End-of-year issuance

We expect large FRN offering between Christmas and New Year!

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- We expect end-of-year issuance of around DKK 25-28 billion, primarily driven by non-refinanced bullets maturing on 1 January
- The issuance will likely be concentrated mainly on 28 and 29 December, with FRNs accounting for the majority of the offering
- Lower liquidity may put widening pressure on spreads in the coming period, potentially making the year-end issuance an attractive opportunity to buy FRNs.

We expect the outstanding amount from the refinancing to be primarily driven by ARMs borrowers looking to switch to FRN-funded loans. End-of-year issuance is therefore expected to comprise DKK 16-18 billion-worth of FRNs and DKK 8-9 billion-worth of bullets, while callable issuance is once again expected to be modest. Liquidity conditions may put pressure on bullet and FRN spreads towards year-end. After New Year, we expect the FRN-bullet spread to tighten somewhat as issuance pressure eases. We therefore see the year-end issuance as a potentially attractive opportunity to buy FRNs. We are more cautious on bullets, where higher daily issuance, the February refinancing auctions and the usual decline in net position could put pressure on spreads into the new year.

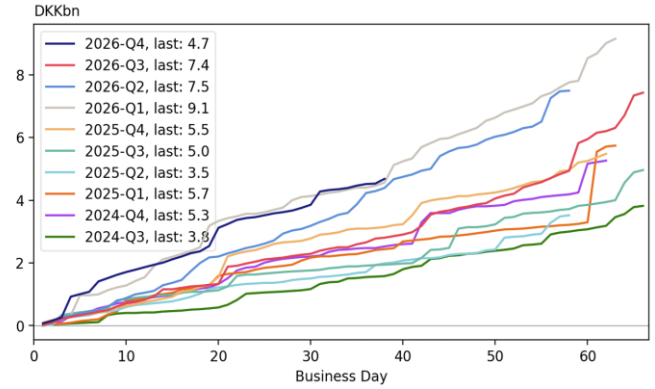
NYK has the largest outstanding refinancing need

	Total	1Y	2Y	3Y	4Y	5Y
NYK	15,836	- 4,220	908	1,994	243	15,218
RD	8,767	- 10,775	1,439	275	1,607	16,359
NDA	165	- 45	1	47	15	31
JRK	1,792	1,674	117	-	-	-
DLR	-3	12	17	-4	-36	8
Total	**26,556**	**-13,354**	**2,483**	**1,761**	**1,829**	**31,616**

Outstanding refinancing assumes an 85% refinancing rate. Negative figures indicate that an issuer has offered more at the refinancing auctions than its maturing volume.

Source: Nykredit Markets

Larger daily issuance of 5Y bullets from RD this quarter



Source: Nykredit Markets

A sizeable share of maturities remains to be refinanced

The overall refinancing percentage for bullets at last week's refinancing auctions was just 68%. We normally assume that 85% of bullet maturities will be refinanced, leaving DKK 26.5 billion still to be refinanced. As we have previously pointed out, RD's issuance of 5Y bullets has increased considerably this quarter. In our view, this reflects early refinancing, as was the case in Q4 last year and Q1 this year. The refinancing percentage for FRNs was, as usual, high (>90%), and we do not expect any material outstanding refinancing need from this segment. Adjusting for RD's early refinancing, we therefore estimate that around DKK 24.5 billion remains outstanding from the refinancing auctions.

We expect the outstanding refinancing need to be primarily driven by borrowers looking to refinance their ARMs into FRN-funded loans due to the currently low coupon. There is little immediate reason to enter into a fixed-price agreement for a FRN-funded loan, and we therefore expect these borrowers to refinance as part of the year-end issuance.

Year-end issuance expected to concentrated on 28-29 December

The final opportunity this year to issue bonds for settlement on the first trading day of 2027 is 29 December. If the issuers want to spread issuance over several days, their other option is to issue on 23 December. Most of the outstanding refinancing need lies with NYK, which typically tends to issue on the second and third-last trading days of the quarter, whereas RD and NDA have occasionally entered the market slightly earlier. We therefore expect year-end issuance to be concentrated mainly on 28 and 29 December.

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Prepayments in callables at the January payment date amount to just DKK 5 billion, some of which will have been subject to fixed-price agreements. Prepayments are therefore expected to make only a very modest contribution to year-end issuance this time. In addition, there will be the usual month-end issuance related to housing transactions. We therefore expect total year-end issuance in December of DKK 25-28 billion, comprising DKK 16-18 billion-worth of FRNs, DKK 7-9 billion-worth of bullets and around DKK 1 billion-worth of callables.

Should investors buy at year-end?

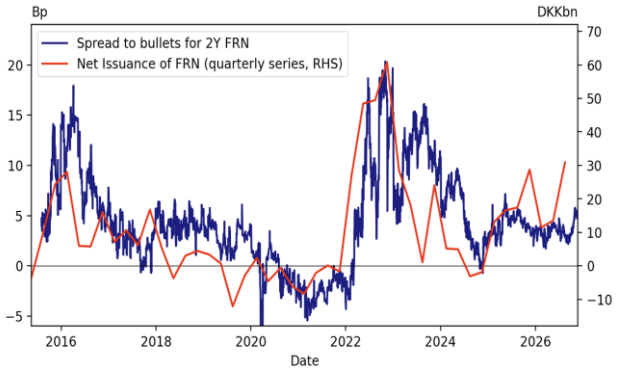
Bullets have continued to widen this week on the back of wider credit spreads and a larger-than expected decline in the net position on Monday. Moreover, the liquidity outlook for Q1 2027 has deteriorated, as discussed in our recent research note here. All else equal, we expect bullets to underperform DESTR by up to 5bp over the coming months from current levels as liquidity declines. We do not expect any material change in the FRN-bullet spread before year-end either. In other words, we expect FRNs to follow bullets wider as liquidity deteriorates.

On the other side of the year-end, however, we expect the FRN-bullet spread to tighten somewhat as issuance pressure, which has caused the spread to widen over the autumn, starts to ease (see chart). At the same time, no major FRN supply is expected at the February refinancing auctions, where issuance will probably be just over DKK 30 billion.

We expect year-end issuance to provide an attractive opportunity to buy FRNs at reasonable levels. If the anticipated spread widening occurs earlier, we would also be positive on buying FRNs in daily issuance ahead of year-end.

We are less optimistic about year-end issuance presenting an attractive opportunity to buy bullets. For one thing, daily bullet issuance could pick up in the new year as a result of the new, higher coupon on FRN-funded loans. For another, a sizeable volume is again expected at the February refinancing auctions, driven by DKK 140 billion of bullet maturities at the April payment date. Combined with the usual decline in the net position in Q1, we see a risk that these factors could put pressure on bullets relative to alternatives throughout Q1.

FRN spreads vs the bullet curve and FRN net issuance



Source: Nykredit Markets

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