4’59 – no rush to buy

We view 1-5bp as a reasonable maturity class spread

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- Change of maturity class 4'59/4'56
- We consider the current 3-4bp to be a fair spread
- Pay attention to debtor distribution, especially at NDA!

We consider the current 3-4bp OAS spread between 4'56 and 4'59 to be fair and see no urgency in switching to the new series. 4'59 is still in the build-up phase, and the experience from the last change of maturity class suggests that a 1-5bp AOS is a reasonable benchmark for the maturity class spread.

OAS spreads and relative series volume – non-IO

Source: Nykredit Markets

OAS spreads and relative series volume – IO

Source: Nykredit Markets

Current pricing and series build-up

Nykredit will close the issuance in 4'56 on 1 September. After this date, all new issuance will take place in 4'59. The outstanding amount is today about DKK 0.9 billion in 4'59 and DKK 0.3 billion in 4'59 IO, compared with DKK 107 billion and DKK 53 billion, respectively, in the 4'56 series. 4'59 is currently trading 3-4bp higher in OAS than 4'56 in both the non-IO and IO segments.

The total issuance in the 4'56 and 4'59 series has recently been around DKK 200-400 million per day. If this level is maintained in 4'59, it will take roughly two years before the new series approach the size of the 4'56 series, other things being equal.

3-4bp is a fair OAS premium

We consider the current 3-4bp OAS differential between 4'56 and 4'59 to be fair (non-IO and IO) and do not expect the differential to disappear in the near term. 4'56 has a substantial outstanding amount and will most likely remain the dominant bond in terms of both index representation and liquidity for quite some time, justifying a certain discount on the new series.

To establish a historical benchmark for a reasonable maturity class spread, we have looked at the shift from 4'53 to 4'56. We focus on the beginning of 2024, when issuance in 4'56 began to accelerate in earnest following an initial period in which issuance was concentrated in the 5% series.

It appears from the top-left charts that the maturity class spread remained broadly in the range of 1-5bp while the non-IO 4'56 series was built up, whereas it was slightly higher and more volatile for 4'56 IO.

Over the past three years, the differential has generally narrowed as 4'56 grew and became the dominant series. However, the development was far from linear, and the OAS spread fluctuated considerably along the way.

Moreover, it is by no means certain that issuance will remain in 4'59 over the next three years – our prepayment model estimates the probability at around 30%. Consequently, 4'59 is not guaranteed to achieve meaningful index representation, but there is also nothing currently indicating an early closure of the series.

Against this backdrop, we consider a maturity class spread of 1-5bp to be a fair pricing. Our recommendation is therefore to sell 4'56 and buy 4'59 if the OAS differential exceeds 5bp. At 1–5bp, we are neutral, while below 1bp, we prefer 4'56.

Don't forget debtor distributions

When comparing OAS levels, it is also important to pay particular attention to the debtor distribution. In a new series, the distribution is based on relatively few loans and can therefore change significantly when new debtor distributions are introduced. This can cause relatively large jumps in OAS. As a supplement to the debtor distributions provided by the issuers, Nykredit has therefore launched CK92NYK, which combines the current and expected debtor distributions in a weighted average, thereby providing a more stable and accurate metric, especially in the early states of a series' lifecycle.

Comparing standard OAS with OAS calculated using CK92NYK, the difference for NYK 4'59 A is negligible, while it amounts to a couple of bp for 4'59 IO. By contrast, NDA 4'59 A and IO with a standard OAS, for example, appear to be just under 4 bp and 12 bp too cheap, respectively, when compared with CK92NYK due to the absence of large loans in the first CK92 round.

Accordingly, we recommend using OAS spreads calculated on the basis of CK92NYK as a supplement to standard OAS when comparing new series, in order to obtain a more robust assessment.

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