

# Fixed Income Update Week 42

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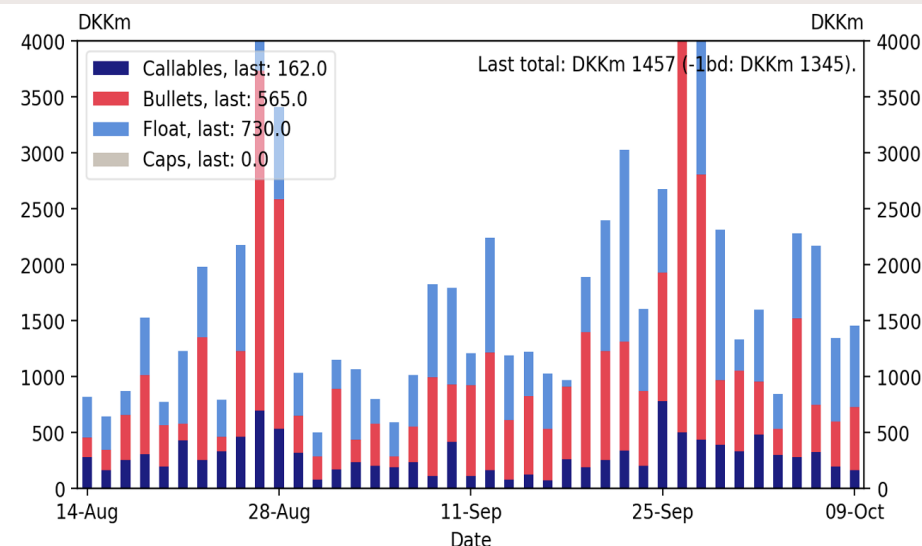
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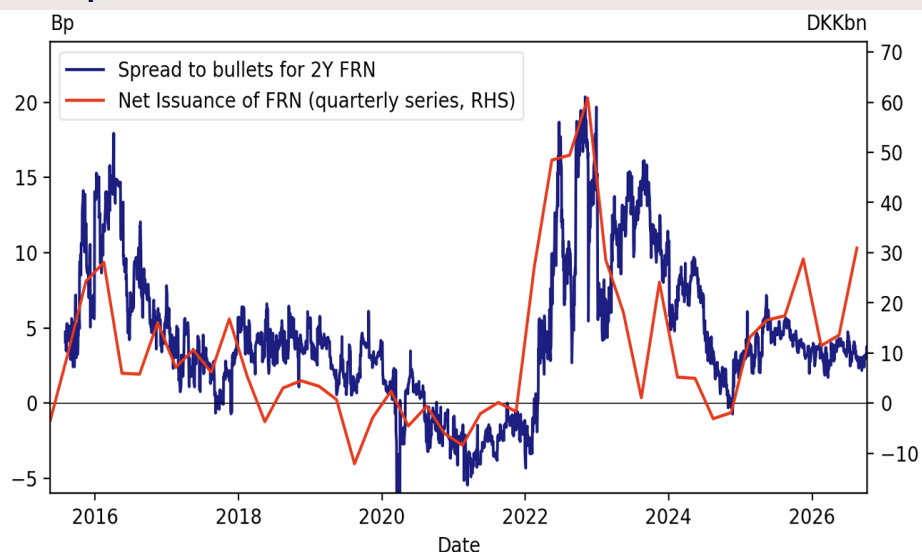
# Issuance around autumn holidays

- Monday and Tuesday of last week saw solid issuance in both FRNs and bullets, and this appeared to feed through to spreads, which widened on those days.
- Towards the end of the week, issuance eased somewhat again, and this did not lead to a reversal in spreads, which moved sideways.
- Our impression is that the higher issuance was due to the settlement of loan cases ahead of the autumn holidays.
- We expect the autumn holidays to put a temporary damper on issuance, as it usually does. However, not to such an extent that, in isolation, it would prompt spread performance in bullets and FRNs (see [here](#)).
- After the autumn holidays, we will likely return to the same level as last week, at DKK 1.5-2 billion.
- Total issuance for October so far stands at approx DKK 11 billion, including DKK 4.9 billion in FRNs, DKK 4.1 in bullets and DKK 2.1 billion in callables.
  - FRN issuance remains high at NYK, NDA and DLR, while it is accelerating at JRK and RD.
  - Should the trend in current issuance continue, and should additional supply also trickle in from the upcoming bullet refinancing auctions, this could well result in relative spread widening in FRNs during Q4.

## Daily issuance (OMX)



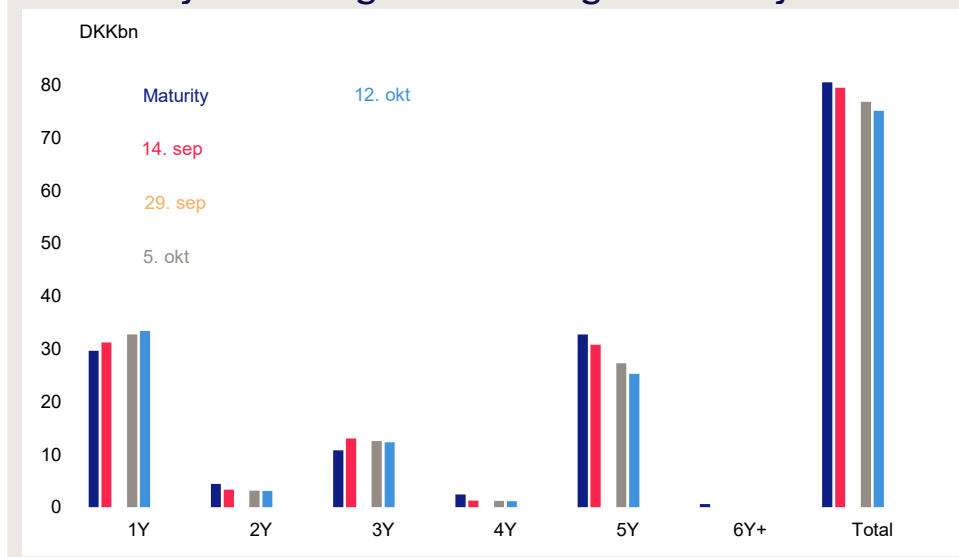
## FRN spreads vs bullets and net issuance



# November refinancing

- We are approaching an upcoming refinancing auction in connection with the maturity of bullet bonds totalling DKK 160 billion on 1 January.
- As usual, RD publishes preliminary auction volumes on a weekly basis, which may provide an indication of the final supply.
- As is typically the case, the first preliminary volumes have largely reflected the maturing amount.
- As expected, borrowers still appear to be moving down the curve in connection with refinancing. However, unlike previously, the preliminary volumes suggest that borrowers are this time going all the way into 1Y bullet loans, whereas the move before was into 3Y bullet loans.
  - At first glance, this trend runs counter to what we are seeing in current issuance, where borrowers prefer longer interest periods.
  - The explanation is likely the significant increase in interest rates facing 5Y bullet loan borrowers. Back in 2021, these borrowers locked in rates at around 1% whereas today they are facing approx 4.5%.
  - This may also suggest that FRN issuance could increase further on the back of the refinancing auction.

Preliminary RD offering for refinancing on 1 January 2027



Average YTM at time of issuance

| Payment date     | 1Y   | 2Y   | 3Y   | 4Y   | 5Y   |
|------------------|------|------|------|------|------|
| 2027-01-01       | 1.93 | 2.14 | 3.05 | 3.24 | 0.85 |
| 2027-04-01       | 1.97 | 2.08 | 2.73 | 3.18 | 1.33 |
| 2027-07-01       | 2.44 | 1.95 | 2.56 | 3.41 | 2.20 |
| 2027-10-01       | 2.65 | 2.24 | 2.36 | 3.27 | 3.06 |
| 2028-01-01       | 2.98 | 2.13 | 2.19 | 2.98 | 3.23 |
| 2028-04-01       |      | 2.35 | 2.17 | 2.58 | 3.20 |
| 2028-07-01       |      | 2.67 | 2.12 | 2.57 | 3.42 |
| 2028-10-01       |      | 3.21 | 2.21 | 2.19 | 3.38 |
| 2029-01-01       |      | 3.19 | 2.29 | 2.28 | 2.96 |
| 2029-04-01       |      |      | 2.50 | 2.35 | 2.76 |
| Current par rate | 2.84 | 3.10 | 3.24 | 3.34 | 3.43 |

# Conversion of public-sector entities' mortgage loans into direct government loans

- In the Danish government's budget proposal for 2027, it is proposed to examine the scope for converting public-sector entities' mortgage loans into direct government loans.
- The aim is to reduce financing costs, and the government estimates annual savings of approx DKK 300 million from 2028.
- With regard to the conversion of FRNs and bullet loans, we would expect this to take place in connection with refinancing of the loans.
- In the callables segment, however, it could result in buybacks, which in that case would primarily take place in bonds currently trading significantly below par.
  - Buybacks could therefore generate sizeable capital gains, although these would be taxable.
- There is considerable uncertainty about both the scale and the specific bonds in which publicly financed mortgage loans are placed.
- In the table, we have compiled the bonds with the largest share of cash loans to the business segment, which may provide an initial indication of bonds with a larger share of public-sector loans.

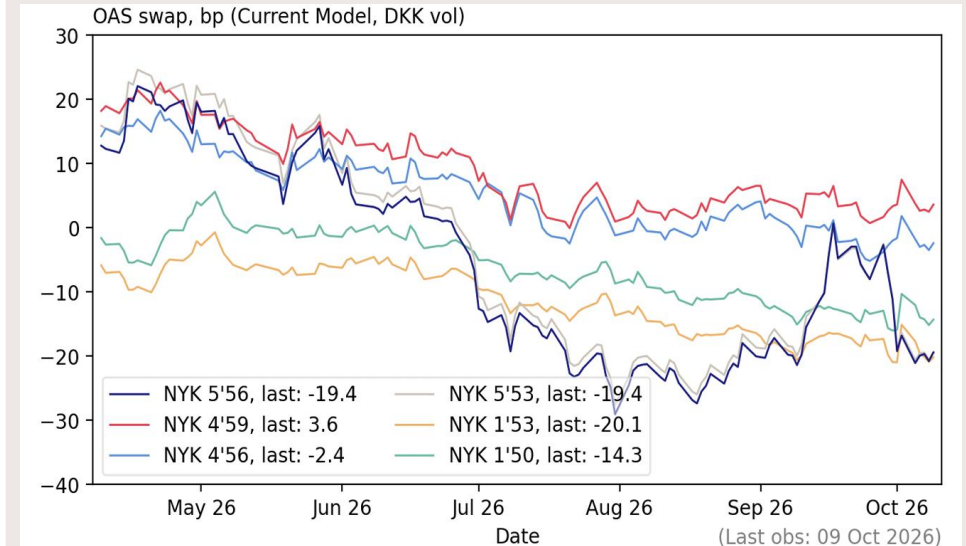
**Bonds with largest share of cash loans for business segment**

| Fondskode | Name            | Andel erhverv K-lån | Outstanding (DKKmio) | OAS    |
|-----------|-----------------|---------------------|----------------------|--------|
| 954470    | 1% NYK 2056 A   | 100.0%              | 6512                 | 34.98  |
| 941379    | 1% BRF 2056 A   | 100.0%              | 3527                 | 34.64  |
| 462985    | 1% RD 2056 A    | 100.0%              | 2668                 | 35.23  |
| 939897    | 0.5% BRF 2050 A | 93.8%               | 6216                 | 23.99  |
| 461660    | 0.5% RD 2053 A  | 88.8%               | 7568                 | 22.34  |
| 461318    | 0.5% RD 2050 A  | 82.3%               | 9141                 | 13.96  |
| 941611    | 3.5% BRF 2046 A | 77.7%               | 2458                 | 14.06  |
| 939994    | 1% BRF 2053 A   | 76.9%               | 3343                 | -16.33 |
| 636177    | 3.5% DLR 2046 A | 74.3%               | 2078                 | 7.22   |
| 953024    | 0.5% NYK 2053 A | 70.4%               | 8483                 | 21.07  |
| 939706    | 1% BRF 2050 A   | 66.2%               | 7327                 | 2.77   |
| 461628    | 1% RD 2053 A    | 63.4%               | 6383                 | -21.78 |
| 952508    | 0.5% NYK 2050 A | 62.5%               | 8566                 | 10.05  |
| 634867    | 0.5% DLR 2040 A | 61.8%               | 2839                 | 16.50  |
| 952931    | 1% NYK 2043 A   | 59.8%               | 4203                 | -8.82  |
| 461296    | 0.5% RD 2040 A  | 58.0%               | 5928                 | 7.31   |
| 461245    | 1% RD 2050 A    | 57.4%               | 21483                | 2.71   |
| 939781    | 0.5% BRF 2040 A | 55.1%               | 2182                 | 17.41  |
| 461636    | 0.5% RD 2043 A  | 54.8%               | 2464                 | 1.76   |

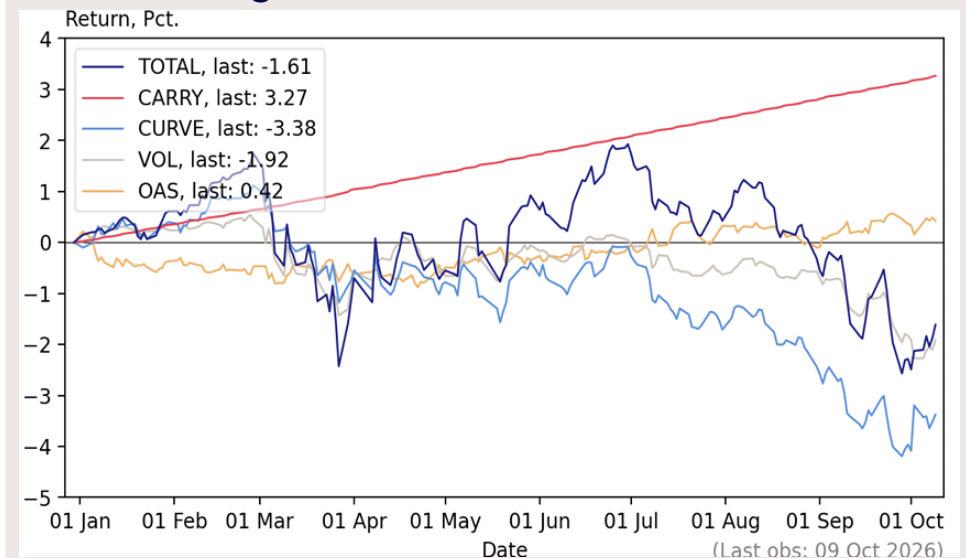
# Callables might have a good week

- Callables widened slightly in spread terms towards the end of last week.
- We believe that the spread widening was primarily due to the decline in volatility at the end of last week not being fully priced in.
- As a result, this has instead been reflected in OAS widening (see bottom chart).
- Provided that volatility does not rise again, we would expect this to be priced in during the week, thereby leading to spread performance.
- Last week's decline in both volatility and rates also resulted in the closure of all 5'59 A series and, in addition, the closure of NYK's and RD's 5'59 IO series.
- Loan offers from all mortgage banks, with the exception of JRK, must therefore be issued in the 4'59 bonds, which are trading comfortably below par.
  - NDA does not offer repayment loans in its 5'59 IO series, but may still provide offers to borrowers seeking a 10-year interest-only period in this series.
- In addition to lower activity due to the autumn holiday, we believe this could lead to lower issuance of callables over the course of the month and, correspondingly, concentrate callable issuance around month-end/quarter-end, similar to what we saw in September.
- Overall, we expect callables to have a decent week.

## 30Y callables: OAS swaps



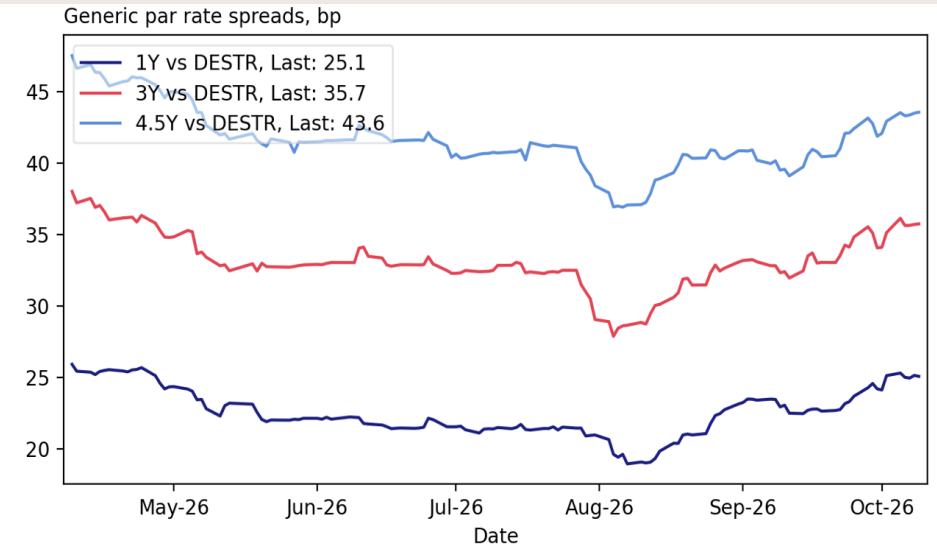
## NYK 4'56: Outright



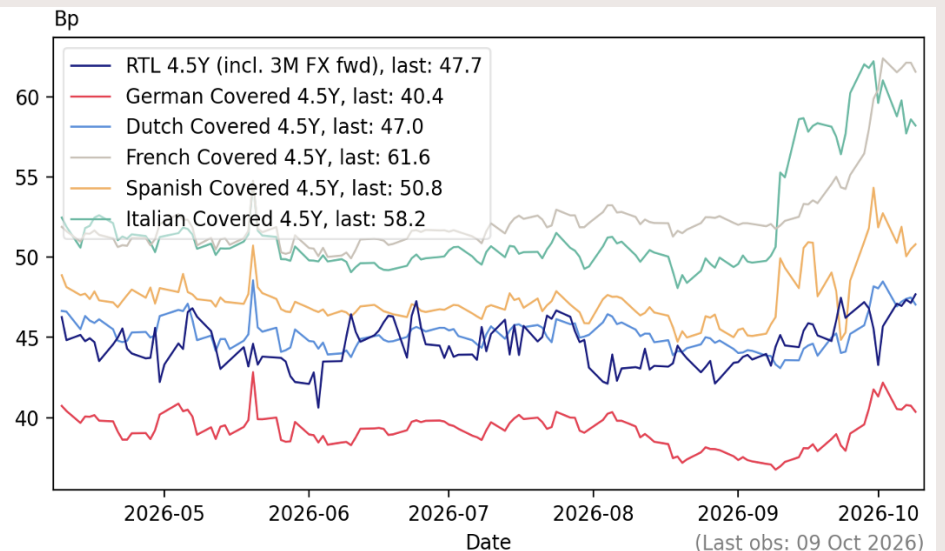
# Expect bullet spreads to remain calm for now

- Bullets continued to widen in spread terms last week, but we also considered them to be too expensive at the start of the week.
- Following last week's spread widening, the pricing of longer-dated bullets now looks more balanced, both relative to European covered bonds and versus callables.
- 5Y bullet issuance was somewhat higher at the beginning of last week and, as we have previously pointed out, this could become a broader theme ahead of the November refinancing auctions due to refinancing outside the auctions.
- We therefore opened a recommendation in 1Y bullets vs 5Y bullets last week, also supported by the prospect of a temporary improvement in liquidity, which has so far moved sideways.
- We do not expect any major spread moves in the segment this week.

## Bullets: Spreads vs DESTR



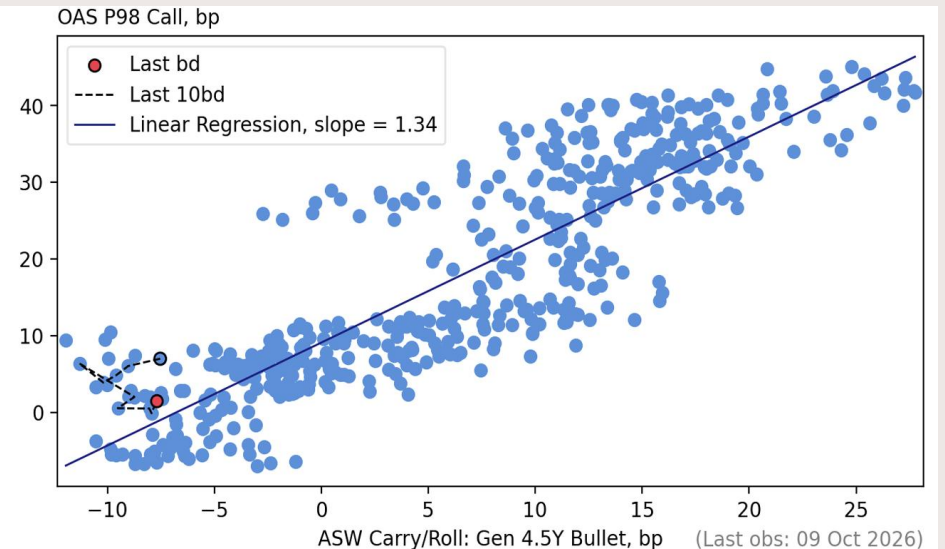
## Bullets and EUR covered bonds: Spreads to €STR (FX fwd)



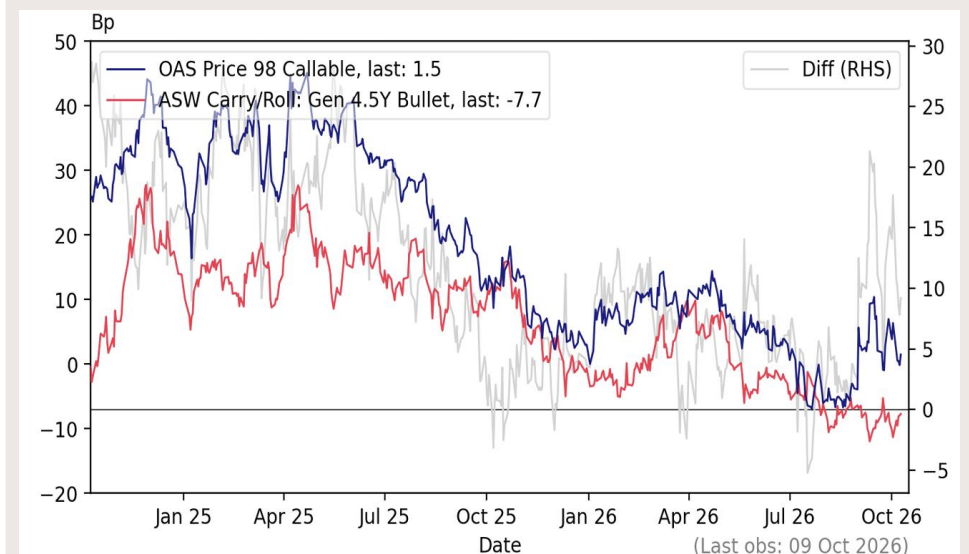
# Still prefer callables over longer-dated bullets.

- Following the spread widening in longer-dated bullets and performance in callables, the pricing of 5Y bullets vs callables now looks more balanced.
- We still have a slight preference for OTR callables for investors looking to place funds.
- This is partly due to the supply outlook, which could provide a tailwind for callables and a headwind for longer-dated bullets.
- It is also due to the prospect of spread performance in callables from the pricing-in of the decline in volatility.
- If volatility continues to fall this week, this would also be positive for callables.

OAS Price 98 Callable vs Gen 5Y Bullet (Start 9 Oct 24)



OAS Price 98 Callable vs Gen 5Y Bullet (Start 9 Oct 24)



# Recommendations

- Our new recommendation in 1Y bullets vs 5Y bullets has so far earned just enough to cover transaction costs.
- Our recommendation in 4'59 vs 5Y bullets remains somewhat weighed down by the sharp increases in volatility at the end of September.
- We continue to see better value in callables vs longer-dated bullets and believe that the pricing-in of the decline in volatility could give the recommendation a decent week.

## Current recommendations

| Opening date | Name                     | Return 1bd | Return 5bd | Total (incl. costs) |
|--------------|--------------------------|------------|------------|---------------------|
| 2026-06-15   | DGBi'34 vs DGBi'30 (BOX) | 0.01       | -0.05      | -1.54               |
| 2026-08-21   | 3Y FRN vs RTL            | 0.00       | 0.03       | 0.02                |
| 2026-09-02   | 1'59 vs 4'59             | -0.03      | -0.03      | 0.32                |
| 2026-09-10   | 4'59 vs. RTL5            | 0.15       | 0.62       | -0.57               |
| 2026-10-05   | RTL1 vs RTL5             | 0.00       |            | 0.00                |

## Outlook recommendations

| Opening date | Name                                | Return 1bd | Return 5bd | Total (incl. costs) |
|--------------|-------------------------------------|------------|------------|---------------------|
| 2025-08-25   | CITA vs CIBOR 3M FRN                | 0.01       | 0.01       | 0.01                |
| 2026-01-15   | NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO | 0.06       | 0.13       | -1.70               |
| 2026-01-26   | 4'56 vs RTL5                        | 0.21       | 0.59       | -0.47               |

# 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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