

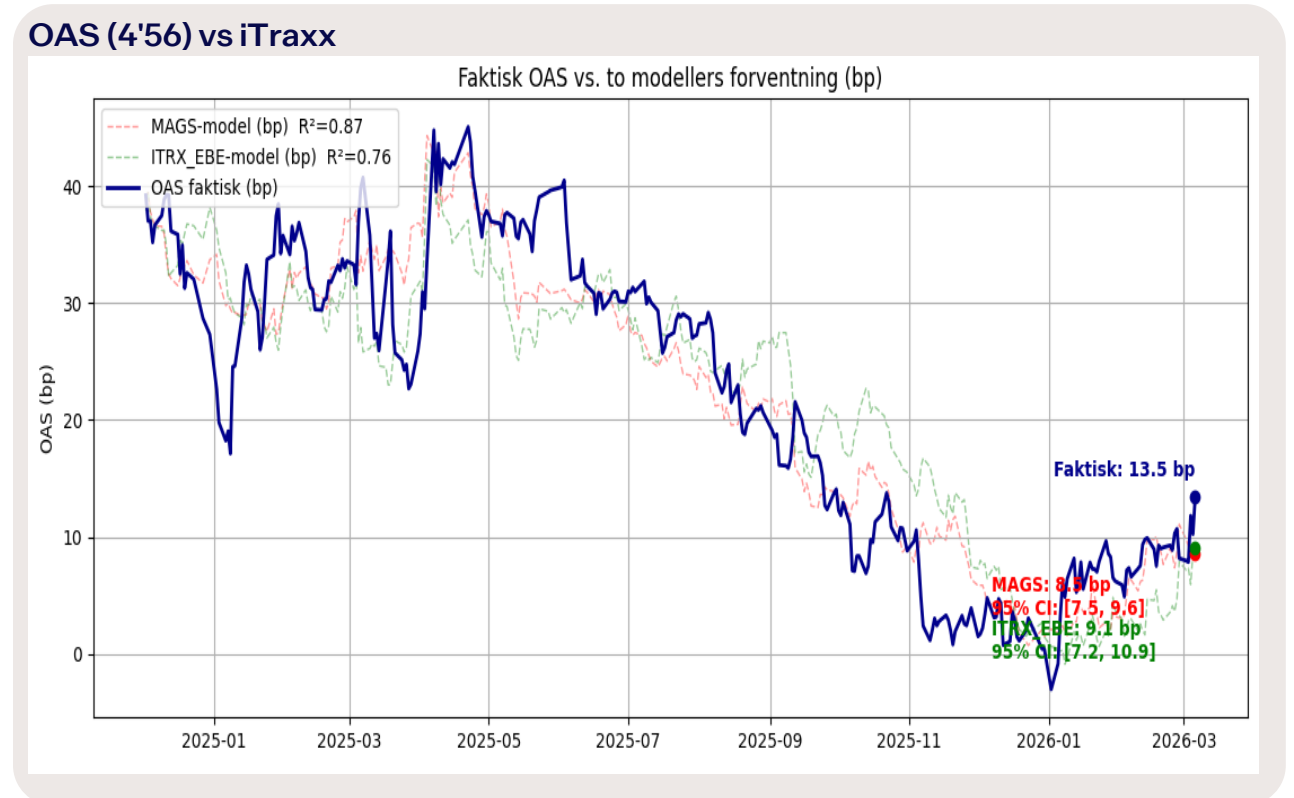
Fixed Income Update Week 11

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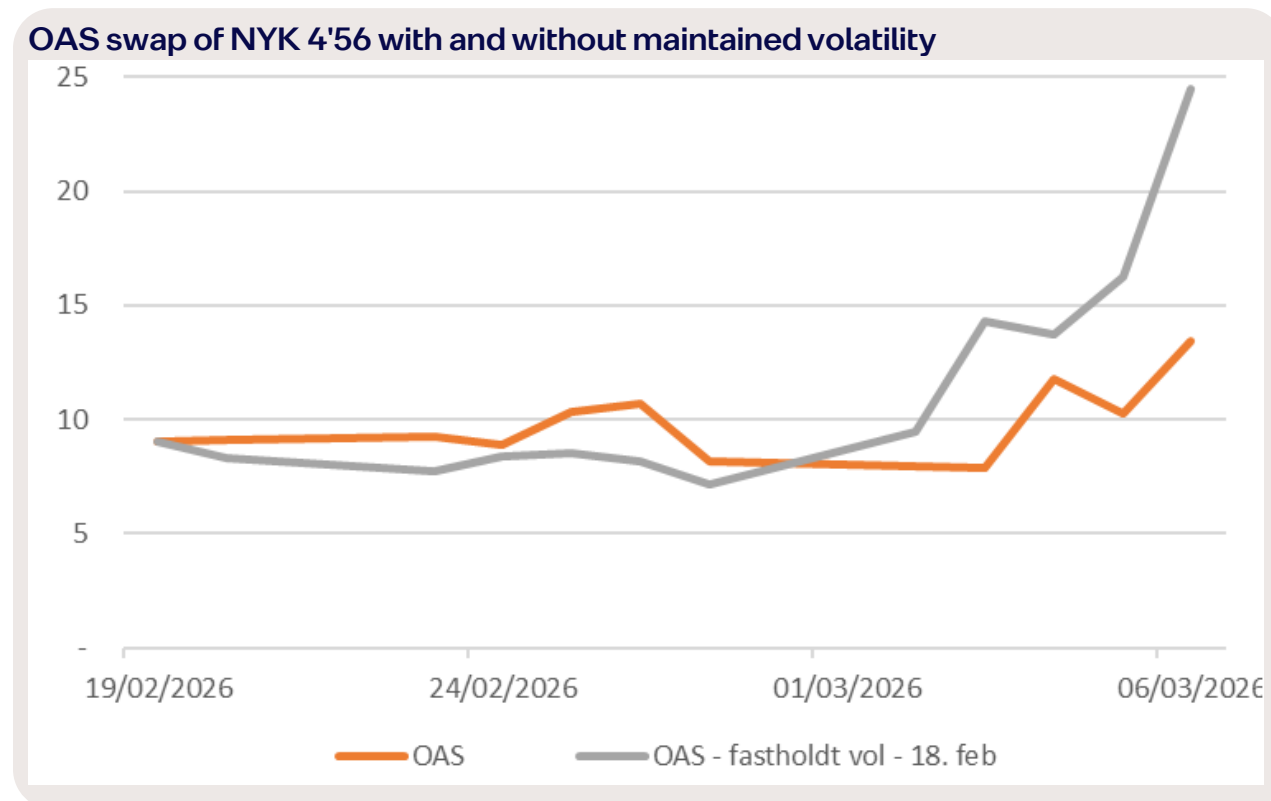
Have callables become marginally cheaper?

- Severe OAS widenings on Thursday and Friday last week.
- Callables trade marginally on the cheap side relative to yields, volatility and iTraxx.
- This morning brought sharp increases in yields and volatility.
- Higher volatility will be priced into callables over the coming days.



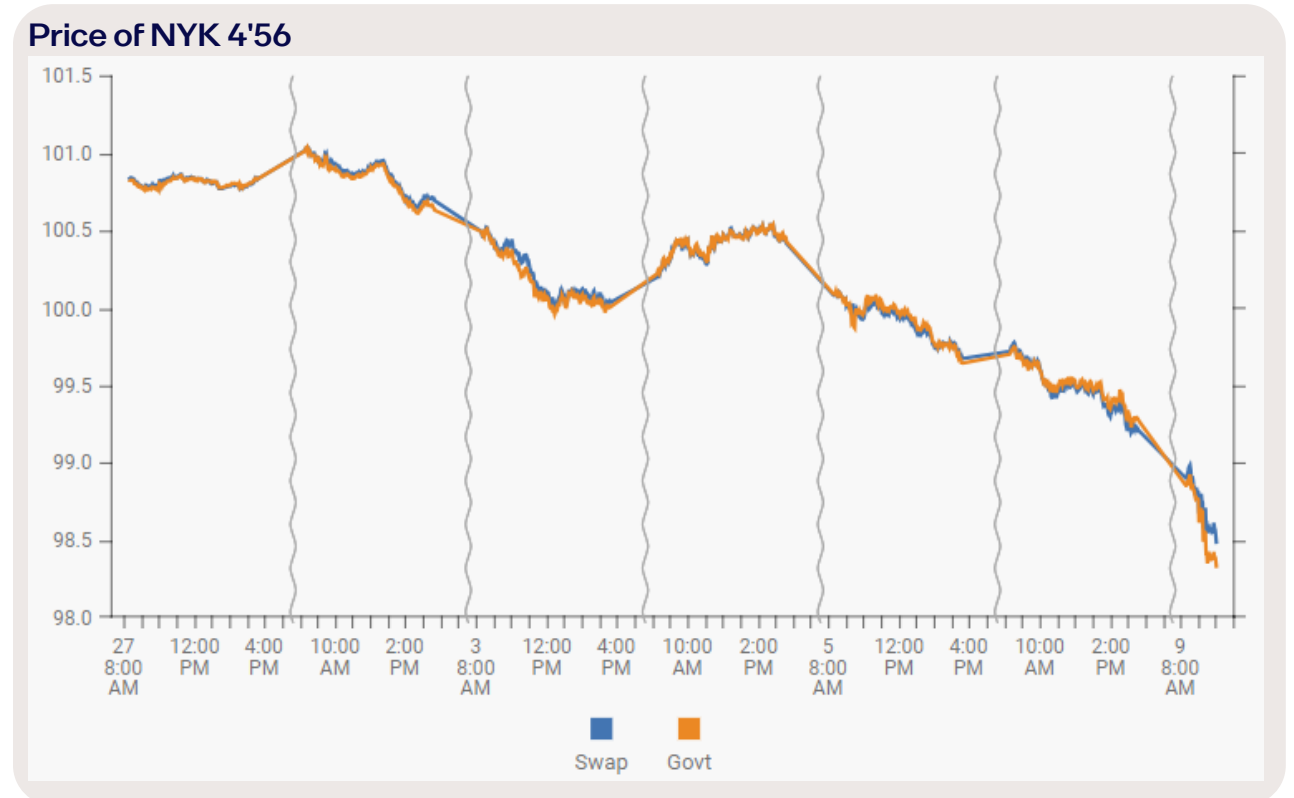
Short-term volatility surge beginning this morning

- This morning's increase in short-term volatility (EUNE110) from 63.6 to 76.1 (19.65%) ranks among the largest percentage increases ever recorded.
- Short-term volatility, however, has only a modest impact on callables, whose volatility exposure typically lies in longer expiries.
- The exceptionally sharp rise in short-term volatilities will therefore only affect callables if it feeds through into longer-term volatility.
- If we hold volatility at the level seen immediately before the outbreak of the war, the OAS on a 4'56 would be nearly twice its current level.



Significant price drops in callables last week

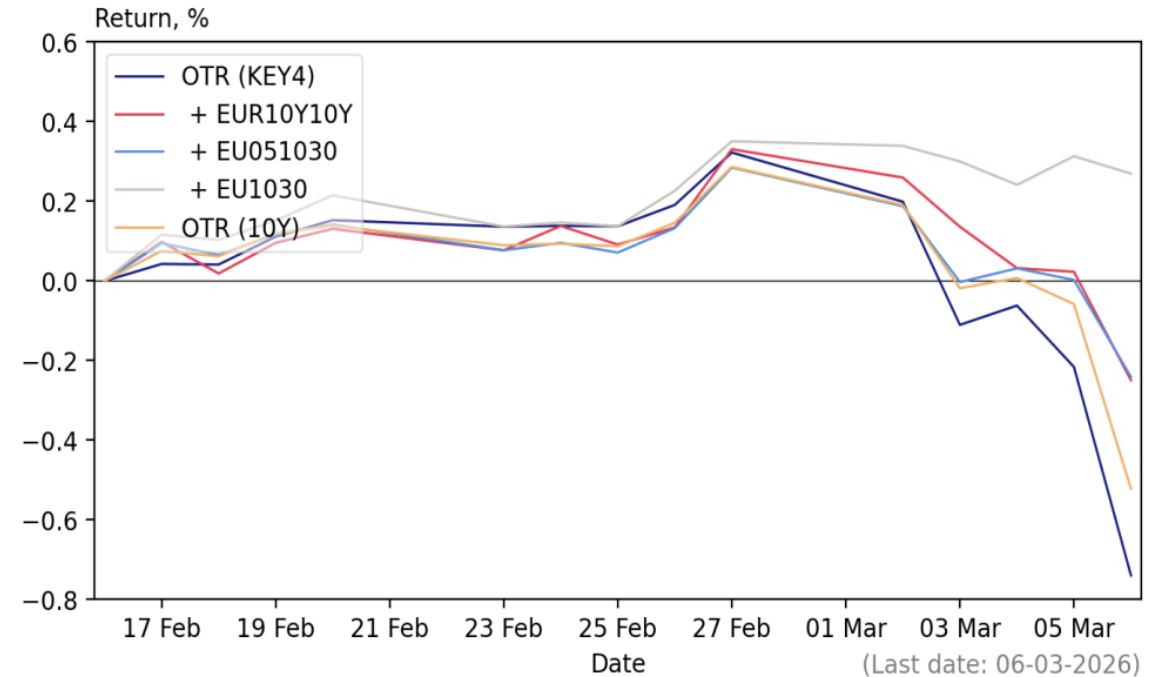
- 4'56 has declined from a price of roughly 101 at the beginning of last week to its current level of 98.5.
- A price drop of DKK 2.5 within just a week is exceptionally rare.
- We are, however, still some distance from seeing a new 5'59 bond being opened, as such an issue would currently price at around 102.5.
- It is not customary for issuers to open half-coupon bonds when coupon levels are above 4%.



Swap-swap-swaption?

- In recent weeks, we have been looking at the possibility of hedging volatility, CVX and OAS in callables using swap overlays (read [here](#) and listen [here](#)).
 - EU051030 (a swap barbell) and EU1030 (a 10-30 curve-flattener) have, over the past decade, been able to enhance the risk/reward ratio of OTR callables to a degree comparable with an EUR10Y10Y (ATM swaption straddle).
 - These three overlays are more effective at hedging low-frequency than high-frequency fluctuations in financial markets, and they have primarily proved beneficial during periods of substantial market turbulence (notably in 2020-2022).
 - Their ability to hedge day-to-day movements during shorter episodes of financial market unrest is more mixed.
- Over the past week, the 10-30 curve-flattener has been highly effective in hedging the losses experienced by a delta-vector-hedged OTR callable bond – compare the dark-blue and grey lines in the chart.
 - The EU051030 and EUR10Y10Y overlays have also provided solid support, though at roughly half the magnitude (light-blue and red lines, respectively).

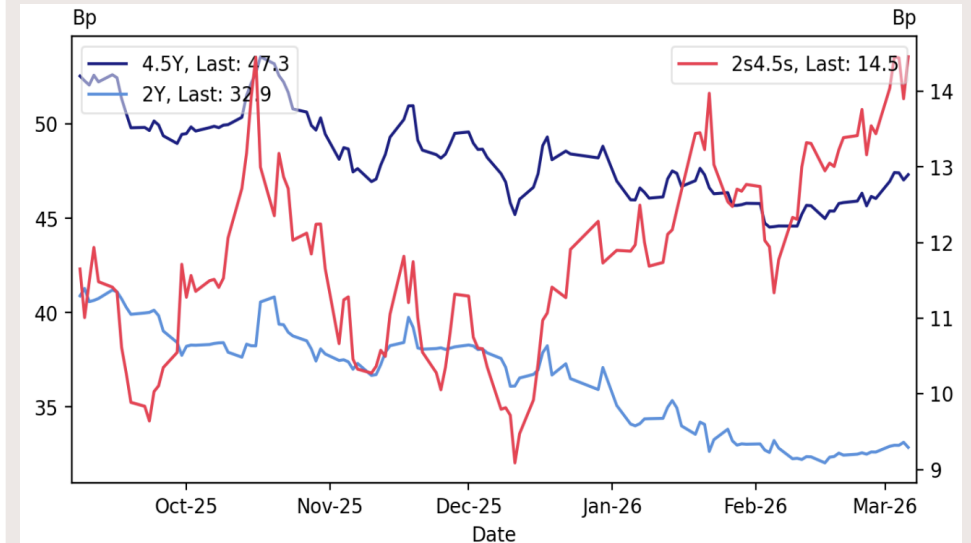
OTR Callable with KEY4 + Overlays



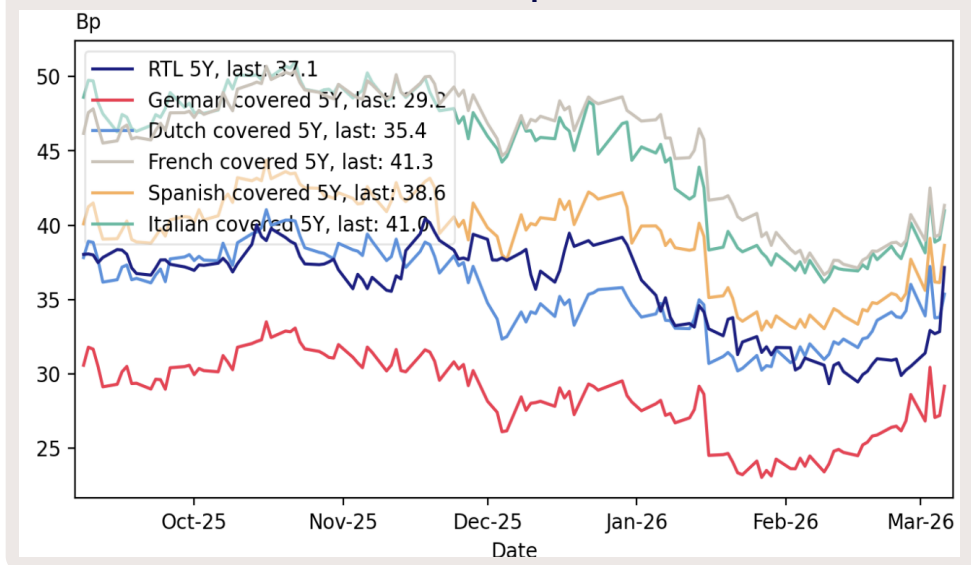
No escape for bullets

- Bullets have been losing ground since the middle of last week.
 - The most pronounced spread widening occurred in 5Y bullets, and the bullets spread curve has therefore steepened further.
- Longer-dated bullets also underperformed relative to comparable European covered bonds (vs government bonds).
- Although continued losses in European covered bonds this week are likely to spill over into the bullet segment, we expect the impact to be more limited than last week.
- Should the downturn in the equity market persist, some investors may be forced to sell part of their bond holdings to post additional collateral on their equity futures positions.
- Such selling would likely concentrate at the short end of the curve and could place pressure on 1Y bullet spreads this week.
- We already considered 1Y bullets to be expensive, and we had expected spread widening as net positions decline — the recent developments have not improved our outlook for these bonds.
- Over the longer term, lower issuance continues to favour 5Y bullets, and at current price levels they appear cheap relative to both shorter bullets, European covered bonds and callables.
- We still prefer longer-dated bullets over shorter ones.

Bullets: Spreads vs DESTR



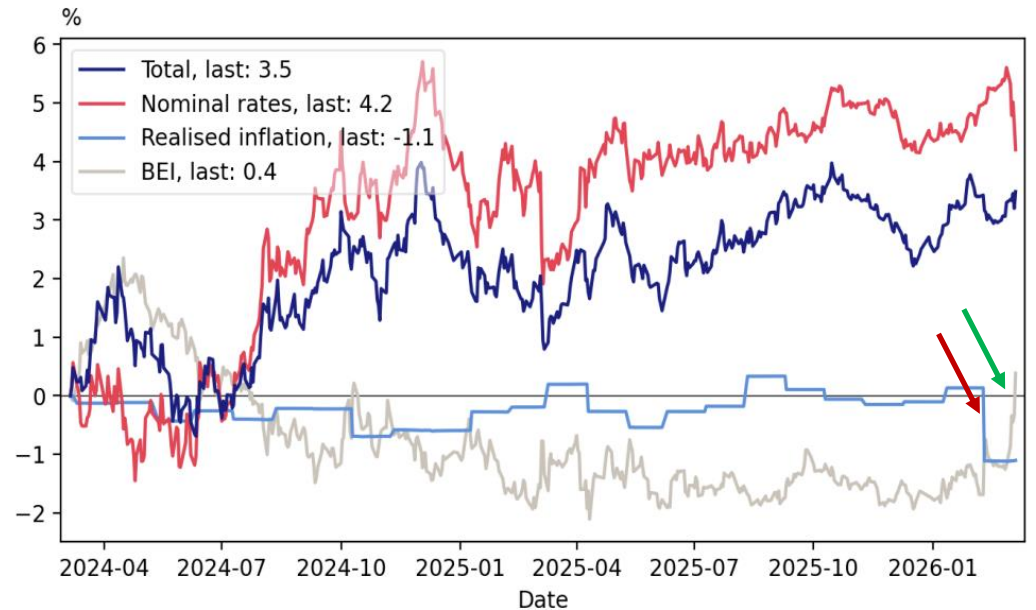
Bullets and EUR covered bonds: Spread vs DGB/DBR



Linkers are making a return

- The DGBi'30 has been on something of a roller-coaster ride recently.
- Towards the end of 2026, it enjoyed a strong spell relative to nominal government bonds, driven by low and rising breakeven inflation.
- Following the low Danish inflation in January 2026 – primarily the result of reductions in electricity taxes – the bond subsequently lost ground again (as illustrated by the red arrow in the chart).
- In connection with the recent turmoil and oil price increases – which have broadly raised inflation expectations – BEI has risen from around 1.40 to about 1.75, and the DGBi'30 has performed decently (see the green arrow).

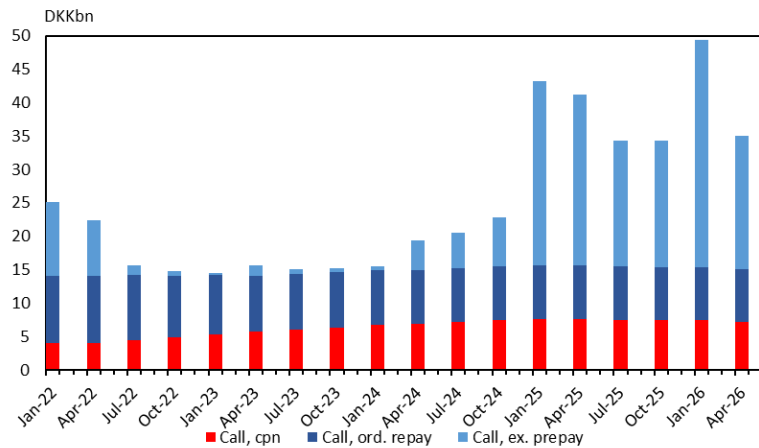
Decomposed return on DGBi'30 (seasonally adjusted BEI)



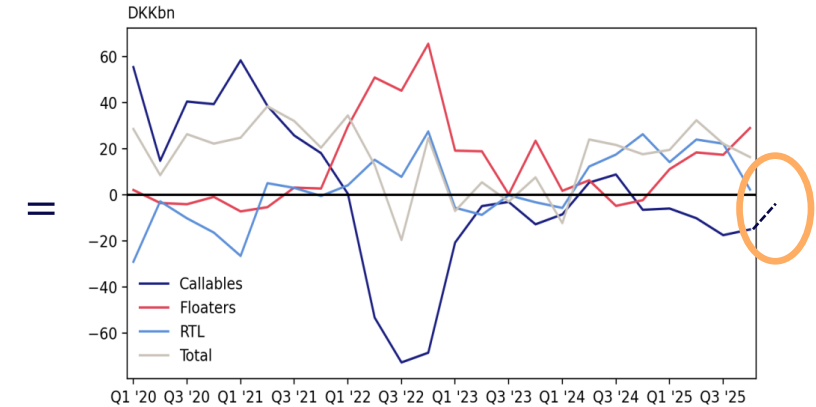
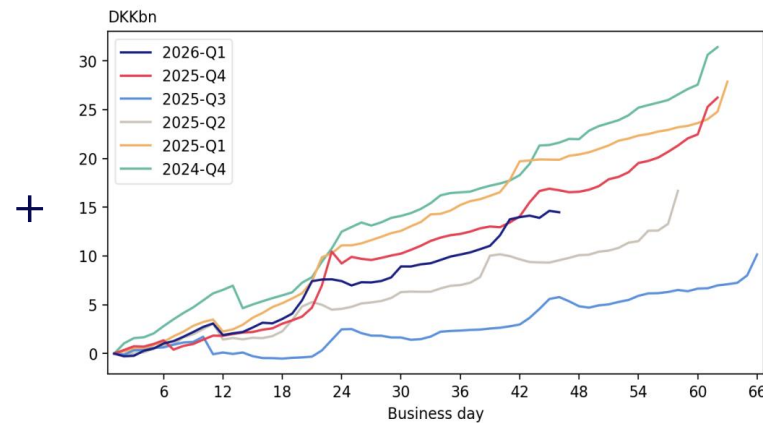
Callables continue to shrink – although less so than in 2025!

- Callables are still on track for a positive net issuance during Q1 2026 (issue minus buyback) of DKK 20-25 billion.
- With total prepayments and principal payments of about DKK 28 billion at the April payment date net issuance for the quarter as a whole will be in the range of DKK -3 to -8 billion.
 - It is (in absolute terms) somewhat less than the net issuance in the range of -16 to -18 billion seen in the last two quarters.

Prepayments back at the level from Q2-Q3 2025



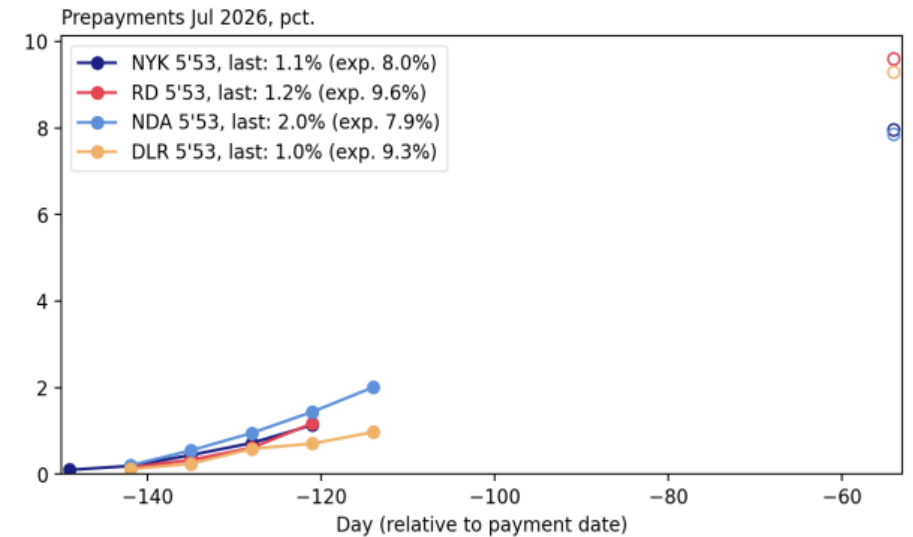
Current net issuance unchanged compared to Q4 2025. Callables segment is shrinking at lower pace ...



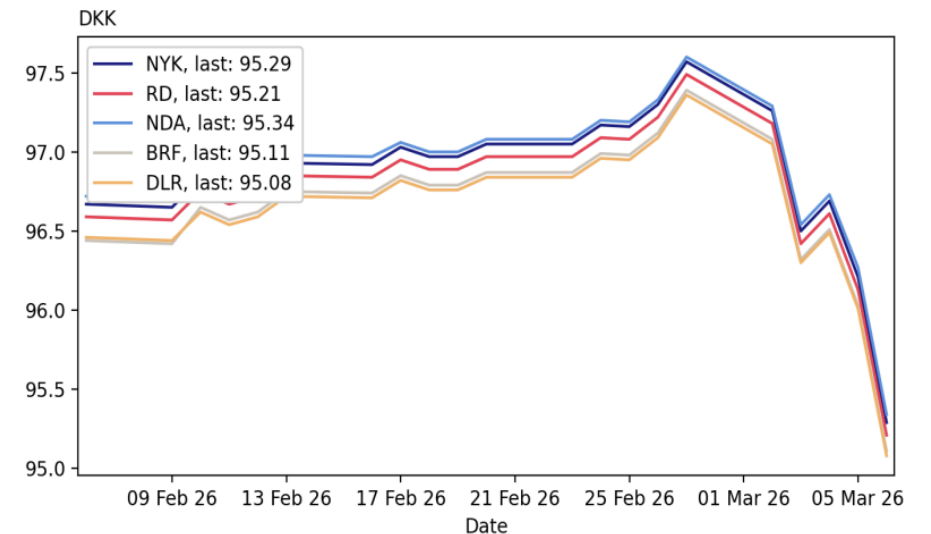
CK93: The level of excitement is now clearly manageable

- Where the price of 3.5'56 A had, up to and including the previous week, approached 97.5 – ie the level that gave a boost to prepayments in 5% bonds at the January payment date – it quickly went the other way last week.
 - Today, the price is ticking down further, currently at just over 94.5.
- With the prepayment deadline at the end of April – and with plenty of scope for things to change before then – it is fair to say that we are, at present, a long way from a situation where July prepayments become problematic for 5% bonds.
- We have therefore opted not to wait for CK93 data from all issuers this week. The data we have (NDA, DLR and BRF) do not indicate that anything essential has occurred.

Preliminary prepayments in 5'53 A (%)



The price of 3.5% bonds has moved away from attractive



The large May FRN auction is set to be less substantial than expected ...

- On balance, FRNs of DKK 91 billion will mature at the July payment date.
 - In 2023, 2024, and 2025, bonds maturing at the July payment date came to DKK 115-130 billion.
 - The decline reflects issuers' efforts to reduce the size of prepayments – by (re)financing FRN loans with (slightly) longer-dated FRNs.
 - The size of prepayments is on a par with 2022.
- What will be issued?
 - NYK is issuing two Cita 6M FRNs Jul29 plus a Cibor 6M capped floater Jul34 (cap of 5%).
 - We do not yet know anything further about the other issuers.

Next payment date: 01-07-2026

Floater maturity (DKKm)

Issuer	Total	CITA 3M	CITA 6M	CIBOR 3M	CIBOR 6M
NYK	28,465	0	28,465	0	0
RD	39,607	0	11,052	0	28,556
NDA	8,070	0	0	0	8,070
BRF	4,264	0	0	4,264	0
DLR	10,556	0	3,359	0	7,197
LRF	0	0	0	0	0
Total	90,962	0	42,876	4,264	43,822

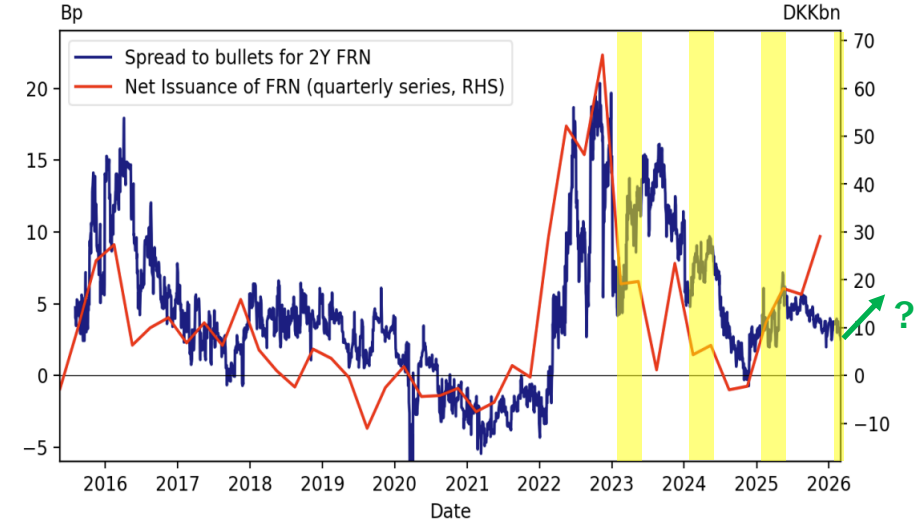
RTL Maturity (DKKm)

Issuer	Total	1Y	2Y	3Y	4Y	5Y	6Y+
NYK	34,501	893	878	8,297	2,013	22,419	0
RD	0	0	0	0	0	0	0
NDA	0	0	0	0	0	0	0
BRF	1,136	1,136	0	0	0	0	0
DLR	0	0	0	0	0	0	0
LRF	0	0	0	0	0	0	0
Total	35,637	2,030	878	8,297	2,013	22,419	0

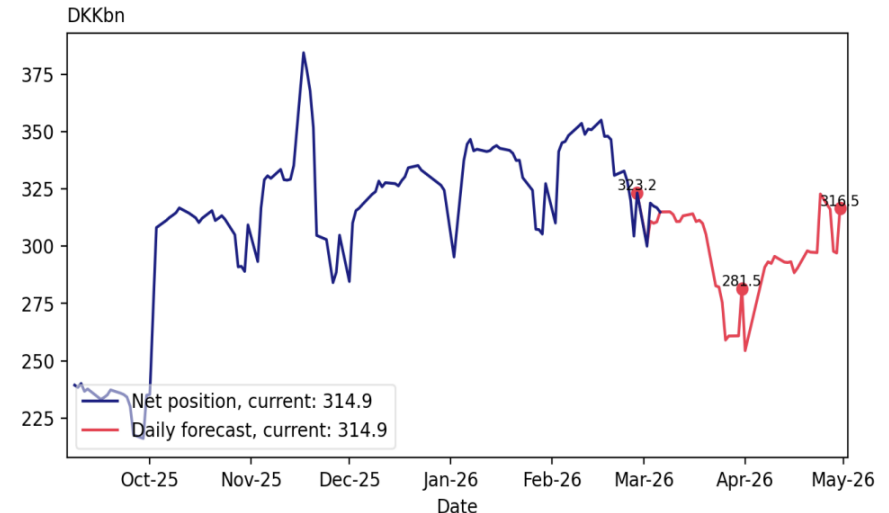
Seasonality in FRNs?

- FRN has held up well relative to bullets during the current turmoil.
- However, we are approaching the time in the spring at which, in recent years, we have seen widening of the FRN-bullets spread (see top chart).
 - This may be due to the large FRN auctions in May approaching and/or the net position declining at this time of year.
- This time, the net position is not set to be distinctly low (see bottom chart), and the large May auctions are not as large as they have been previously (see above).
 - Nevertheless, we see a possibility/risk that FRNs could widen slightly vs bullets in March/April.

FRN spreads to RTL and Net Issuance



Danish Central Bank, Net Position forecast



Recommendations

- Our recommendation of 4'56 vs 5Y bullets has performed better over the last week than one might have feared.
 - What the 4'56 loses in terms of volatility is largely offset by a gain relative to 5Y bullets due to the curve flattening we have seen. The recommendation has been moderately loss-making from the OAS movements.
 - We maintain this recommendation.
- Our recommendation of 4'56 vs 5'56 and 1.5'53 IO has been loss-making due to OAS, curve, and volatility.
 - The current turmoil does not change the fact that we see greater value in 4'56.
- The current turmoil – and resulting increases in inflation expectations – has given DGBi'30 quite a comeback!
 - We take profit and close this recommendation.
- Our recommendations of 5Y bullets vs 3Y and 1Y bullets continue to be slightly loss-making.
 - We still see value in both recommendations and maintain them.
- We are no longer positive on 1Y bullets after developments over the past week, and we therefore also maintain our recommendation of DESTR vs swap.
 - The recommendation is an expression of our view that 1Y bullets are too expensive. Investors looking to put money to work, should 5Y bullets (see above).

Open recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	-0.01	0.02
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	0.01	0.06
2025-12-15	DGBi'30 vs DGB'29 and DGB'31	1.42	0.97
2026-01-12	RTL5 vs. RTL3	-0.02	-0.08
2026-01-15	RTL vs FRN	-0.03	-0.07
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-1.09	-0.80
2026-01-26	4'56 vs RTL5	-0.30	0.06
2026-02-23	DESTB vs. RTL1	-0.00	-0.02
2026-02-23	RTL5 vs. RTL1	-0.01	-0.03

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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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