Fixed Income Update Week 45



Jacob Skinhøj
Peter Bache
Veronica Bergstrøm
Jakob Friis Frand-Madsen

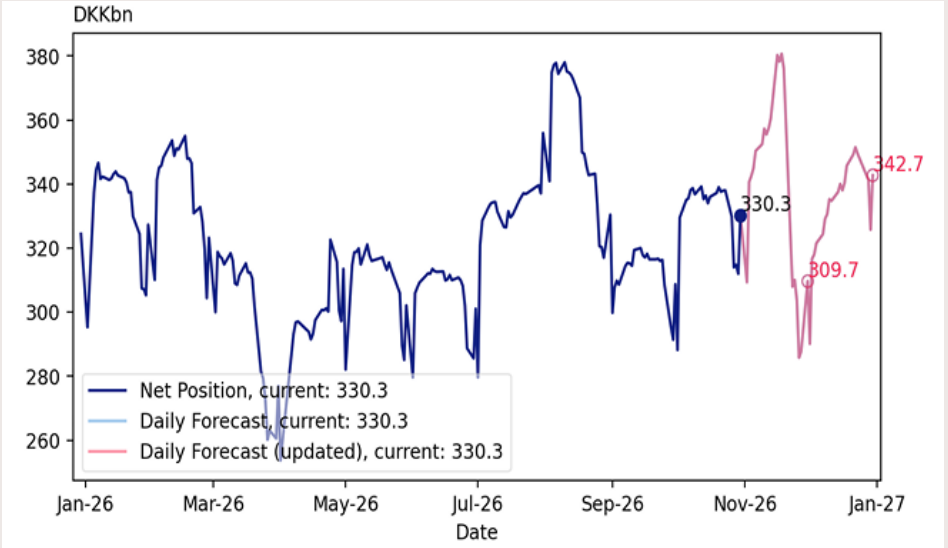
Nykredit

Liquidity

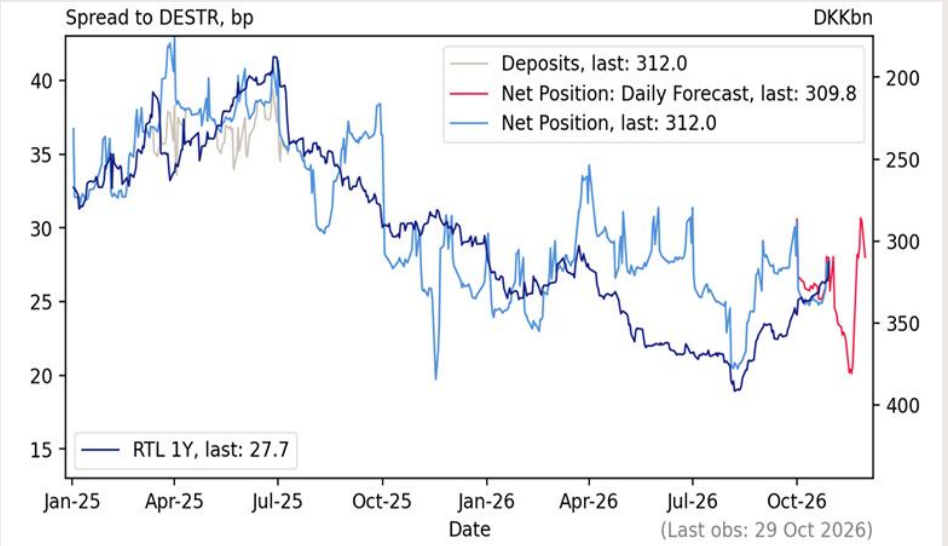
- A daily forecast of the net position is now available all the way through to year-end.
  - November and December look set to be something of a rollercoaster in liquidity terms.
  - If the forecast proves accurate, the net position will rise from its current level of DKK 330 billion to DKK 380 billion in mid-November, before falling to DKK 310 billion at the end of November. It will then rise again in December and end the year at just over DKK 340 billion.
  - However, there is still a possibility that the net position will end up below the projected level of just over DKK 340 billion at end-2026 if the net financing requirement disappoints relative to the forecast. We currently consider this likely.

- November's refinancing auctions are expected to take place from 16 to 20 November – just as the net position is peaking for the month.
  - If short-dated bullets gain momentum from the increase in liquidity in the first half of November, while the net position is heading towards DKK 380 billion, there is reason to exercise some caution when buying them, including at the auctions, as the liquidity tailwinds could quickly reverse.

Net position and daily forecast (incl expected issuance)



Net position and 1Y bullet spread vs DESTR

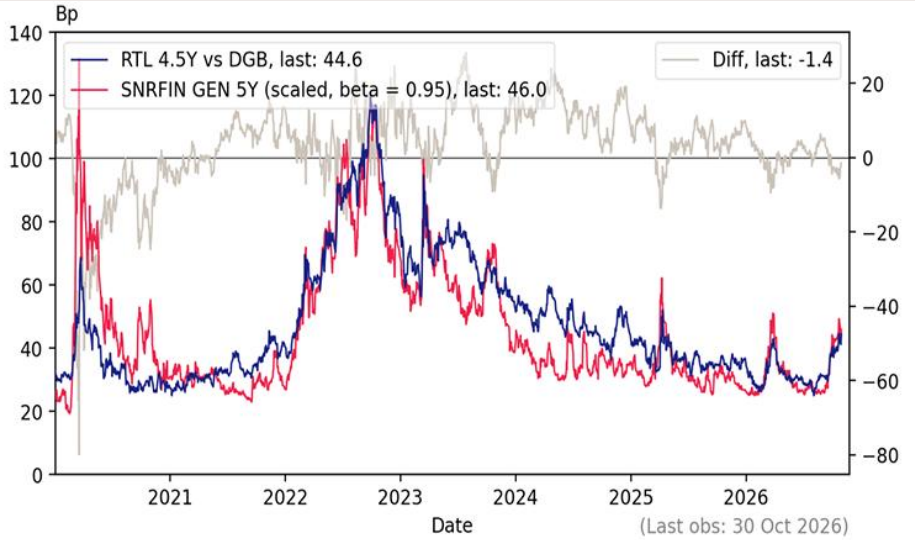


Bullets have fallen right on cue

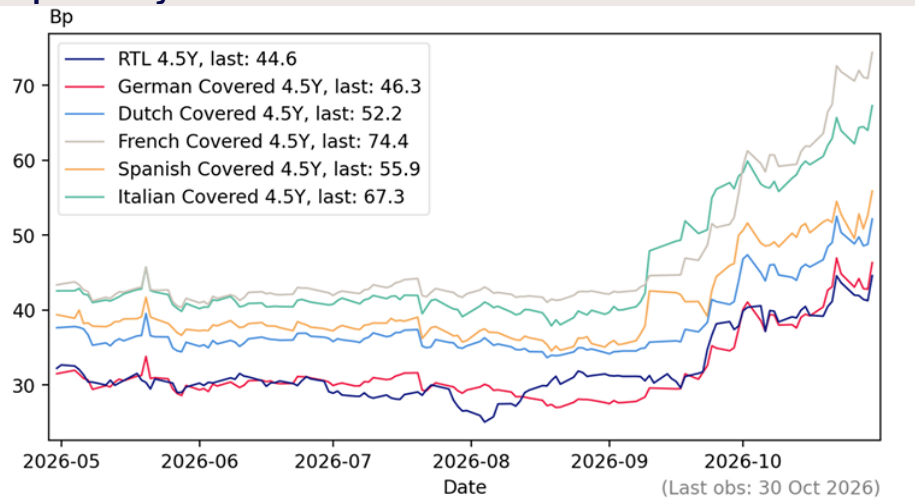
- The spread of 4.5Y bullets to Danish government bonds has moved entirely as expected.
  - Historically, there has been a fairly strong correlation between the bullet-DGB spread and iTraxx Senior Financials, and this has also been the case this time around (see upper chart).
  - The bullet-DGB spread has also closely tracked the spread of German covered bonds to DBRs (see lower chart).

- When bullets have not widened more against swaps than they have, this therefore appears largely attributable to the generally high credit quality of Denmark compared with certain other countries, including its sound public finances and low government debt.
  - Se also next page.

Bullet spreads to DGB and iTraxx Senior Financials



Bullets and EUR covered bonds Spreads to DGB and DBR, respectively



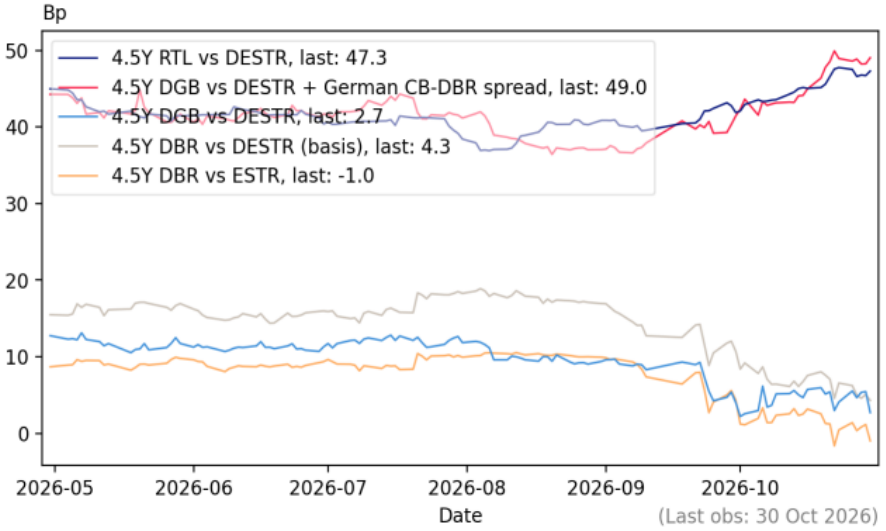
Bullets = DGB + covered bond pick-up

- If the bullet spread to DGBs has tracked the spread of German covered bonds to DBRs, the bullet spread to DESTR can be viewed as a combination of the DGB spread to DESTR and a "covered bond pick-up" broadly in line with the German equivalent (see upper chart).

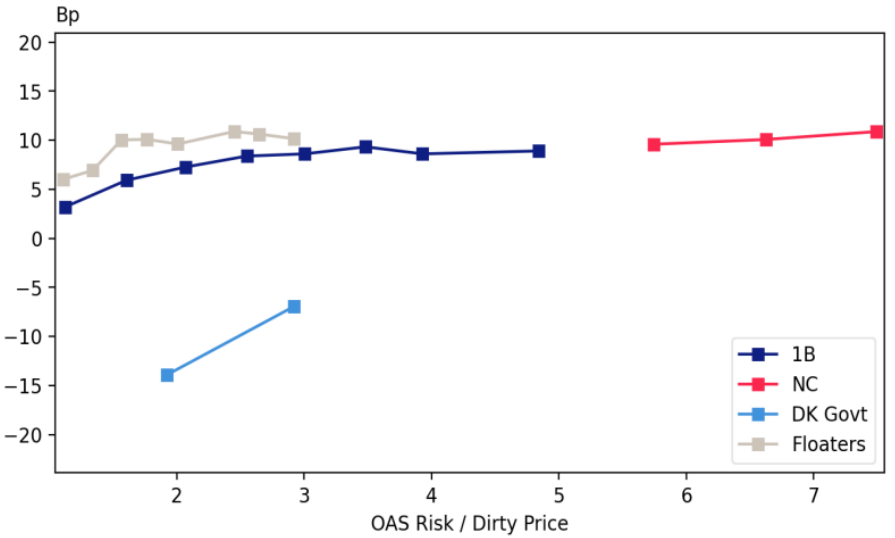
- Danish government bonds have not tracked German government bonds one-for-one in their widening against swaps in recent months (see upper chart).
  - However, compared with the situation in June or July, the difference is limited, and DGBs have held up reasonably well against DBRs.
  - Dansh covered bonds therefore appear to be benefiting from Denmark's generally high credit quality.

- Overall, bullet spreads to DESTR have flattened since early August, and we now have greater conviction in the 3.5-year point on the bullet curve than in the longer maturities.
  - We are therefore opening a recommendation of Jul30 bullets vs Jan32 (hedged and funded and with a spread-risk-neutral weighting).

Bullet-DGB spreads



Hedged and funded HPR (via DESTR OIS)



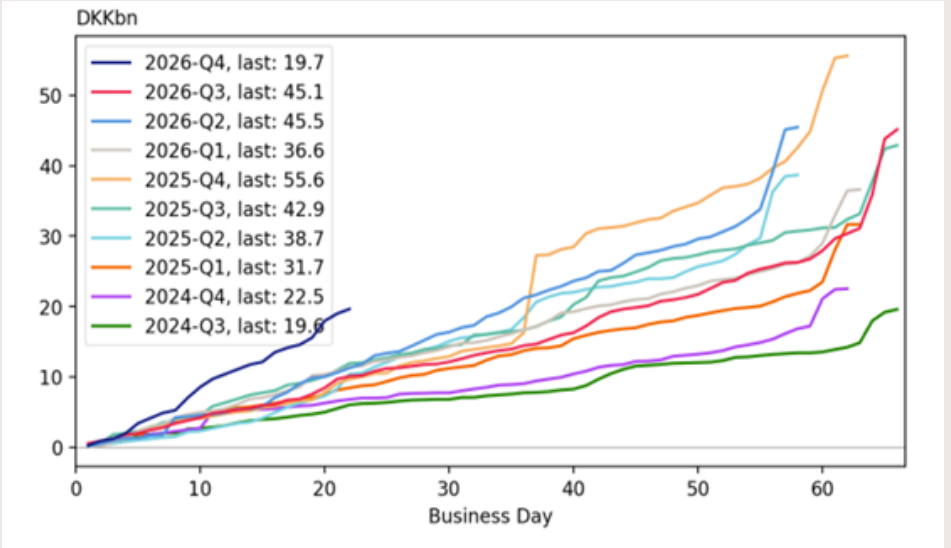
FRN spread defy heavy issuance?

- October saw FRN issuance running at full speed.
  - In fact, we have to go back to 2022 to find a month with a similarly high level of ongoing FRN issuance.

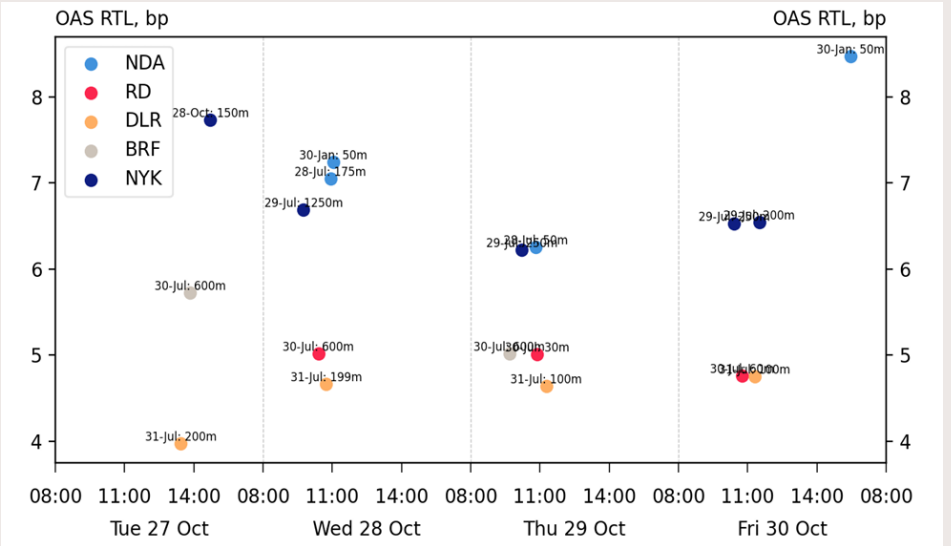
- FRN spreads to the bullet curve appear to have stabilised after widening by 1-2bp.
  - This should be viewed partly in light of the likelihood that the high level of FRN issuance will ease by the time the coupons reset again at the turn of the year.
  - Issuance may, however, start to ease sooner if FRN issuance in October has been related to early refinancing of the bullets maturing at the January payment date.
  - We do not expect FRNs to widen any further vs bullets from here and see good value in FRNs at current levels.

- NYK will switch on 9 November from issuing loan offers based on its Jul29 FRN (955469) to issuing loan offers based on a Jan30 FRN (955582).

Accumulated quarterly FRN issuance (OMX)



FRN spreads vs bullets in the latest taps (benchmark FRN)



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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Nykredit Bank A/S – Sundkrogsgade 25 – DK-2150 Nordhavn – Tel +45 44 55 10 00 – Fax +45 33 12 04 34