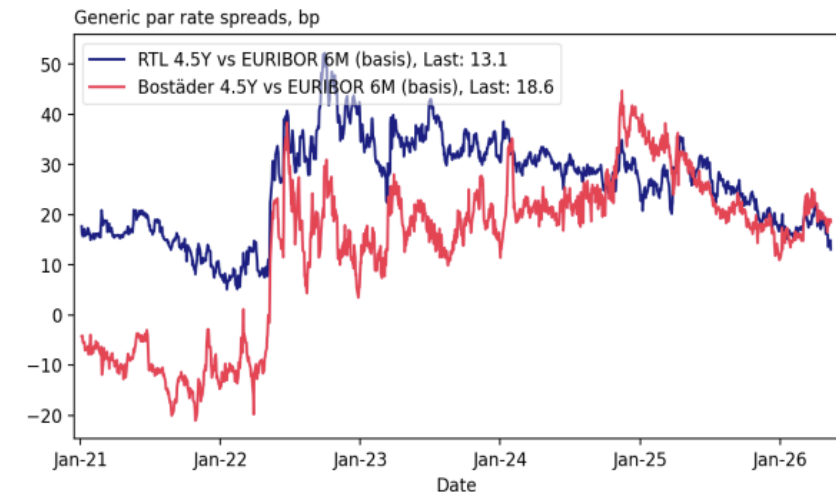
Bullets: Expensive!

- Bullets have delivered solid performance since the beginning of April.
 - This partly reflects a broader tightening of credit spreads, which has also supported performance in EUR covered bonds, Swedish Bostäder etc.
- Since the beginning of May, the continued performance has, however, left bullets looking relatively expensive.
 - This effect is more pronounced in the 3-year segment than in the 5-year bullets.
 - As also discussed in connection with our coverage of the refinancing auctions (see previous page), a relative value perspective thus suggests that bullets will have to widen slightly at the auctions (3Y bullets more so than 5Y bullets).
- The limited bullet auction volumes could mitigate the extent of any correction.
 - That said, the outlook for continued solid issuance of 5Y bullets for the rest of the year, combined with an auction offering dominated by 3-4 year FRNs, argues in favour of some spread widening.
- On Wednesday, bullets continued their performance (around 0.5bp). This morning, however, they have given back a similar amount, with both credit spreads and volatility higher than on Wednesday.
 - We see this as a sign that auction clearing levels may need to come out slightly wider in spread terms.

RTL and EUR covered bonds: Spread to ESTR



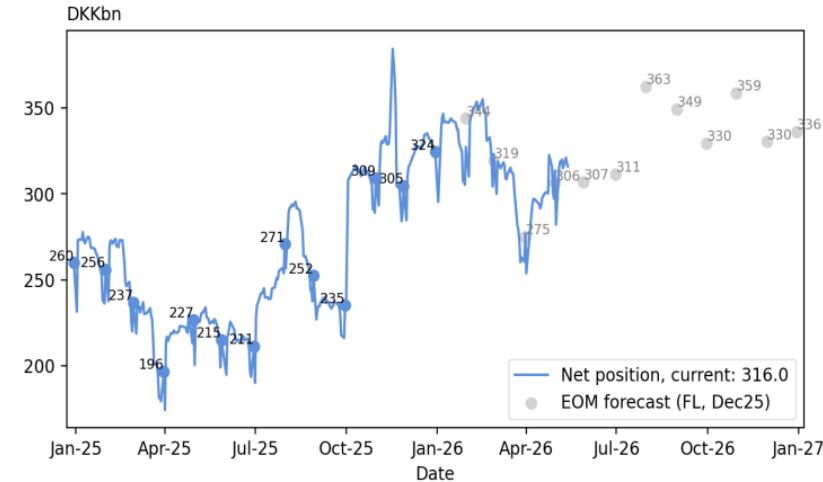
YCS: RTL vs Bostäder



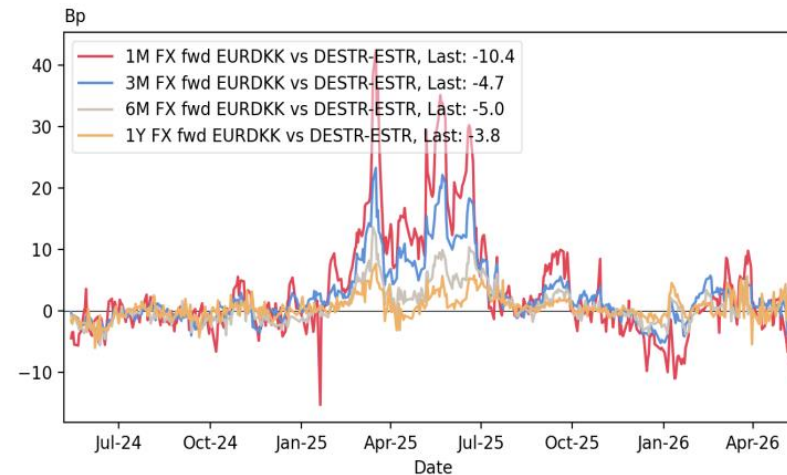
Net position and FX forwards

- The net position once again exceeded DKK 300 billion in April, and – apart from a few days around month-end – the prospect is that it will remain above DKK 300 billion for the rest of the year.
- In the second half of the year, the level could even rise further to around DKK 330-360 billion.
- This outlook is partly based on the Economic Survey/Fiscal Budget for 2026 published in December. However, due to the ongoing negotiations on government formation, it remains unclear when we will receive an updated estimate of, among other things, the central government's net financing requirement, which would normally be presented in the May edition of the Economic Survey.
- Against the backdrop of the higher net position, we have observed signs of liquidity abundance in FX forwards – broadly similar to the situation around the turn of the year.
 - Currently, the implied difference between DK and EUR interest rates in FX forwards is around 10bp below DEST/ESTR on a one month horizon.
 - This may also have contributed to the recent tailwinds experienced by bullets.

Danish Central Bank, Net Position forecast



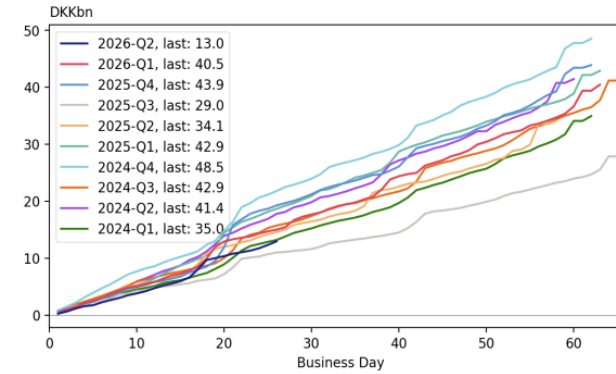
FX Forward EURDKK vs DEST-ESTR



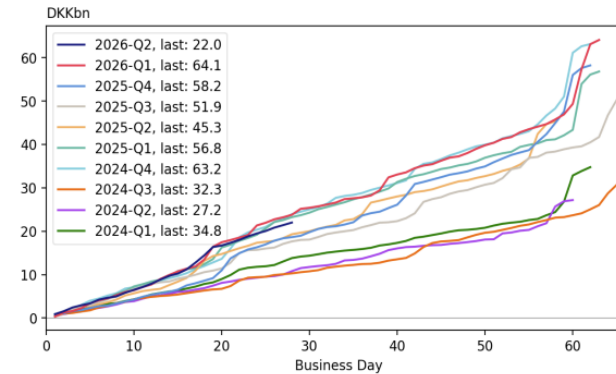
Issuance

- Overall, there have been no major changes in issuance patterns in the second quarter.
 - Issuance of callables (MBB) is, however, running slightly below first-quarter levels – mostly likely attributable to a lower volume of prepayments ahead of the July payment date compared with the April payment date.
 - Issuance of bullets (MTG) is marginally lower than at the same point in the first quarter. This may be related to a reduced amount of refinancing taking place outside the auctions. At the same time, the comparison is likely influenced by the timing of the refinancing auctions, which are typically held earlier in the first quarter.
 - Issuance of FRNs is running slightly above the level seen at the same point in the first quarter and has recently gathered a bit more momentum. A modest shift in issuance, from bullets towards FRNs, would be fully in line with our expectations.
- One of the key issuance-related watch points at present is the outlook for a sizeable maturity of 5Y bullets at the January and April payment dates in 2027, and the resulting issuance of 5Y bullets.
 - This is expected to support continued growth in the outstanding amount of 4-5Y bullets towards the end of the year.
 - We also addressed this topic in our presentation on the refinancing auctions (see above).

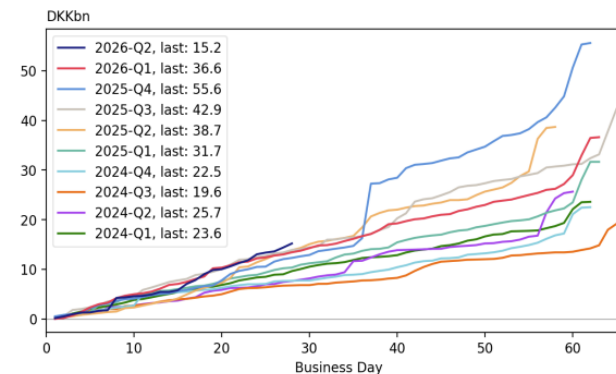
MBB: Iss. Net of Refi Auctions (CIRMIL)



MTG: Iss. Net of Refi Auctions (OMX)



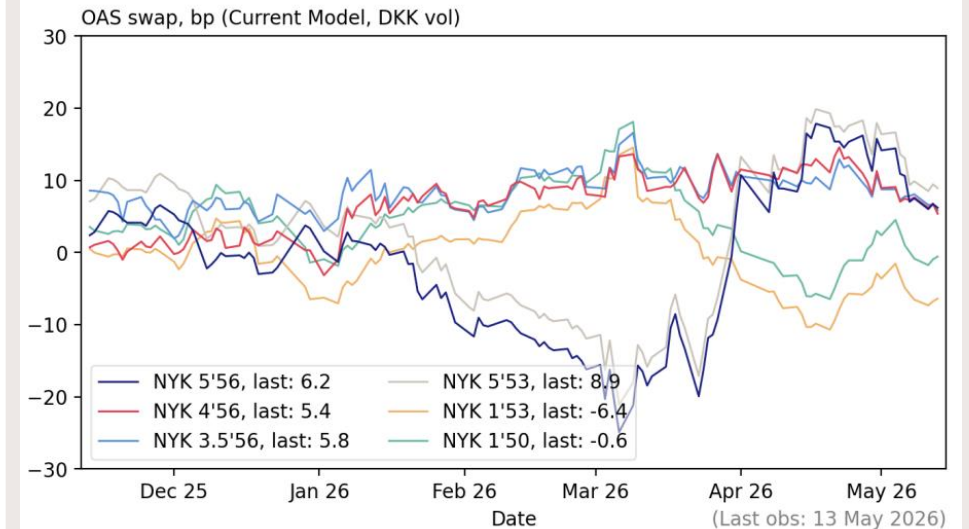
BOLIGX: Iss. Net of Refi Auctions (OMX)



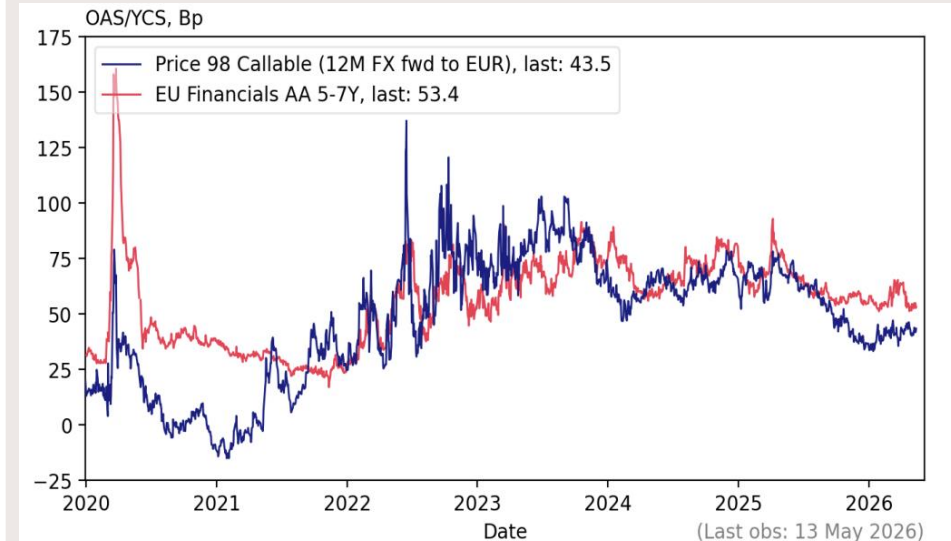
Callables: Expensive!

- Callables continued to deliver performance last week, and for now this momentum also appears to be carrying over into today.
- OAS performance is, however, extremely clear when measured against swaps, while OAS performance vs government bonds has been more restrained.
- The narrative that Danish bonds remain in strong demand, is further reinforced by a comparison with credit markets, where the more expensive pricing of callables stands out clearly, as illustrated in the bottom chart.
- This week is expected to be dominated primarily by FRNs, driven by the ongoing refinancing auctions.
- During the recent Ascension Day holiday period, both volatility and interest rates moved higher, and this provided additional tailwinds for callables, as screen prices have not adjusted sufficiently lower, causing OAS to tighten – at least initially.

30Y Callables: OAS Swap



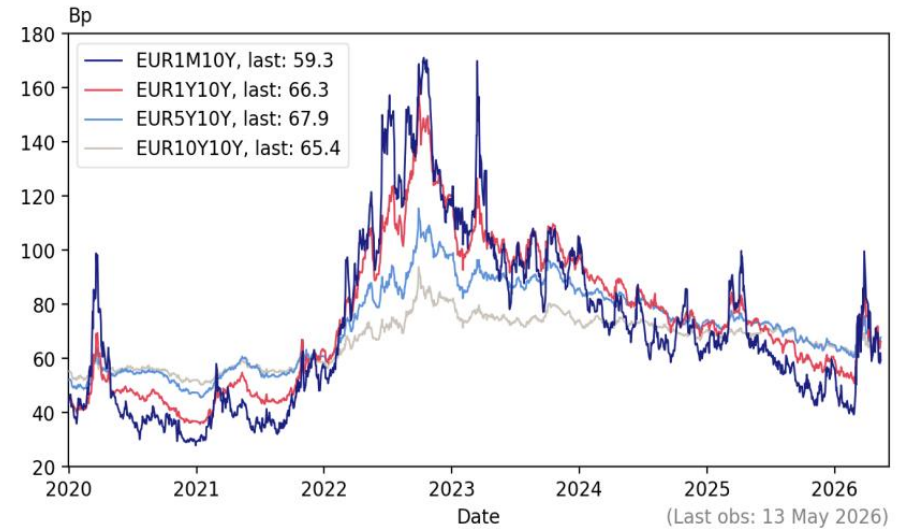
Spread to swap: Callables and European Credit



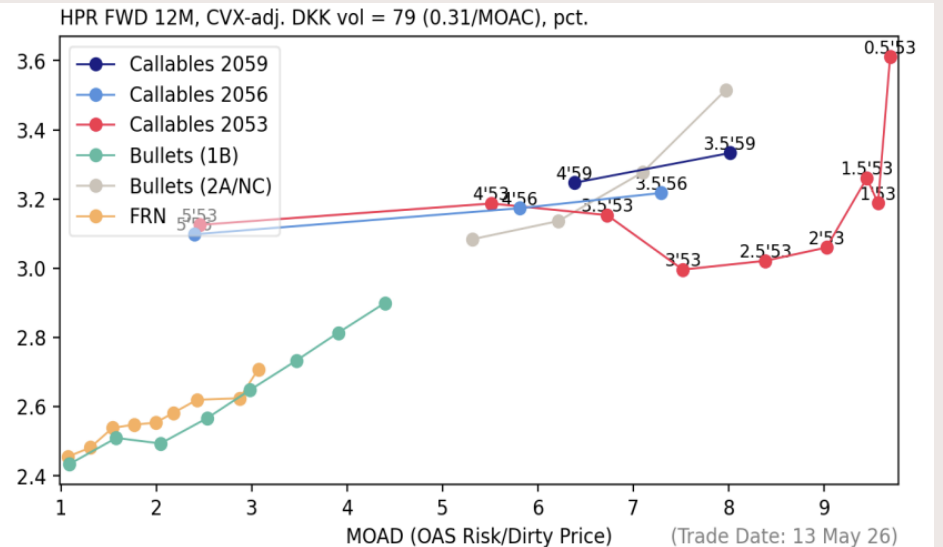
Callables II

- The higher level of quoted volatility implies a larger convexity adjustment.
- If quoted volatility is applied in this adjustment, the HPR on callables is not much higher than that of the very long-dated bullets.
- If the volatility adjustment is instead based on realised volatility, callables continue to enjoy a comfortable lead over bullets, even though realised volatility has also increased, driven by the interest rate changes triggered by the war.

Implied Volatilities



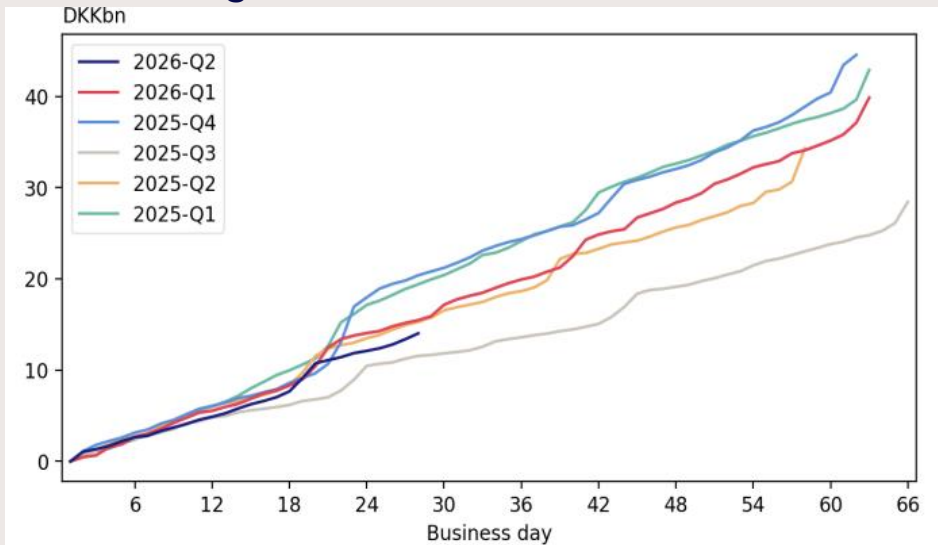
HPR FWD 12M (DKK vol), CVX-adj by vol level



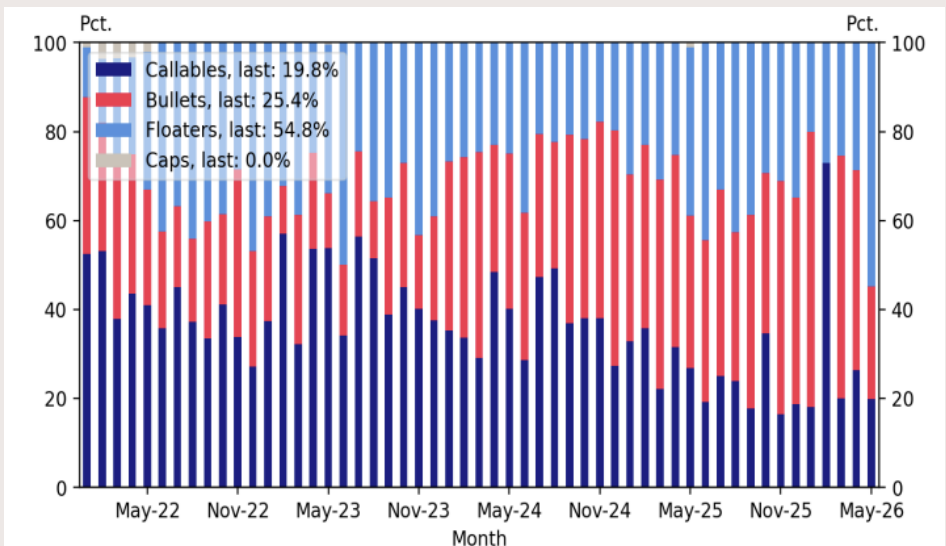
Callables III

- The July prepayment deadline at the end of April led to the usual pick-up in issuance of callables. Since then, however, issuance has fallen back and now sits at the lower end for Q2 compared with what we have seen in recent years.
- The distribution across the different types of loans may help illustrate how callables can continue to deliver solid performance.
- Callables have gone from accounting for close to half of total issuance to representing around 20% today.

Callables: Acc gross issuance (CIRMIL)



Composition of issuance by month (Outst)



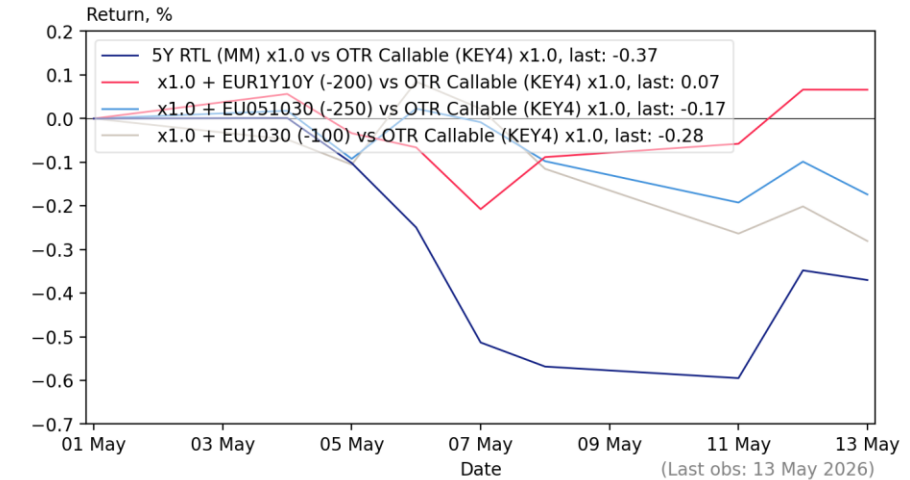
Recommendations

- Overall, there have been no major changes to our recommendations over the past week.
- We continue to see more value in the long-dated bullets than in the shorter ones, and in 5% callables relative to bullets.
- At the current levels, we still prefer 5Y bullets (combined with overlays) over callables.
 - Overall, the recommendation has so far moved sideways with small up or down moves depending on the overlay. However, the risk of spread widening appears greater in callables than in 5Y bullets.

Current recommendations

Opening date	Name	Return 5bd	Total return
2026-02-23	RTL5 vs. RTL1	-0.00	-0.02
2026-04-23	5'56 vs RTL	0.26	0.31

RTL5 vs OTR callable incl swap/swaption overlay



Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	0.04	0.02
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.01	0.09
2026-01-12	RTL5 vs. RTL3	0.01	-0.08
2026-01-15	RTL vs FRN	-0.04	-0.04
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.08	-0.27
2026-01-26	4'56 vs RTL5	0.12	0.15

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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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