Fixed Income Update Week 48



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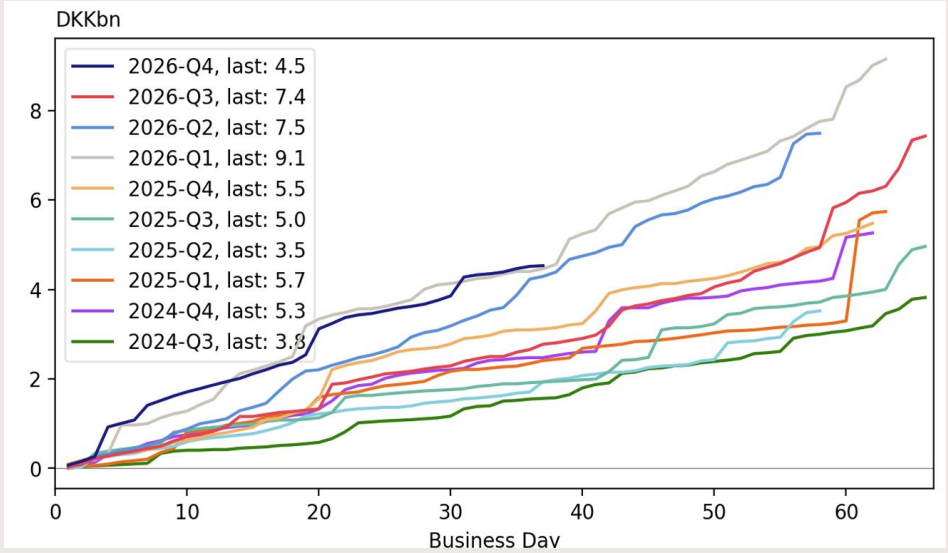
Large year-end issuance expected between Christmas and New Year

- DKK 26.5 billion remains outstanding following last week's refinancing auctions and needs to be refinanced by 1 January.
- As previously noted, RD has likely refinanced part of the maturity ahead of the auctions.
- This amounts to around DKK 2 billion of additional 5Y bullet issuance from RD (see top chart).
- This leaves around DKK 24.5 billion still to be refinanced.
- Prepayments as of 1 January from callables are limited this time, at just DKK 5 billion in total, and will therefore make a smaller contribution to overall year-end issuance.
- Overall, we therefore expect end-of-year issuance of DKK 25-28 billion, which is likely to consist primarily of FRNs issued between Christmas and New Year.

RD's 5Y bullet issuance



Expected end-of-year issuance

	Expected offering
FRNs	DKK 16-18 billion
Bullets	DKK 8-9 billion
Callables	~ DKK 1 billion
Total	DKK 25-28 billion

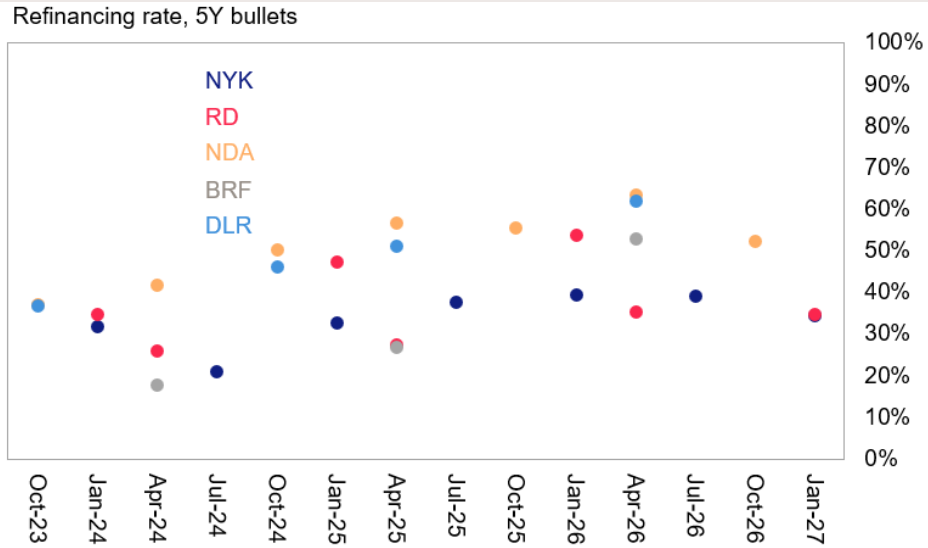
February refinancing

- With the November refinancing auctions completed and end-of-year issuance expected to consist primarily of FRNs, we do not expect any significant bullet supply before year-end.
- However, almost DKK 140 billion of bullets mature on 1 April and will need to be refinanced at the February auctions.
- If the February refinancing auctions follow the same pattern as last week's auctions, this would imply total issuance of DKK 95 billion, comprising DKK 50 billion of 1Y bullets, DKK 24 billion of 3Y bullets and DKK 16 billion of 5Y bullets.
- The FRNs will reset to a higher coupon on 1 January, and we expect this to result in a higher overall refinancing percentage.
- Furthermore, the 5Y bullet maturity at the February auctions is primarily distributed across RD, NDA, JRK and DLR, with the latter three in particular having tended to record higher refinancing percentages in 5Y bullets.
- By contrast, NYK, which tends to have a low refinancing percentage in 5Y bullets, has only a very limited 5Y bullet maturity.
- As things stand, we expect 5Y bullet offering to be closer to DKK 20 billion, while we consider it most likely that issuance of 1Y and 3Y bullets will follow the pattern seen at the recently completed auctions.
- Overall, therefore, we expect a sizeable volume of bullet supply at the February auctions.

Bullet maturity at 1 April

	Total	1Y	2Y	3Y	4Y	5Y
NYK	28,966	21,800	3,420	1,335	870	1,540
RD	50,252	20,521	1,298	8,196	509	17,357
NDA	19,094	1,807	529	5,253	124	11,382
JRK	27,964	1,529	1,369	11,578	794	10,007
DLR	13,465	434	619	4,616	524	7,273
Total	**139,742**	**46,091**	**7,235**	**30,977**	**2,822**	**47,560**

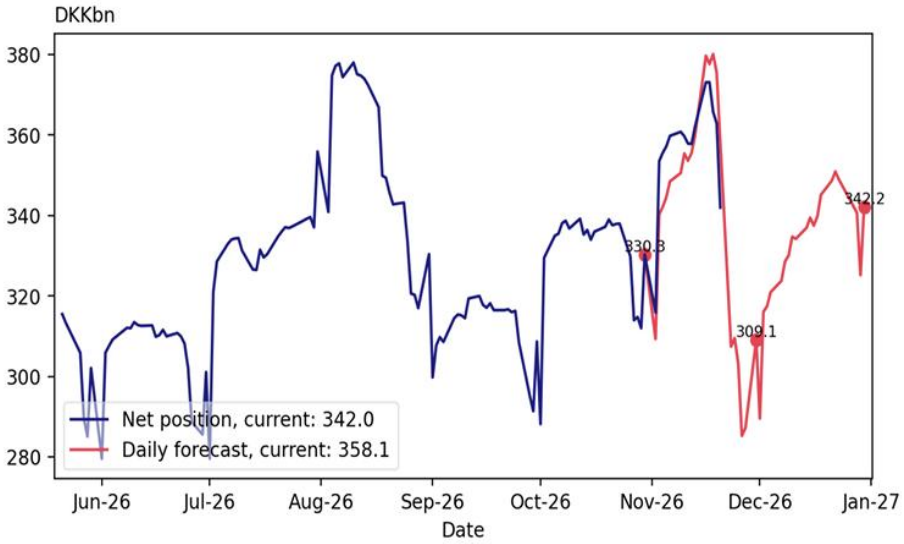
Refinancing percentages, 5Y bullets



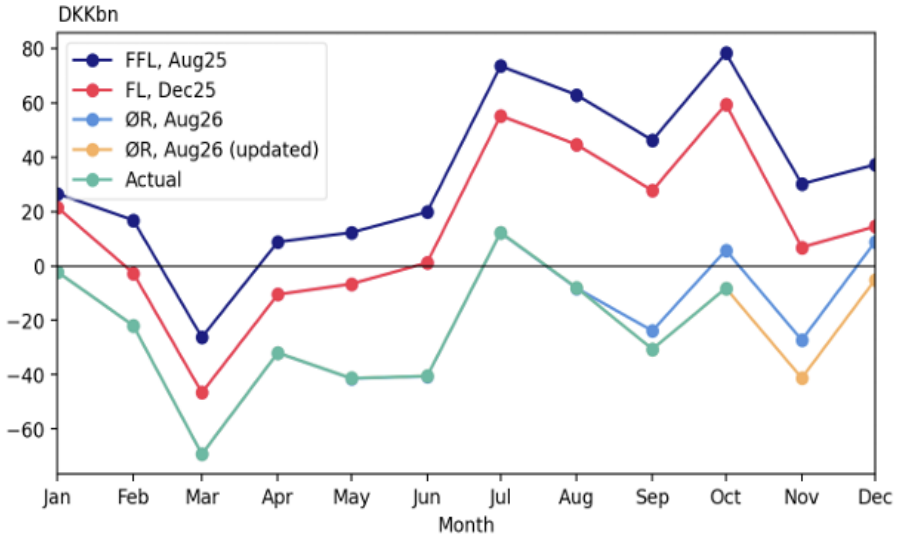
Liquidity lagging behind forecast?

- Despite (yet another) strong start to the month, the net position is currently around DKK 16 billion below the level implied by Danmarks Nationalbank's daily forecast (adjusted for issuance)
  - Part of the shortfall is due to the redemption of DGB'26 being smaller than the amount outstanding in August, on which the daily forecast was based, as a result of buybacks in the intervening period.
  - A large part of the difference is also likely due to corporation tax payments last week, ie ahead of the deadline, being higher than assumed in the forecast.
  - This afternoon, we will get a better idea of whether total corporation tax payments up to and including the deadline exceed the forecast, or whether last week's higher-than-expected payments merely reflect a timing difference. This makes today's net position figure particularly interesting.
- It will also be interesting to see to what extent the overall net financing requirement in November, of which corporation tax payments are one component, matches the forecast, or whether it once again "disappoints".
  - This will also affect confidence in the forecast increase in the net position in December.
  - Data for November's net financing requirement will be available next Wednesday (2 December).

Net position and daily forecast



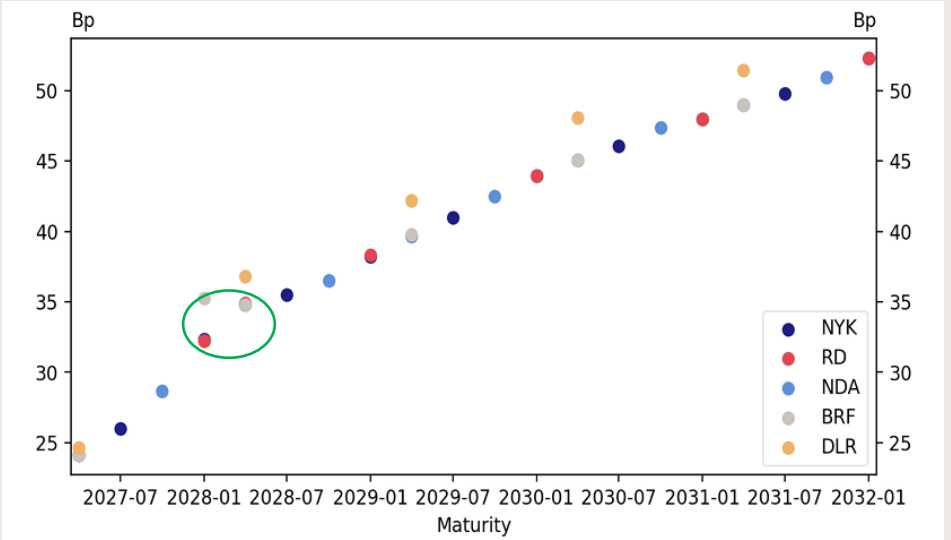
Central government's financing requirement



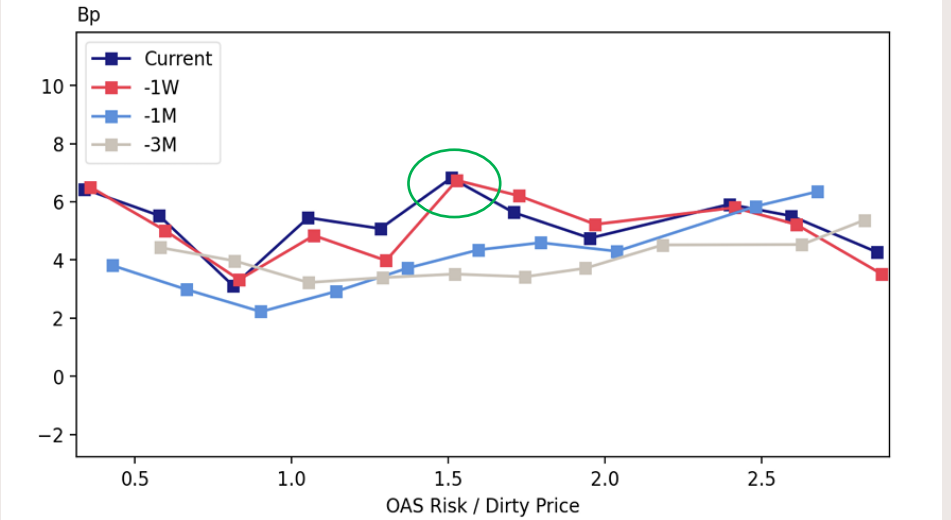
Opportunities at the short end

- We published a research note on Friday highlighting that Jan28 and Apr28 bullets, as well as Jul28 and Oct28 FRNs, offer relatively good value.
  - Jan28 and Apr28 bullets traded cheaply at last week's auctions and now trade cheap relative to surrounding maturities.
  - Jul28 FRN has widened versus the bullet curve, also relative to other FRNs, due to the size of this maturity and emerging demand from several investors to roll further out the curve from this maturity.
  - Oct28 FRN looks relatively attractive when also allowing for roll on the FRN-bullet curve. Oct28 is essentially a Cibor 3M FRN, which investors have previously viewed with some reservations. However, these concerns have diminished considerably following the recent development in the spread between Cibor 3M and Cita/DESTR swaps.
- The risk, of course, is that these maturities cheapen further relative to surrounding maturities. However, the supply outlook and the experience with FRN spreads in 2022/2023 mitigate this concern.
- We therefore remain positive on Jan28/Apr28 bullets and Jul28/Oct28 FRNs and on Friday opened recommendations in these bonds versus surrounding bullets/FRNs.
  - Read more here

Bullet spreads vs DESTR: LCR-1B/SD(R)O



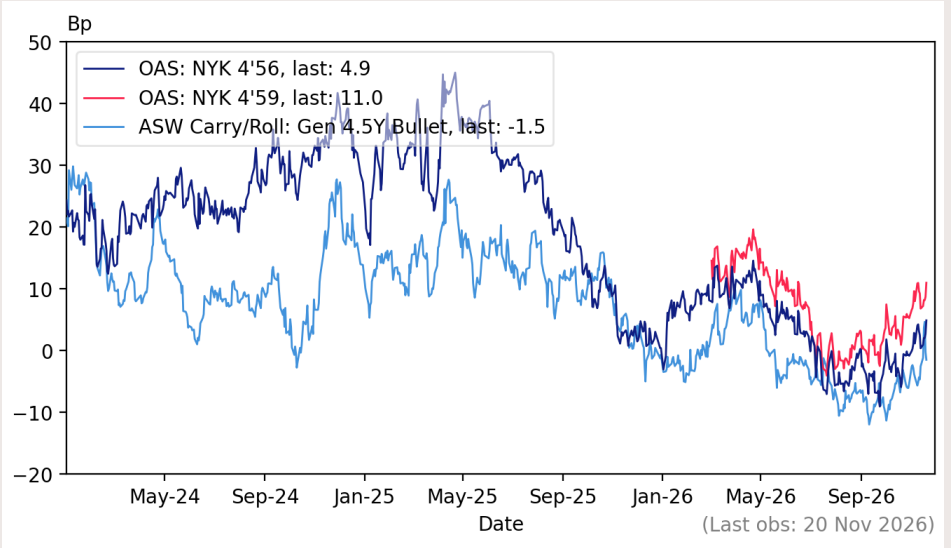
FRNs spreads vs bullet curve



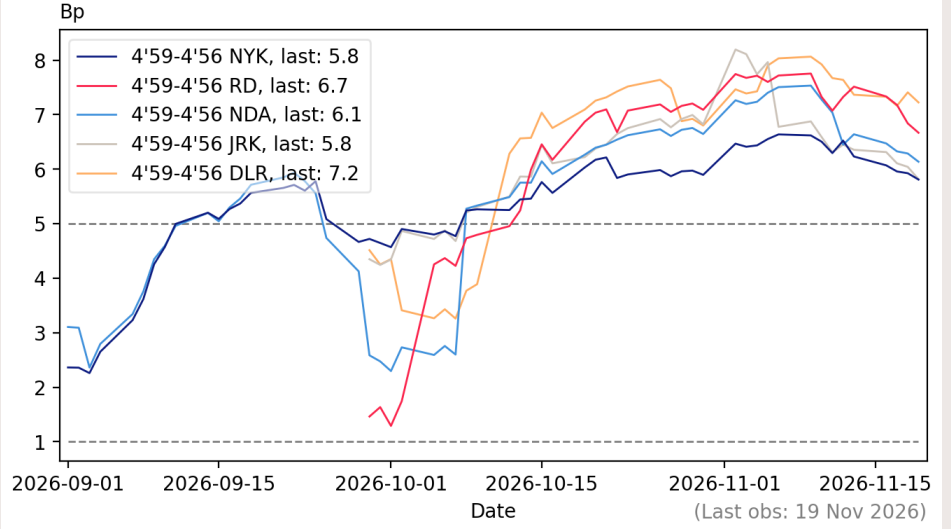
The overlooked callables

- Last week's soft bullet refinancing auctions led to spread widening across the bullet segment, with longer-dated bullets widening by 2-3bp.
- Meanwhile, callables widened only marginally in OAS, prompting us to write on Thursday that 4'56 in particular had become too expensive relative to 5Y bullets (read more here).
- We therefore also switched our recommendation from 4'59 vs 5Y bullets to 4'56 vs 5Y bullets, on a duration-neutral basis and including swap overlays to hedge the volatility exposure.
- Callables cheapened slightly over Thursday and Friday, improving the relative pricing, but we still believe that 4'56 needs to widen a little further in OAS.
- We also opened a recommendation of 4'59 vs 4'56, as the current vintage spread is 6-8bp and we expect it to tighten to 2-3bp.

Callables are too expensive relative to 5Y bullets



OAS maturity class spread between 4'59 and 4'56 (CK92NYK)



Fair price spreads

- We believe the maturity class spread is mainly driven by differences in liquidity and index representation, as well as a premium attached to being an on-the-run rather than a buyback bond.
- The current outstanding amount of 4'59s is just over DKK 12 billion.
- While this is still significantly smaller than the approximately DKK 165 billion outstanding in 4'56s, we believe the current size is sufficient to allow investors to enter and exit positions in 4'59s at reasonable levels.
- In addition, limited issuance of callables supports a lower issuance premium.
- At the same time, we believe the large outstanding amount of 4'56s limits the potential for a squeeze, unlike in, for example, 4'53s.
- Against this backdrop, we expect the maturity class spread to tighten from the current 6-8bp to 2-3bp across issuers over the coming months.
- This corresponds to a DKK 0.20-0-40 tightening of the price spread, as shown in the table to the right.

The price spread is expected to tighten by DKK 0.20-0.40

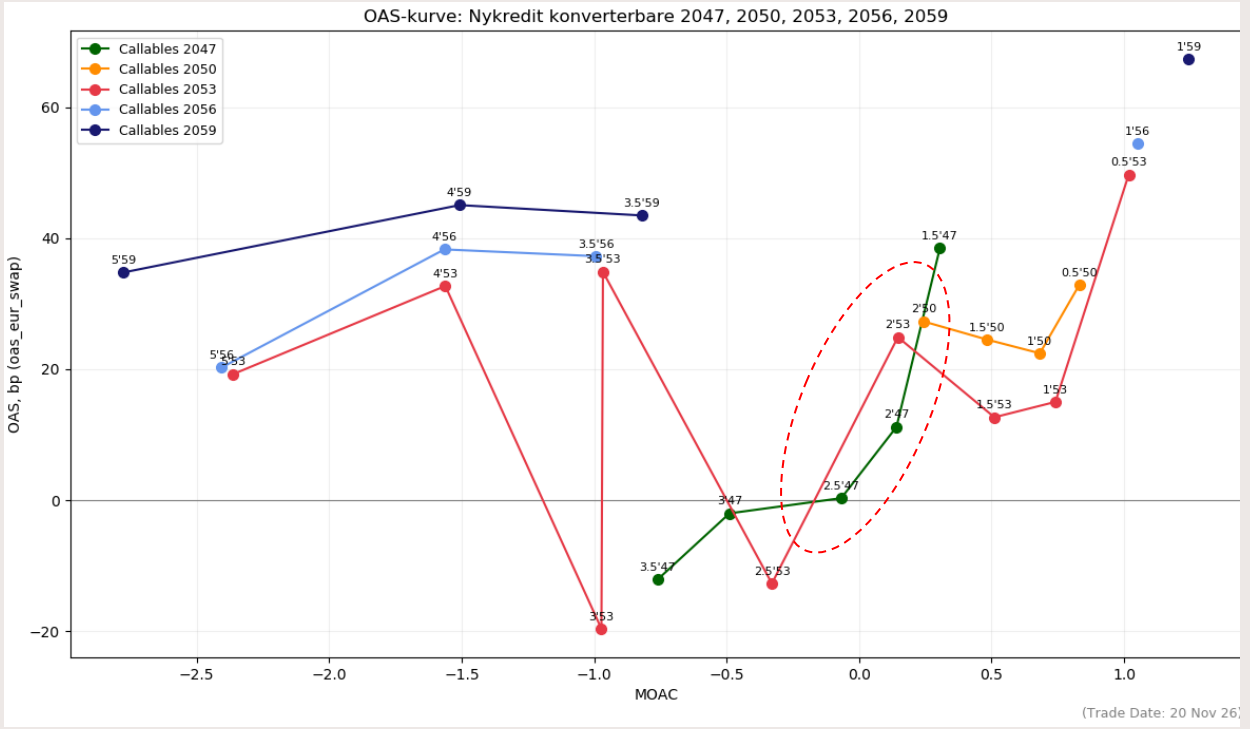
		Kursspænd 4'59-4'56 (DKK) hvis OAS-spændet er:				
Udsteder	Kursspænd nu	5 bp	4 bp	3 bp	2 bp	1 bp
NYK	-0.93	-0.87	-0.80	-0.73	-0.66	-0.59
RD	-1.03	-0.91	-0.84	-0.77	-0.70	-0.64
NDA	-1.01	-0.92	-0.85	-0.78	-0.71	-0.64
JRK	-1.03	-0.96	-0.89	-0.82	-0.76	-0.69
DLR	-1.06	-0.90	-0.83	-0.76	-0.69	-0.62

(Last obs: 20 Nov 2026)

Increased trading activity in low-coupon bonds

- The closure of mandates has led to increased trading activity in low-coupon bonds.
- In particular, 2.5% 2047, 2.5% 2047 IO and 2% 2050 IO have seen significant spread widening of 10-22bp over the past month.
- There is a clear correlation between the increased trading activity and the spread widening in this segment.
- Buybacks in the segment are very limited, and trading volumes over the past month alone have therefore been equivalent to several years of buybacks.
- The question, of course, is whether further mandates will be closed and, consequently, whether the elevated trading activity in low-coupon bonds will continue.
- In our view, the worst is over for now, and we do not expect to see any further major mandate closures this year.
- However, OTR bonds have not escaped unscathed either, widening by 6-8bo over the past few weeks.

EUR swap OAS – selected callables from Nykredit

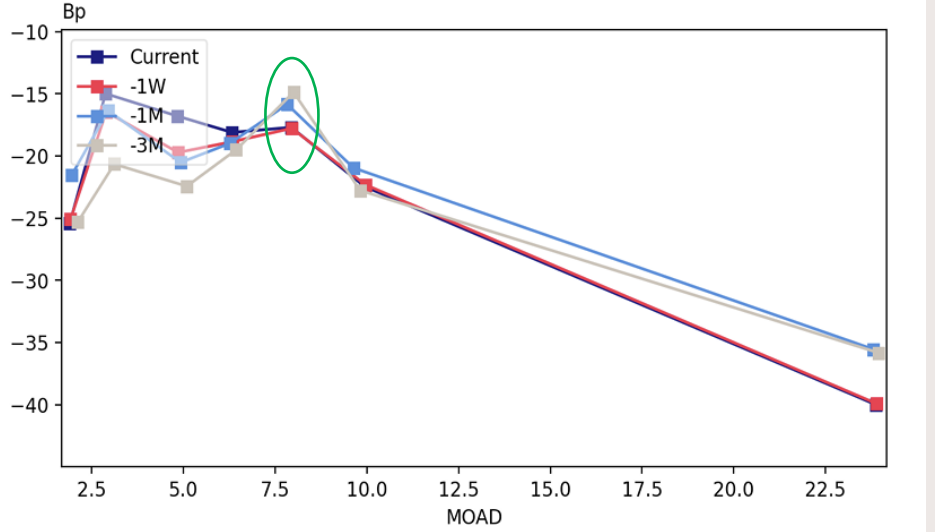


DGB(i)

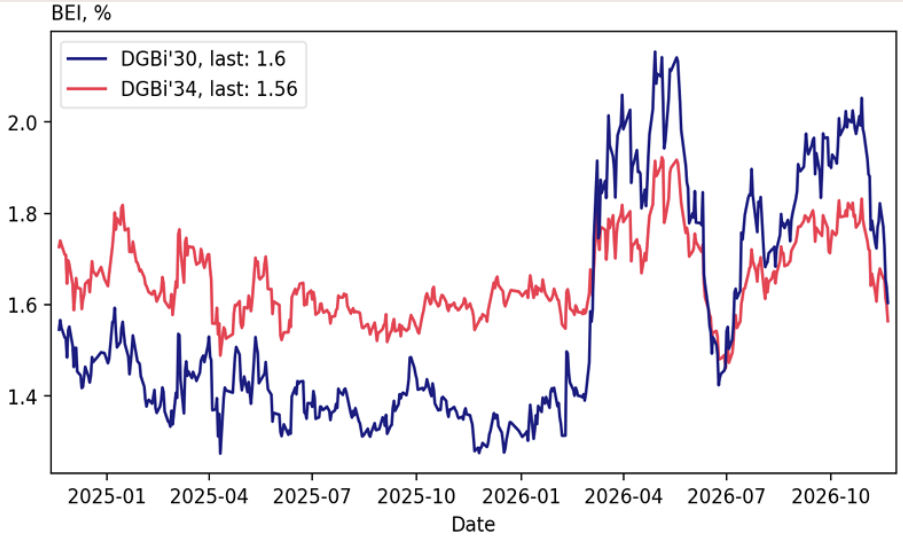
- Relative to surrounding Danish government bonds, DGB'35 has outperformed versus German government bonds over the past month (top chart).
  - Versus DESTR, DGB'35 has remained largely unchanged over the past month, while surrounding maturities have underperformed.
  - This also means that investors now have to move further out the curve to find the highest hedged and funded return, adjusted for spread risk.
  - The issuance premium in DGB'35 has therefore declined, and we currently see slightly less value in DGB'35.

- Falling inflation expectations have driven BEI (break-even inflation) in DGBi'30 and DGBi'34 significantly lower since the end of October, in line with the moves seen in European linkers and inflation swaps.
  - BEI has fallen more sharply for DGBi'30 than for DGBi'34, providing some much-needed tailwind to our recommendation of DGBi'34 vs DGBi'30.
  - BEI on DGBi'34 remains lower relative to European inflation swaps and linkers than is the case for DGBi'30. We therefore continue to see value in DGBi'34 from here.

DGB: Spreads vs DBR



Break-even inflation (seasonally adjusted)



Recommendations

- We have changed our recommendation of 4'59 vs 5Y bullets to 4'56 vs 5Y bullets on a duration-neutral basis and including swap overlays to hedge the volatility exposure (see also slide 6).
- Our new recommendation of 4'59 vs 4'56 has traded sideways and has so far merely cost us the transaction costs.
- We maintain all our recommendations this week.

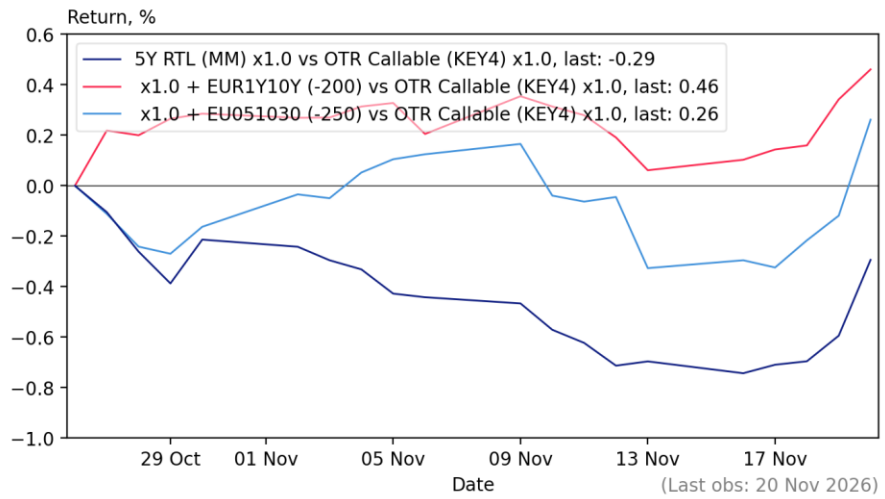
Current recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-06-15	DGBi'34 vs DGBi'30 (BOX)	-0.05	0.63	-0.64
2026-08-21	3Y FRN vs RTL	-0.00	-0.00	0.00
2026-11-02	RTL jul30 vs jan32	0.00	-0.02	0.03
2026-11-18	4'59 vs. 4'56	0.00		-0.05
2026-11-20	Jan28/apr28 vs jul27/jan29 RTL			-0.01
2026-11-20	Jan28/apr28 vs jul27/jan29 RTL			-0.01

Outlook recommendations

Opening date	Name	Return 1bd	Return 5bd	Total (incl. costs)
2026-01-15	NYK 4'56 vs RD 5'56 + JRK 1.5'53 IO	-0.03	-0.20	-1.70
2026-01-26	4'56 vs RTL5	-0.17	-0.31	0.43

5Y bullets + overlay vs OTR callable



Nykredit markets

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Recommendation	
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Sell	50%

As at 13.12.2024

Note: Distribution of our recommendations, which therefore add up to 100%.

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