Fixed Income Update
Week 34

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Nykredit

Wednesday is kick-off day!

- On Wednesday, August's refinancing auctions will kick off with FRN auctions, running through Friday.
  - The FRN auction offering is 100% NYK.
  - The DKK-FRN offering consists of three SDO triplets (Cibor 3M Oct29) and one RO (Cibor 3M Apr29).
  - The EUR-FRN offering consists mainly of one Cibor 3M SDOs Oct29.

- For more information about the auctions:
  - Auction calendar with a complete overview of all auctions
  - Slides from our Teams presentation on the auctions
  - Podcast highlighting our main points regarding the auctions
  - Research note on yield spreads for the new FRNs.

- In addition, our consolidated summary of the auction results is updated continuously as the auctions progress.
  - Can be found here (currently from the May auctions).

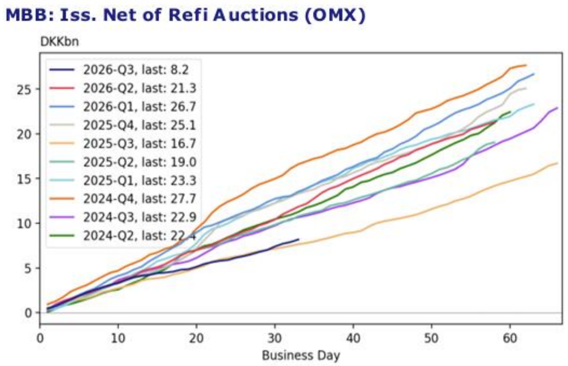
FRNs up for auction this week

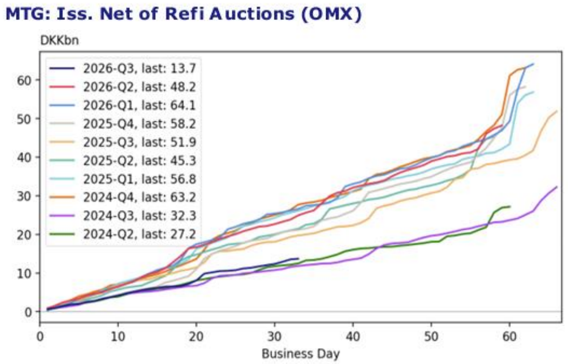
ISIN	Name	Maturity	Rate cap/floor	Auction Day	Auction Price	Offer (mio)	Maturing (old ISIN)	Refi-rate
DKK FRN								
DK0009553885	NYK SDO CIBOR 3M	Okt 29	-	19-Aug-26	100.20	10,100	11,519	88%
DK0009554180	NYK SDO CIBOR 3M	Okt 29	-	19-Aug-26	100.20	9,100	9,598	95%
DK0009553968	NYK SDO CIBOR 3M	Okt 29	-	20-Aug-26	100.20	9,000	10,258	88%
DK0009554263	NYK RO CIBOR 3M	Apr 29	-	20-Aug-26	100.20	4,900	5,381	91%
EUR FRN								
DK0009554347	NYK SDO EURIBOR 3M	Okt 29	-	21-Aug-26	100.20	1,175	1,254	94%
DK0009554503	NYK RO EURIBOR 3M CALL	Apr 30	-	21-Aug-26	100.20	70	135	52%
DK0009554420	NYK RO EURIBOR 3M	Apr 29	-	21-Aug-26	100.20	60	89	68%

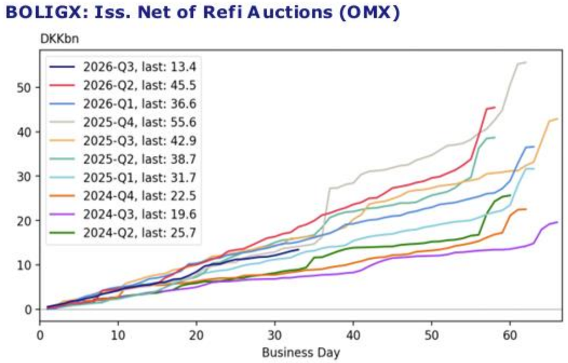
Issuance still in summer holiday mode?

- Issuance of callables (MBB) and bullets (MTG) has so far remained among the lowest seen in recent years during Q3, as illustrated by the two top right charts.
  - This may partly reflect a decline in prepayments in 5% callables, although it is still somewhat early to draw firm conclusions regarding January prepayments (see below).
  - Nevertheless, the issuance is expected to pick up a little again as the last "summer holiday effect" wears off.

- The issuance of FRNs (BOLIGX) has held up better, which likely contributed to them underperforming bullets somewhat during July.
  - We expect a rise in bullet issuance relative to FRNs in the coming months (in addition, there will be a substantial bullet offering at the November auctions, which we have also mentioned in connection with our auction coverage, see above).







Bullets on the decline

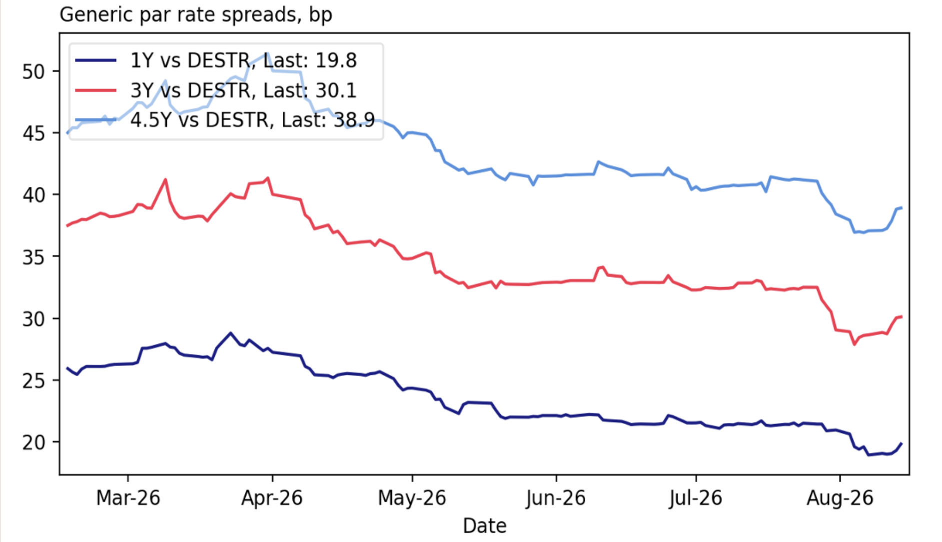
- Last week, bullets widened by a few points vs DESTR, giving back some of the outperformance seen over the summer.

- The prospect of diminishing liquidity abundance may have played a role.
  - The net position is set to decline this week from the current level of DKK 370-375 billion to DKK 345-350 billion.
  - By early September, the level is expected to fall further to around DKK 310-320 billion.
  - While there is no prospect of liquidity shortage whatsoever, the liquidity backdrop is likely to pose a modest headwind for bullets in the coming weeks.

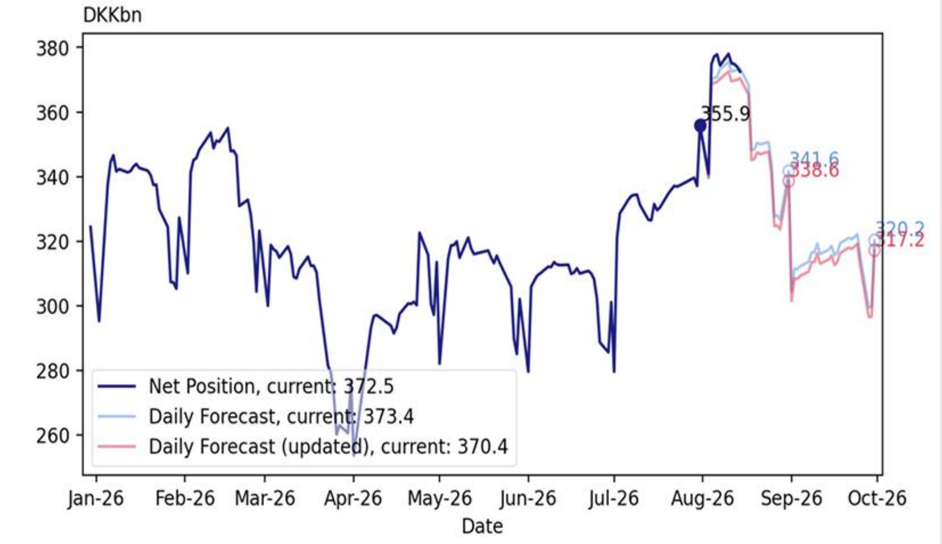
- Furthermore, issuance will likely pick up again from current levels, which still appear to be affected by the summer holiday lull.

- We therefore expect bullets to widen by a few more points ahead of next week's bullet auctions.

Bullets are losing a bit of steam again



Net position declining!



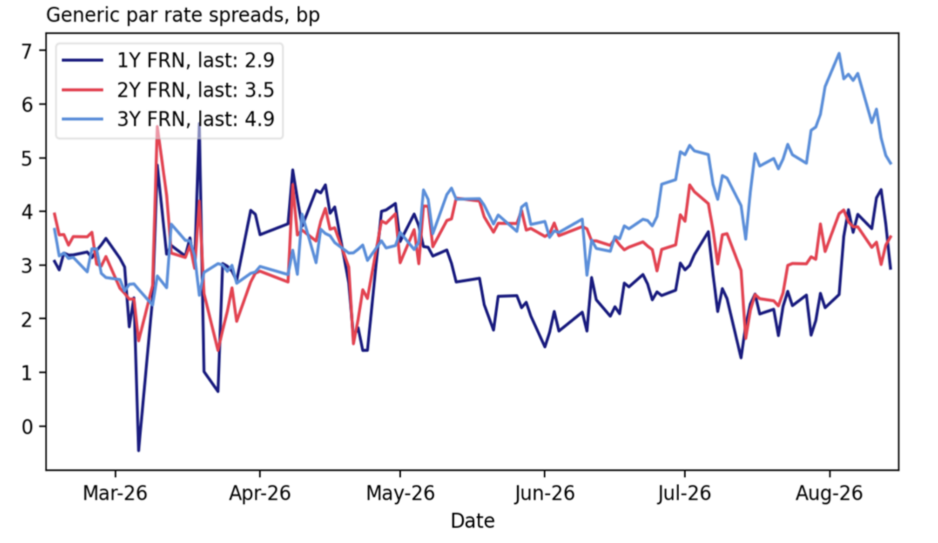
FRNs are holding up better!

- The 3Y FRN-bullets spread reached its peak in early August, as expected, and has since fallen back to around 5.
  - Just as FRNs failed to fully keep pace with the performance of bullets vs DESTR in July, they did not participate fully in the subsequent widening in August either.

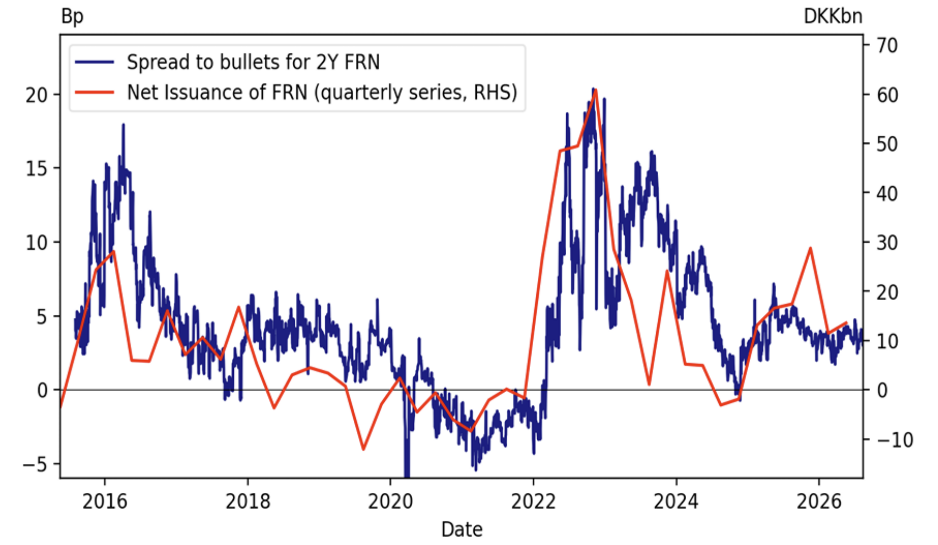
- We view 3-5bp as a fair FRN-bullets spread given the current issuance levels etc and accordingly do not expect FRNs to underperform bullets from here.
  - This should also be seen in light of the expectation of a rising bullet issuance (relative to the FRN issuance).
  - We expect the 3Y FRNs to trade at around 5bp to the bullet curve at this week's auctions.

- The tightening of the FRN-bullets spreads has provided some tailwinds to recommendation of 3Y FRNs vs bullets we opened in early August.
  - We continue to prefer FRNs over bullets (hedged), but with the most obvious performance potential now largely realised, we are closing the specific recommendation.

FRN-bullets spreads



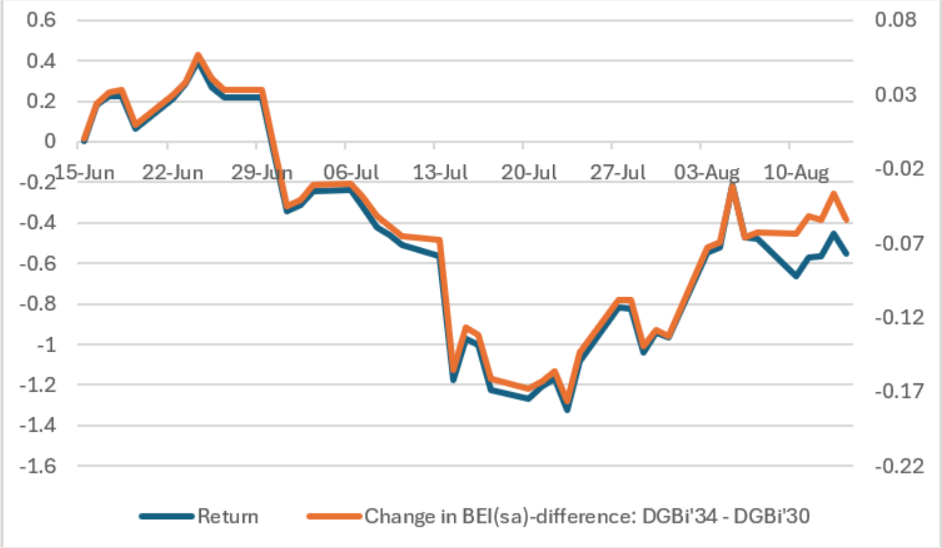
FRNs: Net issuance and spread vs bullets



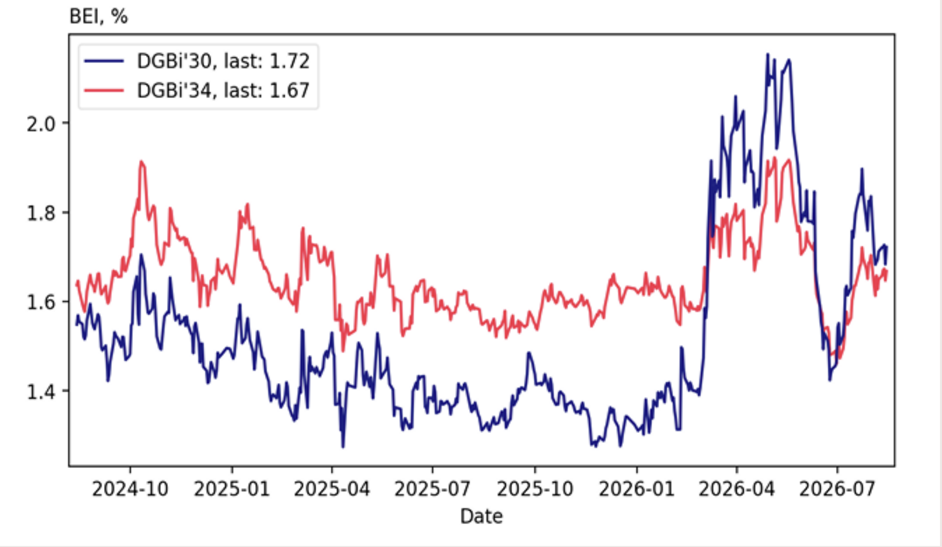
DGBi

- In mid-June, we opened a recommendation of DGBi'34 vs DGBi'30 (as a "box" against the corresponding nominal government bonds to neutralise interest rate sensitivity).
  - This was based on the view that, following the peace agreement, the BEI (sa) on DGBi'34 appeared relatively low given that it had fallen back to February levels (ie prior to the Iran war) – in contrast to DGBi'30 as well as European inflation-linked swaps and government bonds (for both relevant maturities), where the BEI remained fairly elevated. See here.
- The recommendation initially gained some traction until the peace agreement collapsed and the conflict flared up again in early July. This led to a rise in BEI on DGBi'30 relative to DGBi'34 (reducing the spread between the two BEIs, see the chart).
  - Since mid-July, the recommendation has recovered significantly as the BEI on DGBI'30 has fallen back again relative to the BEI on DGBI'34.
- From current levels, the original case still holds, and the rationale behind the recommendation is therefore intact, unless one expects a renewed escalation of the conflict.
  - We expect the BEI on DGBi'30 to decline relative to DGBi'34 over the autumn (although there may be bumps along the way), and we maintain the recommendation!

DGBi'34 vs DGBi'30: Returns and change in BEI (sa) difference



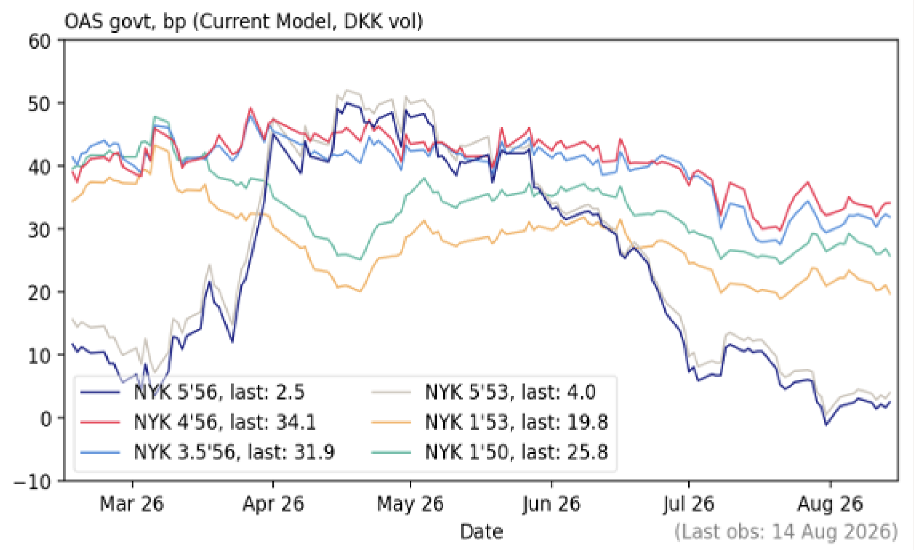
BEI (sa) of DGBi'30 and DGBi'34



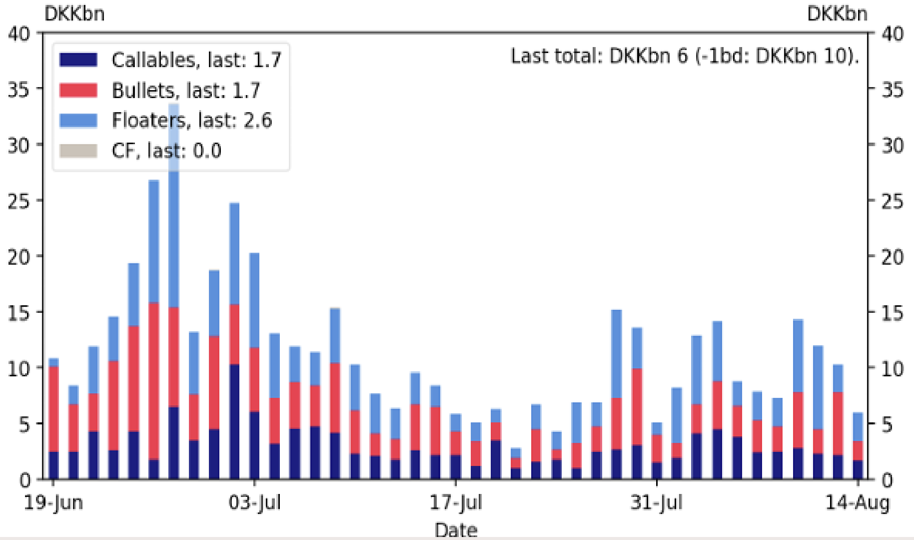
Flat after a strong summer

- OAS has remained broadly flat over the past week following a summer of significant performance.
- The tightening has been especially centred around the high-coupon segment, with 5'56 and 5'53 having outperformed by more than 30bp since the beginning of June, while 4'56 and 3.5'56 have outperformed by around 10bp in the same period.
- Following a quiet summer holiday period, trading activity started to pick up again at the beginning of last week but faded towards the end of the week, with subdued volumes on Thursday and Friday.

30Y callables: OAS Govt



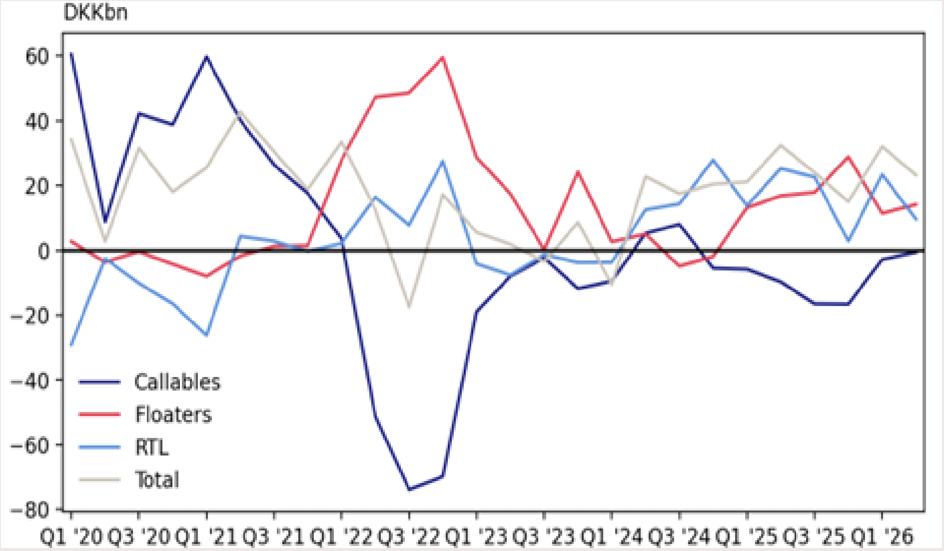
Daily turnover



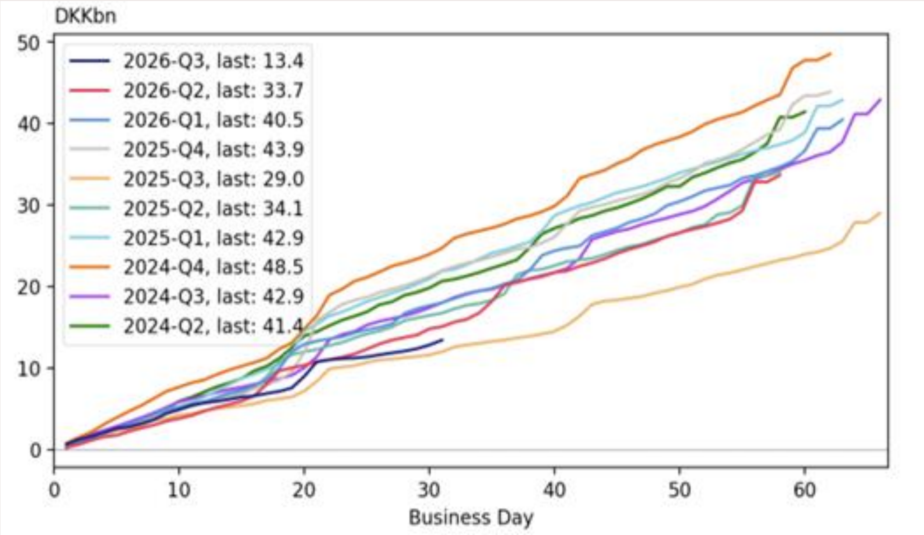
Lower prepayments, no more issuance

- The net issuance of callables is back around zero after two years of declining outstanding amounts.
- Despite this, it appears from the bottom chart that the issuance remains at a very modest level.
- This means that the move towards positive net issuance is driven entirely by lower nominal prepayments.
- The growth in mortgage debt is therefore still driven by positive net issuance in FRNs and bullets.
- Although it is still early to forecast the January prepayments, we expect prepayments of around 10% in the 5% segment, corresponding to about DKK 5 billion.

Change in outstanding amount by segment



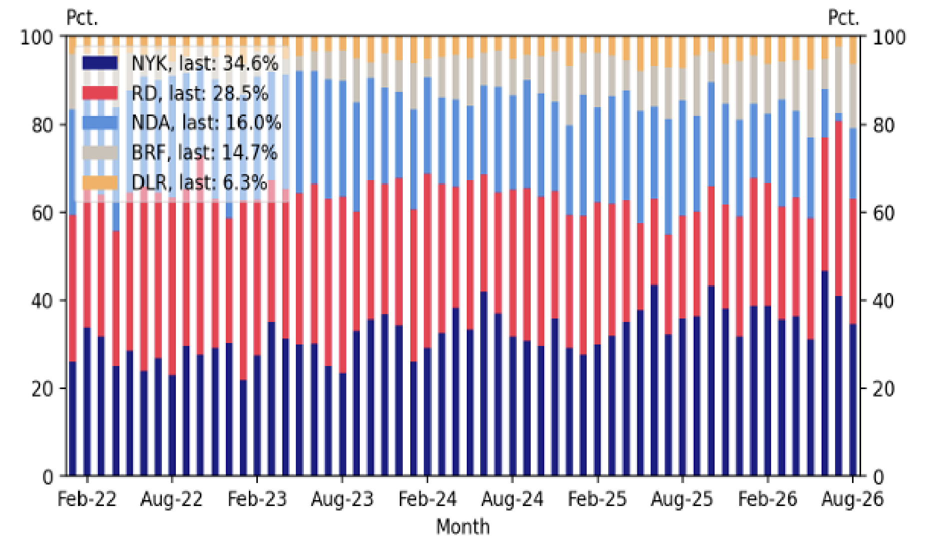
MBB: Iss. Net of Refi Auctions (CIRMIL)



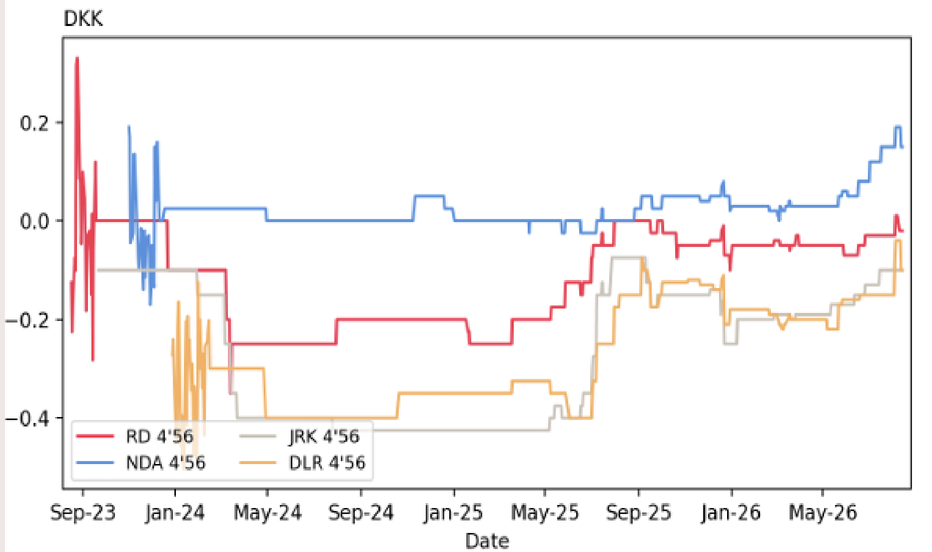
OAS shifts the issuer landscape

- Issuance of callables has remained broadly unchanged over the summer and is in line with the levels of recent quarters.
- The issuer variation in the on-the-run issue has, however, shifted, with NDA becoming more expensive relative to Nykredit.
- Currently, NDA 4'56 is trading around 18 points above NYK 4'56, while the other issuers continue to trade at a discount to Nykredit, albeit at narrower levels than before the summer holiday period.
- According to our price breakdown, the movement over the summer has not been driven by changes in the debtor distribution, which has remained stable, but rather by the development in OAS levels.

Callables: Composition of issuance by month (OMX)



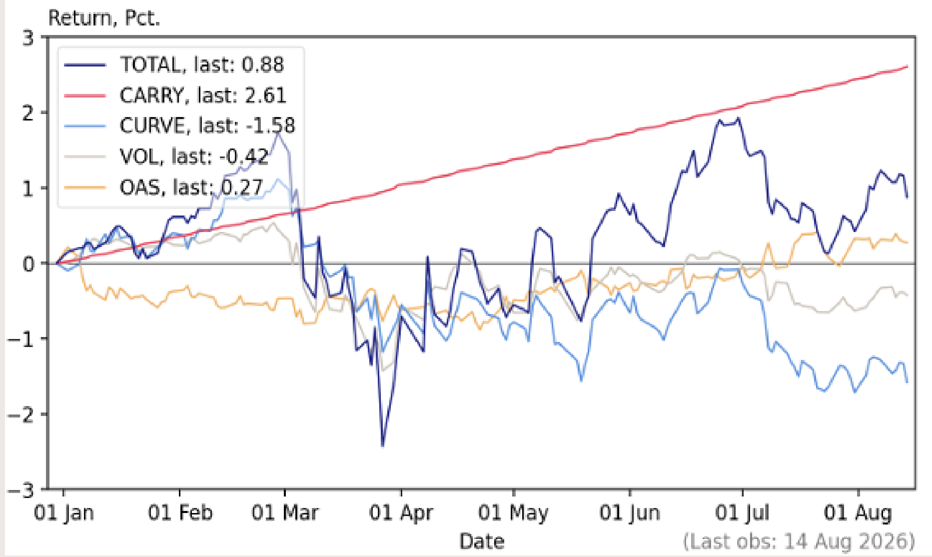
Decomposition of price difference to NYK



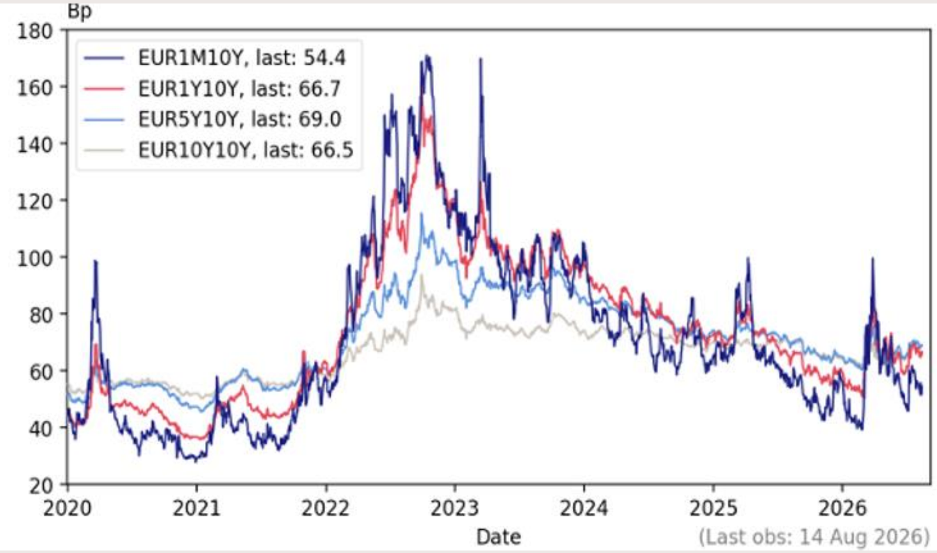
Carry carrying the year

- For 4'56, carry has been the primary driver of returns this year, contributing +2.61%.
- By contrast, interest rate rises have detracted 1.58 percentage points and volatility increases a further 0.42%, while OAS performance has contributed positively, adding +0.27%.
- Overall, 4'56 has delivered a YTD return of 0.88%.
- The negative contribution from higher interest rates and volatility has largely occurred during July and August, with both having risen from very low levels at end-June

NYK 4'56: Outright



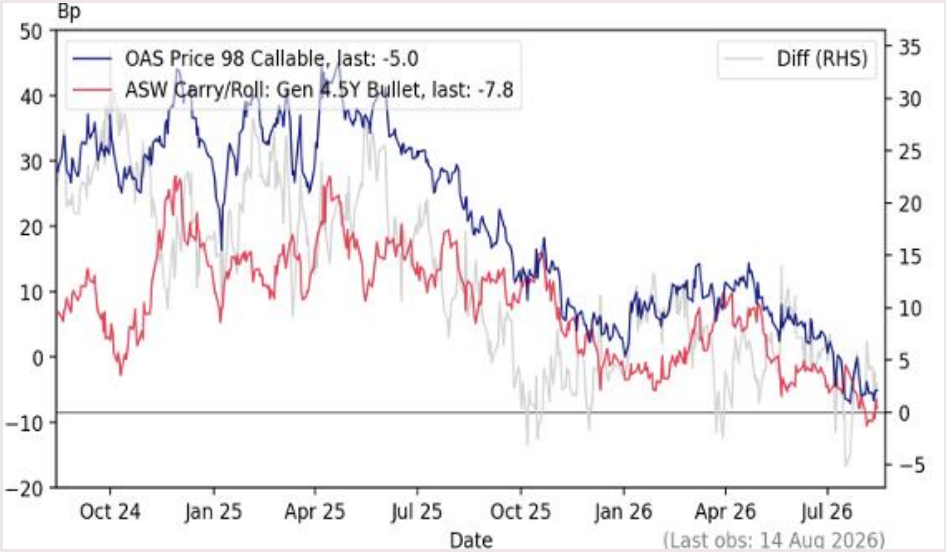
Implied volatilities



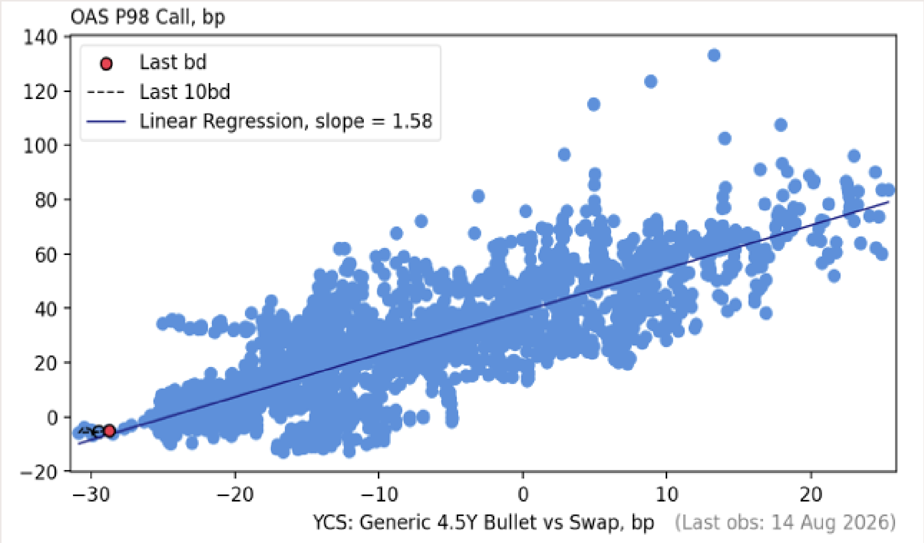
The excess value vs bullets has vanished

- The excess value of callables relative to bullets has gradually disappeared over the summer.
- More specifically, callables have gone from trading 5-10bp cheaper than bullets to trading at about the same level.
- Any overweight position in callables should therefore be driven by carry or an expectation of declining volatility.

OAS Price 98 Callable vs Gen 5Y Bullet (Start 14 Aug 24)



OAS Price 98 Callable vs Gen 5Y Bullet (Start 01 Jan 14)



Recommendations

- With the exception of 3Y FRNs vs 3Y bullets, last week was rather weak for several of our recommendations.
  - In particular, our barbell of 4% callables vs 5% and 1% callables lost ground.

- Despite the modest setback last week, the recommendation of DGBi'34 vs DGBi'30 has rebounded well recently – and we continue to see value in the position (see above).

- Our recommendation of 4-5Y German covered bonds vs bullets (both vs ESTR, with bullets including the basis swap) has, however, had a strong week and has partially recovered after a difficult start.
  - The recommendation recovered from -0.28 to -0.14 over the past week.
  - We remain positive on the recommendation, as the likelihood of a correction in the pricing of bullets vs EUR-denominated covered bonds (viewed on this basis) appears greater than the likelihood of further mispricing. We therefore maintain the recommendation.

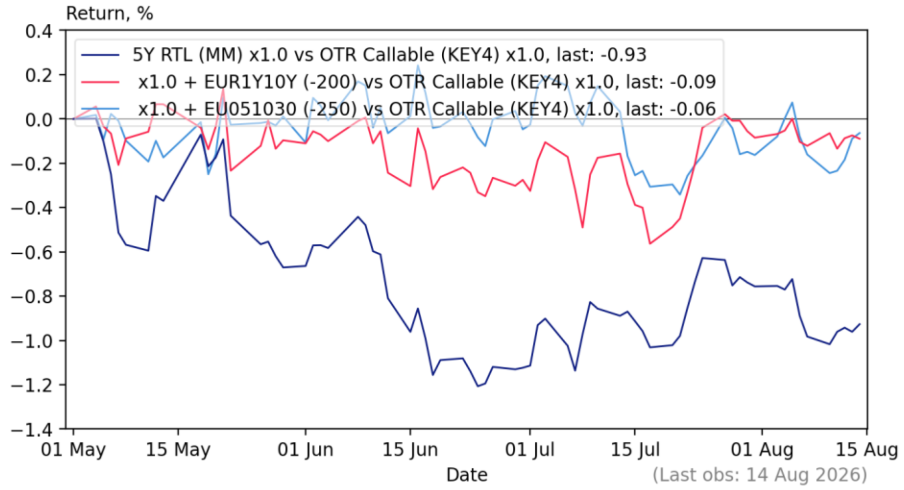
Current recommendations

Opening date	Name	Return 5bd	Total return
2026-06-01	RD 4'56IO vs NYK 4'56IO	-0.00	0.01
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	-0.07	-0.54
2026-06-26	RTL5 vs RTL3	-0.01	-0.02
2026-07-07	4'56 vs 1'50 & 5'53	-0.21	-0.40
2026-08-03	3Y FRN vs. 3Y RTL	0.05	0.06

Outlook recommendations

Opening date	Name	Return 5bd	Total return
2025-08-25	CITA vs CIBOR 3M FRN	0.00	-0.01
2025-11-27	CIBOR 6M vs CIBOR 3M FRN	-0.01	0.12
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.33	-0.94
2026-01-26	4'56 vs RTL5	-0.14	0.59

Recommendation: 5Y bullets vs OTR callables incl swap overlays



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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