

End-of-month issuance and reinvestment performance

Unlikely to turn into the summer party one might have hoped for

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Marketing communication

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- We expect end-of-month issuance of DKK 15-17 billion with an overweight of bullets, slightly fewer FRNs and very few callables.
- Bullets appear expensive, and the spread impact from the payment date will depend on developments in the outright interest rate level and the resulting liquidity conditions
- We do not expect significant reinvestment performance in callables this time around

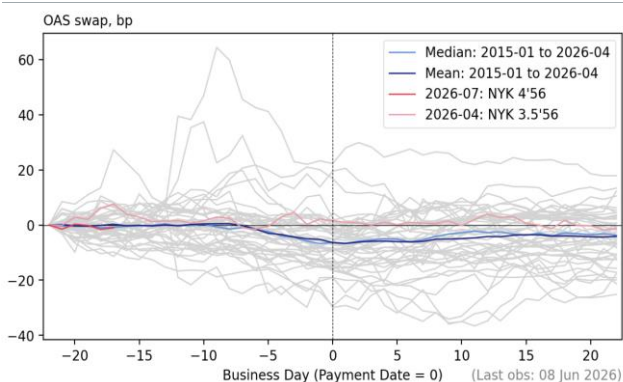
About DKK 23 billion remains from prepayments, as well as bullet and FRN maturities, which were not refinanced at the May auctions. Part of this amount will already have been absorbed through tap issuance, and we expect end-of-month issuance of DKK 15-17 billion, distributed across DKK 7-9 billion in bullets, DKK 6-8 billion in FRNs and DKK 1 billion in callables. Whether bullets will lose the usual 1-2bp in connection with the end-of-month issuance, followed by a subsequent reversal, will largely depend on whether the liquidity abundance and the higher outright interest rates continue through to month-end. In the callables segment, we do not expect any significant reinvestment performance due to the already high pricing and less negative net growth in the segment.

We expect most bullets in the end-of-month issuance

Expected end-of-month issuance	
Bullets	DKK 7-9 billion
FRNs	DKK 6-8 billion
Callables	DKK 1 billion
Total	DKK 15-17 billion

Source: Nykredit Markets

We do not expect any reinvestment performance in callables ahead of 1 July



Reinvestment performance in OTR callables.

Source: Nykredit Markets

Prepayments and outstanding refinancing

Prepayments towards 1 July will amount to only DKK 11 billion. In addition, about DKK 35 billion of bullets will mature on 1 July, of which only DKK 19 billion were refinanced at the recently concluded May refinancing auctions. Assuming that about 85% of the bullet maturity needs to be refinanced, this leaves an outstanding amount of approx DKK 11 billion.

The refinancing percentage for FRNs was high overall at 86%. However, RD and JRK each had an FRN with a refinancing percentage of 75% (a Cita FRN and a Cibor 3M FRN, respectively), which is on the low side and implies that there may be an outstanding amount of DKK 1-2 billion from this segment.

Thus, there is around DKK 23 billion in total that could potentially be absorbed by the end-of-month issuance, on top of the ordinary end-of-month issuance from housing transactions with date of possession on 1 July. We expect the end-of-month issuance to take place over Friday 26 June and Monday 29 June.

Expected end-of-month issuance

Some of the outstanding amount will have been absorbed by the tap issuance, driven by prepayments under fixed-price agreements and refinancing outside the auctions. We therefore expect an end-of-month issuance of DKK 15-17 billion.

Similar to the March end-of-month issuance, we expect an overweight of bullets, slightly fewer FRNs and a limited volume of callables. Specifically, we expect bullets of DKK 7-9 billion, FRNs of DKK 6-8 billion and callables of around DKK 1 billion. We forecast that just over half of the bullet offering will be 5Y bullets.

Another cancellation of reinvestment performance?

We have previously written quite a bit about reinvestment performance in both bullets and callables. Back in March, we

temporarily "cancelled" the April reinvestment performance in callables due to the conflict between the USA and Iran, which had broken out in February, combined with low OAS levels despite the conflict.

This assessment proved to be correct, and callables did not perform up to the April payment date. They have, however, performed subsequently, with performance in OTR callables of around 5bp and at the current OAS level, we doubt there is scope for further reinvestment performance.

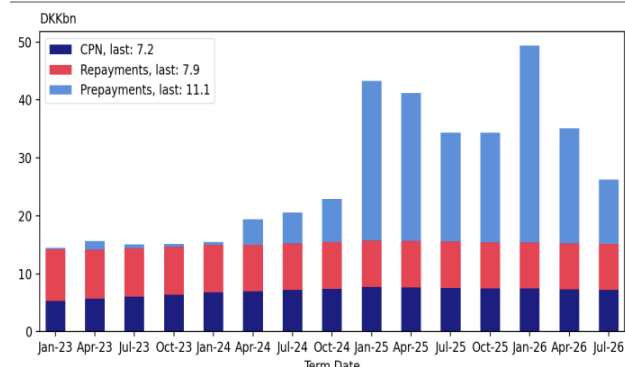
Ordinary principal payments towards 1 July are expected to end at just under DKK 8 billion, bringing the reinvestment need from prepayments and principal payments to DKK 19 billion. The current net issuance for the quarter (issuance net of buybacks) is trending towards DKK 15 billion, implying that net growth in the callables segment will end at around DKK -4 billion, broadly in line with the April payment date. This also suggests that the July payment date will be a repeat of the April payment date, with limited to no reinvestment performance in callables.

In the bullets segment, we generally expect spread widening due to their currently expensive relative pricing compared to European covered bonds and Swedish bostäder. Given that bullets lose sufficient value over the coming weeks to once again trade wider than German covered bonds in swap-spread terms, we expect a repetition of the usual pattern: spread widening of 1-2bp around the end-of-month issuance, which is then reversed afterwards (see the bottom chart on the page).

If the relative pricing of bullets is maintained at current levels, end-of-month issuance could trigger a significant price correction. Conversely, the auction offering of DKK 19 billion was not enough to cause spread widening, even though bullets already appeared expensive in relative terms during the auctions. This may indicate that more is needed to correct the spreads.

We attribute the currently high pricing of bullets to a combination of higher outright interest rates and liquidity abundance. This suggests that we should see a decline in at least one of the two in order to achieve lasting spread widening in bullets. If it coincides with the end-of-month issuance, it can cause larger and more prolonged spread widening than the 1-2bp normally seen around month-end and reinvestment. Conversely, if liquidity abundance and high outright interest rates persist, it may result in there being no "affordable" bullets on offer in the end-of-month issuance this time around.

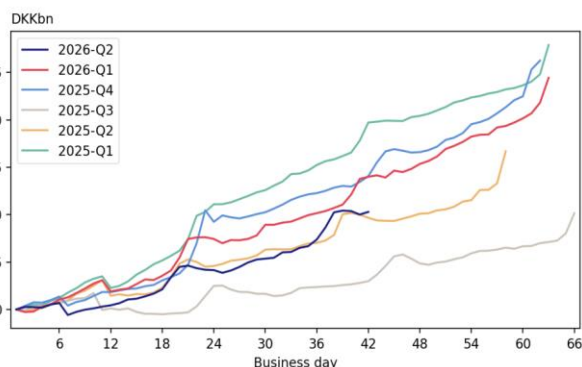
Lower reinvestment need from prepayments and principal payments



Prepayments and principal and coupon payments in callables.

Source: Nykredit Markets

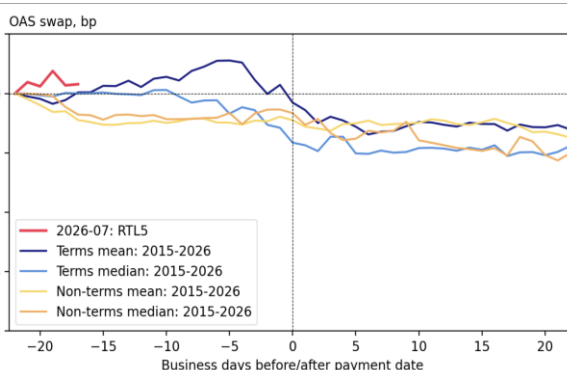
Current net issuance in callables is also lower



Accumulated issuance for the quarter, net of buybacks based on outstanding amount.

Source: Nykredit Markets

Normal reinvestment performance in bullets expected



Shows performance in payment date and non-payment date months in 5Y bullets.

Source: Nykredit Markets

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As at 13.12.2024

Note: Distribution of our recommendations, which therefore add up to 100%.

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