Fixed Income Update Week 44



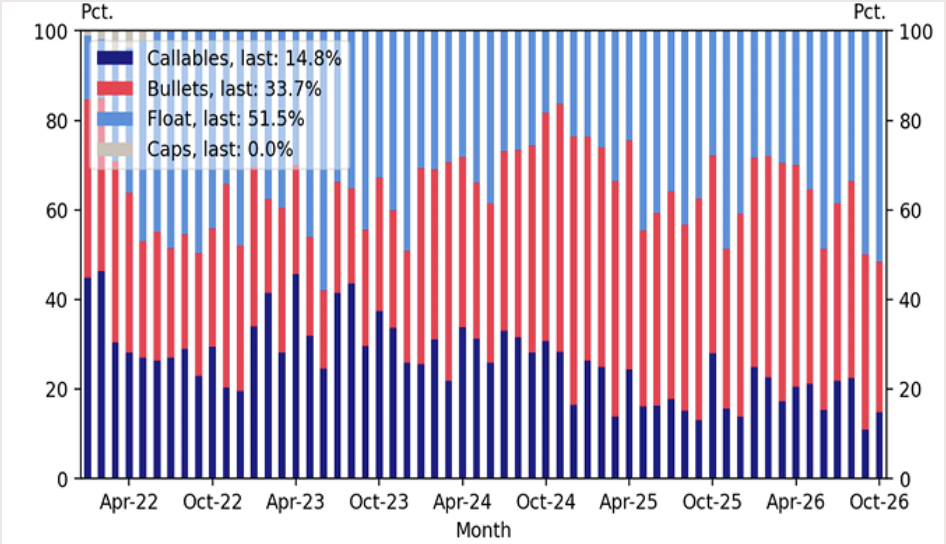
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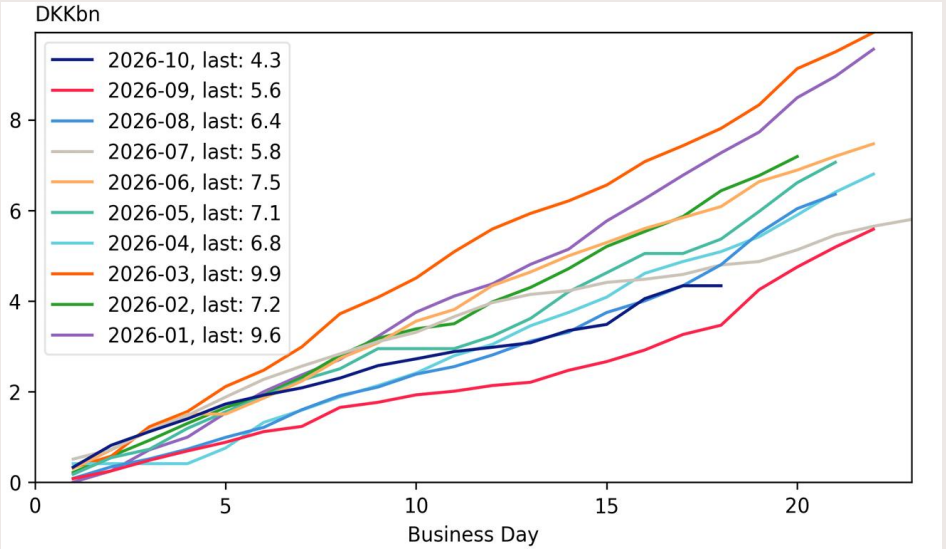
FRN issuance up to 1 January 2027

- FRNs continue to dominate tap issuance, bullet issuance has remained broadly flat and the issuance of callables remains very limited.
- FRNs are expected to dominate issuance until the next coupon fixing in January, after which FRN issuance is expected to cool as the immediate interest saving diminishes.
- As for callables, we suspect that the recent low issuance in this segment may be due to borrowers postponing taking out their loans until the last minute in the hope of obtaining a loan at a better price level.
- In other words, we expect a partial repeat of what we saw at the end of September, when the end-of-quarter issuance of callables surprised with almost DKK 1.4 billion in additional issuance on top of the regular tap issuance at the time.
- We specifically expect about DKK 1 billion of additional issuance of callables this week on top of the regular issuance.

FRNs continue to dominate issuance (OMX)



Issuance of callables net of refinancing auctions (OMX)

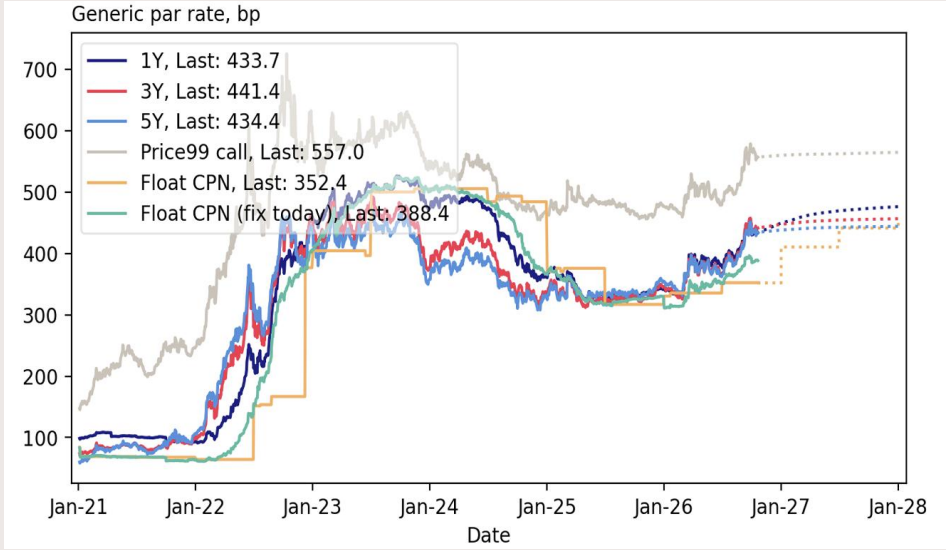


Expected auction offering of bullets

- We expect a total bullet auction offering of about DKK 100 billion at the November auctions, corresponding to a refinancing percentage of just over 60%.
- We expect the offering to be distributed as follows: about DKK 50 billion worth of 1Y bullets, DKK 22 billion worth of 3Y bullets and DKK 25 billion worth of 5Y bullets.
- 5Y bullets in particular are expected to have a low refinancing percentage of about 40%. The borrowers face a significant interest rate increase from around 1% at the most recent refinancing to around 3.5% today. Accordingly, we expect some borrowers to move towards a shorter interest period rather than continue with 5Y bullets.
- We also expect a significant share of borrowers to move all the way to FRNs, given the currently low borrowing costs.
- Specifically, we expect DKK 14-16 billion of the bullet maturity to be refinanced into FRNs.

- See here for a more detailed review of our expectations for the auction offering.

Borrowers will tend to move down the curve



Expected auction offering

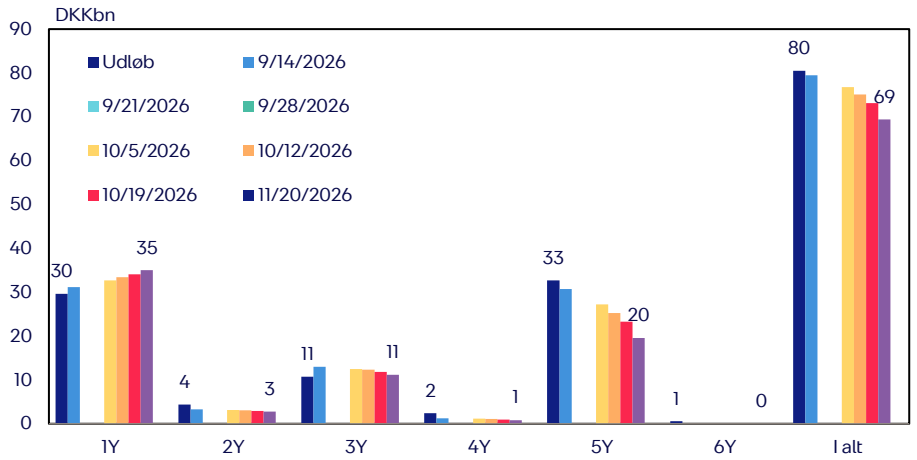
	Total	1Y	2Y	3Y	4Y	5Y	6Y+
NYK	28,500	2,000	1,000	13,000	500	12,000	-
RD	53,200	28,000	2,000	9,000	1,200	13,000	-
NDA	1,300	1,000	-	300	-	-	-
JRK	17,000	17,000	-	-	-	-	-
DLR	2,475	2,200	275	-	-	-	-
Total	**102,475**	**50,200**	**3,275**	**22,300**	**1,700**	**25,000**	

RD's ongoing auction offering

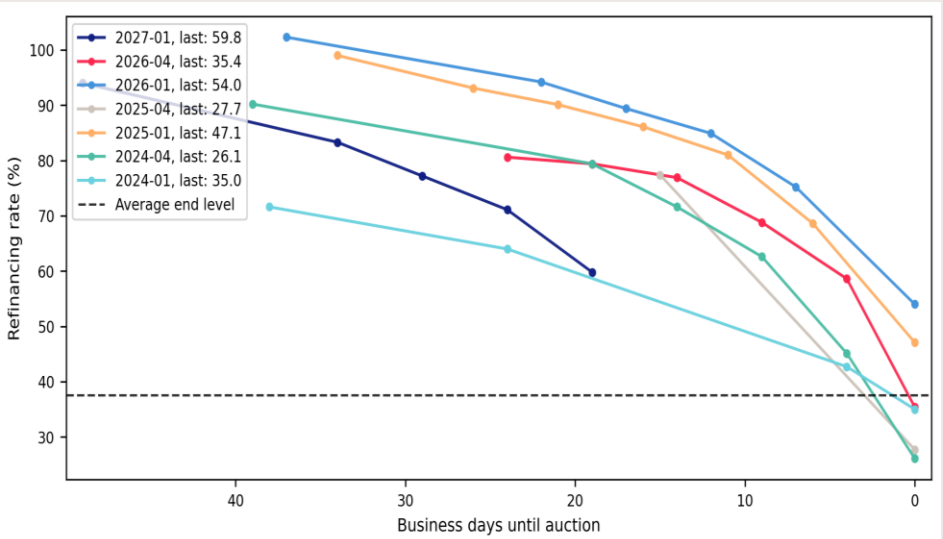
- RD's preliminary auction volumes continue to point towards a shift from 5Y bullets towards 1Y bullets.
- Since September, RD's expected offering of 1Y bullets has risen from about DKK 30 billion to DKK 35 billion, while 3Y bullets remain flat at DKK 11 billion and 5Y bullets have ticked down from about DKK 33 billion to DKK 20 billion.
- Overall, developments are in line with our expectations that borrowers will move towards shorter interest periods.
- We expect RD's refinancing percentage for the 5Y bullet segment to land at about 40–45%.

- The total preliminary volumes have been reduced from around DKK 80 billion to DKK 75 billion. Historically, RD's current auction volumes have tended to decline in the run-up to the auctions, and we expect this pattern to repeat itself this time.
- The reduction can be attributed to repayments, transfers to FRNs and the fact that a proportion of the maturity is refinanced through tap issuance rather than at the auction.

RD's current offering shifts from 5Y to 1Y bullets



RD's current offering of 5Y bullets declines ahead of the auction



FRNs on auction

- Furthermore, nearly DKK 61 billion and EUR 18 billion in FRNs mature by 1 January.
- As usual, we expect a high refinancing percentage of around 90%, corresponding to an offering of around DKK 55 billion.
- The maturity is distributed across NYK, NDA and DLR. The overview below shows the FRNs being auctioned.
- NYK will offer one Jul'30 Cita 6M FRN, and DLR will offer one Jan'32 Cibor 6M FRN.
- NDA will offer four different FRNs, including one green and one callable EUR FRN.

FRNs on auction

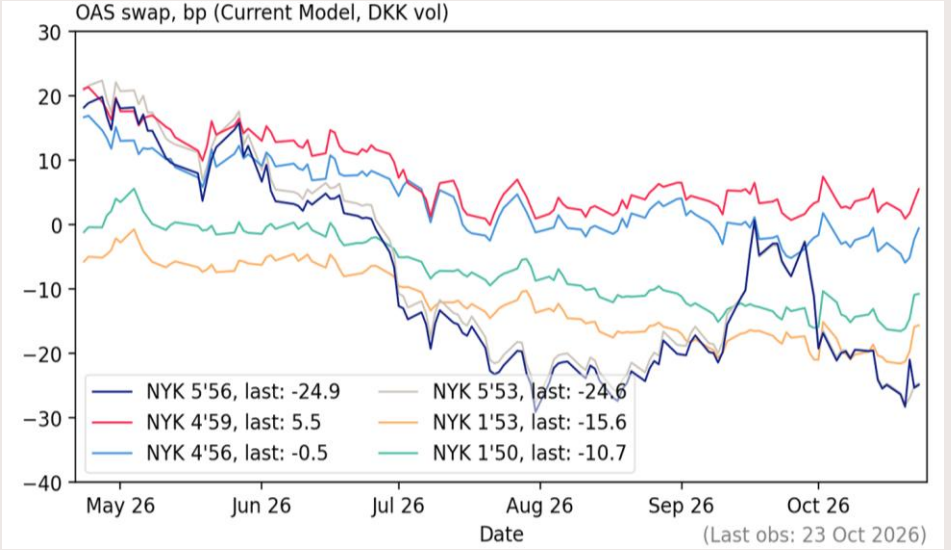
ISIN	Name	Maturity	Green	Callable	Auction Day	Auction Price	Offer (mio)	Maturing (old ISIN)	Refi-rate
DKK FRN									
DK0009555666	NYK SDO CITA 6M	Jul 30	-	-	N/A	N/A	N/A	#N/A	N/A
DK0002067099	NDA SDRO CIBOR 6M	Jul 30	-	-	N/A	N/A	N/A	#N/A	N/A
DK0002067172	NDA SDRO CIBOR 6M	Jan 30	Yes	-	N/A	N/A	N/A	#N/A	N/A
DK0002067255	NDA SDRO CITA 6M	Jul 30	-	-	N/A	N/A	N/A	#N/A	N/A
DK0006364013	DLR SDO CIBOR 6M	Jan 32	-	-	N/A	N/A	N/A	#N/A	N/A
EUR FRN									
DK0002067339	NDA EURIBOR 3M	Jan 31	-	Yes	N/A	N/A	N/A	#N/A	N/A

Callables are becoming too expensive?

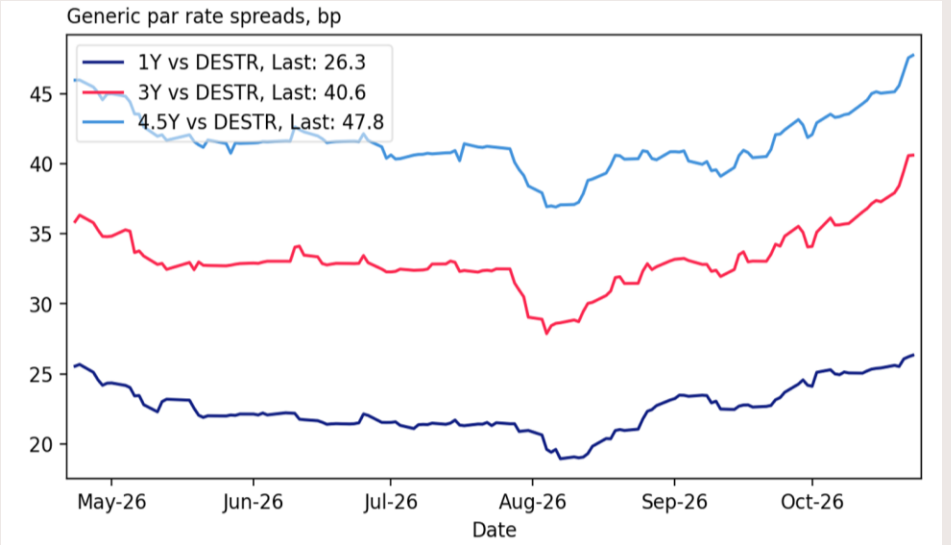
- While bullets and FRNs have widened in OAS terms in recent weeks, callables have held up fairly well in aggregate, probably supported by the currently very low issuance.
  - Although a significant increase in callable issuance seems unlikely, this week may see slightly more callables in the daily issuance, which could potentially put pressure on the spreads (see also slide 2).
- The spread widening of bullets has largely followed the movement in the EUR covered bond market recently.
  - We also expect bullet performance this week to be largely driven by developments in EUR covered bonds, which in turn will depend on developments in France, oil prices and AI equities.

- Spread widening in bullets has made callables look relatively expensive.
  - A 4.5Y bullet covered bond now provides -3.5 in ASW carry/roll (Cibor 6M), while a 4'59 bond offers 5.5 in OAS.
  - We expect callables to *underperform* bullets in the coming week.
- We therefore prefer longer-dated bullets over callables at the current levels.

30Y callables: OAS swap



Bullets: Spreads vs DESTR



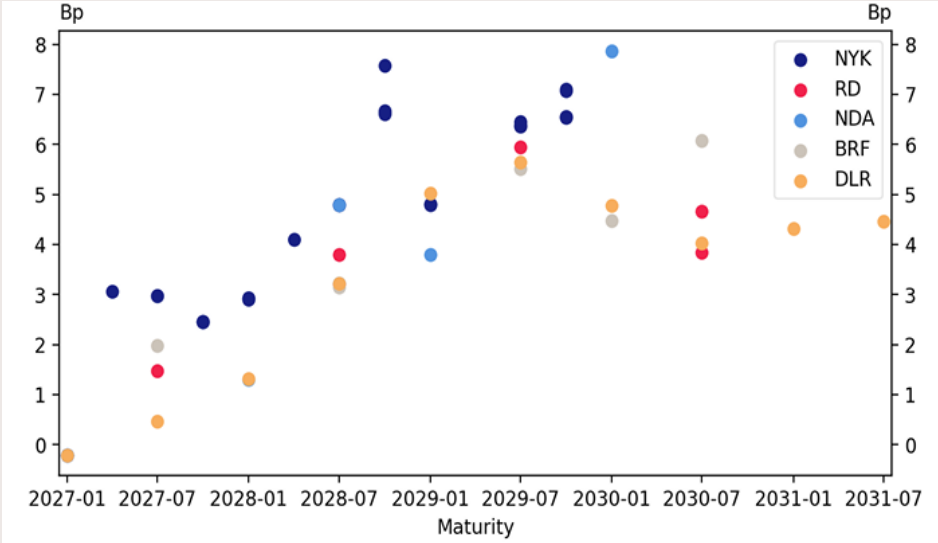
FRNs: Inexpensive?

- Recent issuance has pushed FRN spreads wider vs bullets.
  - Friday's taps went slightly better (see bottom chart), which may suggest that the spread widening vs bullets is beginning to stabilise.

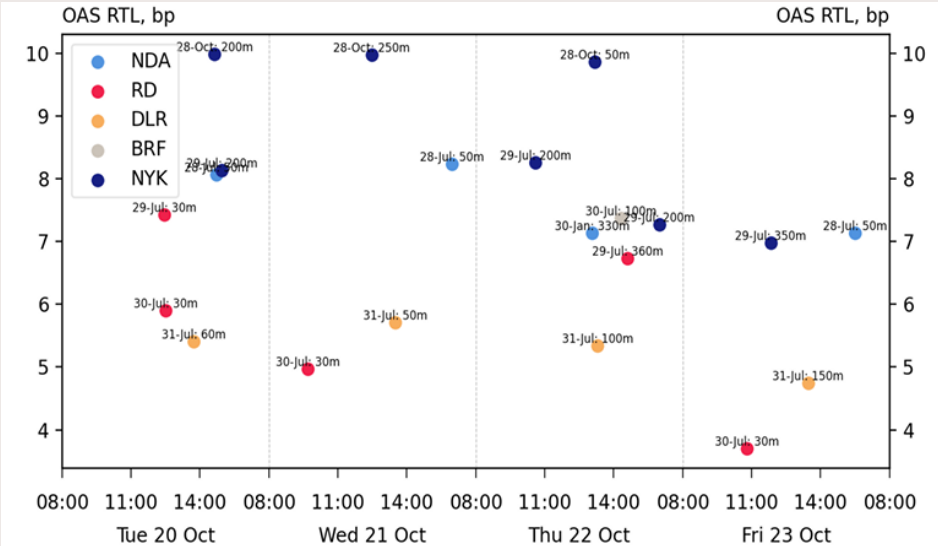
- Jul29 and Jul30 FRN are currently trading at the same or wider spreads to the bullet curve than Jul28.
  - We see the pressure on OTR bonds as a good opportunity to roll out of Jul28 FRNs at attractive levels – before the DKK 200bn of Jul28 FRNs become short enough for many investors to want to roll out, potentially putting this maturity under particular pressure.

- Accordingly, we recommend:
  - Jul29 FRN > Jul28 FRN
  - Jul30 FRN > Jul28 FRN

FRNs: Spreads vs bullets



Taps of benchmark FRNs Spreads vs bullets



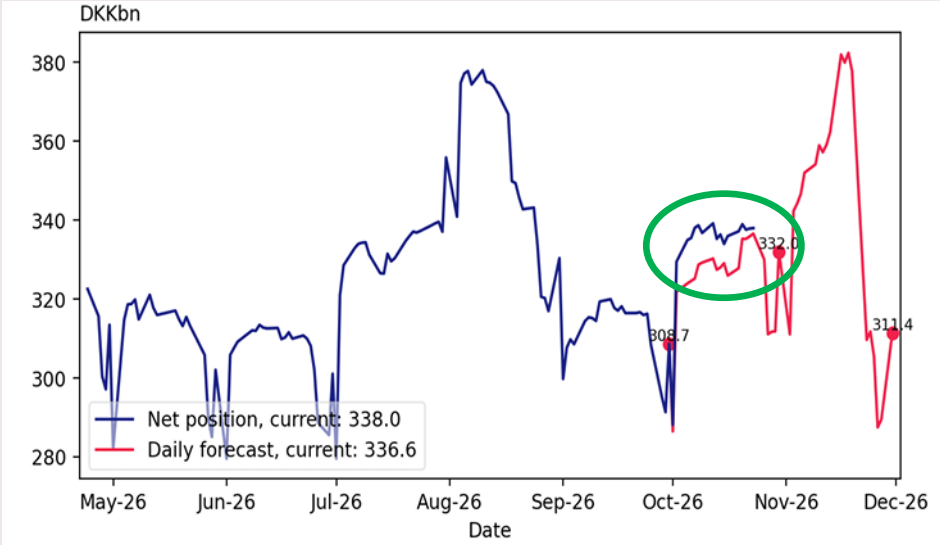
Liquidity: Suspense right to the end!

- Once again, the net position appears to converge towards the daily forecast towards the end of the month.
  - As over the past few months, the net position started October higher than indicated by the daily forecast.
  - However, the gap has narrowed in the second half of the month.
  - Hence, October is unlikely to bring any surprises on the liquidity front.

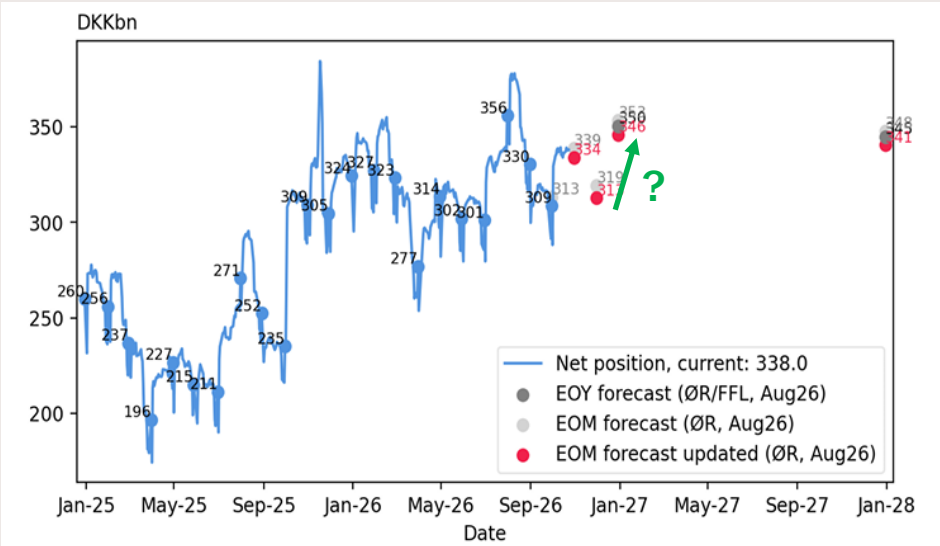
- November will be more eventful on the liquidity front – with a net position starting at DKK 332 billion, peaking at around DKK 380 billion and ending at around (an expected) DKK 311 billion.
  - Developments depend, among other things, on corporation tax payments, which are subject to uncertainty. We're following this development closely!

- The development in December is at least as exciting as in November on the back of the sizeable "catch-up" in the net financing requirement assumed in the latest forecast from the Danish Ministry of Finance.
  - If this holds, the net position will land at about DKK 350 billion at the end of 2026.

Net position and daily forecast (incl. issuance)



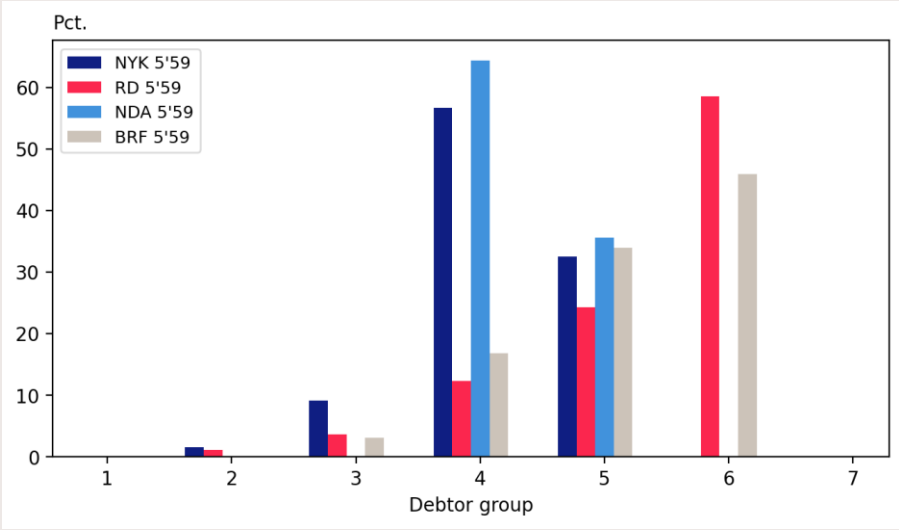
Net position and monthly forecast



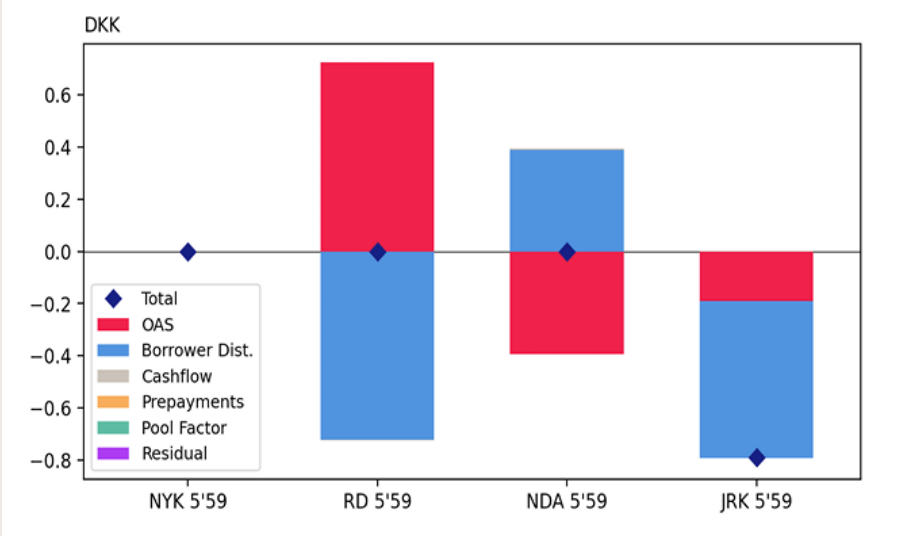
5'59: Large loans?

- The first round of debtor distributions for 5'59s has arrived!
  - Loans of DKK 10–50 million (debtor group 6) account for a relatively high proportion of RD and JRK 5'59, see top chart.
  - Overall, loans over DKK 3 million (debtor groups 5–7) account for about 80% for both RD and JRK. That is more than the usual 40–50% for 30Y annuities from these issuers.
  - Taking these debtor distributions at face value, our model suggests that, *all else equal*, RD 5'59 should trade about DKK 0.70 cheaper than NYK 5'59 due to the debtor distribution, see the bottom chart.
- However, the debtor distributions are currently based on a relatively limited volume of loans.
  - As we have seen several times before, this can result in some "extreme" debtor distributions, which are likely to "normalise" if there is further issuance of the bonds.
  - We have developed a methodology to account for expected future issuance based on the "typical" debtor distributions for RD's and NYK's 30Y annuities. Using this methodology, the OAS on RD 5'59 changes from being 16.5 bp lower than that of NYK5'59 to being 7.2 bp lower.
  - In other words: According to the model, the price difference should be "only" just under half of the DKK 0.70!
  - We call the methodology for adjusting debtor distributions for expected future issuance CK92 NYK, and we have described it in a previous research note and in the latest issue of Finans/Invest.
  - Key figures based on CK92NYK debtor distributions can be found in our key figures file.

Debtor distributions in 5'59s



Price differences and model-based decomposition



Recommendations

- We are initiating a new recommendation of 5Y bullets vs 4'59, spread risk neutral, swap-hedged and funded including swap or swaptions overlay to hedge volatility exposure (see also slide 6).
- We also maintain our other recommendations.

Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	-0.11	-0.23	-1.73
2026-08-21	3Y FRN vs RTL	-0.01	-0.01	-0.02
2026-09-10	4'59 vs. RTL5	-0.14	-0.23	-0.22
2026-10-05	RTL1 vs RTL5	0.00	0.06	0.12

Outlook recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2025-08-25	CITA vs CIBOR 3M FRN	0.00	-0.00	-0.01
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.09	-0.12	-1.86
2026-01-26	4'56 vs RTL5	-0.05	-0.16	0.00

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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