

Market Pulse EUR:
Auction of NETHER 0%15JAN2024
DSTA will hold a tap auction on 10 April

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Auction of NETHER 0%15JAN2024

NETHER Overview

We continue to see strength in the Dutch economy. The current joker impacting markets is the prospect of trade war, which viewed in isolation should increase the interest for core assets. In April there is further support from high redemptions, and a new Japanese fiscal year. But QE tapering keeps coming closer increasing the prospects of yields increasing and steeper curves indicating a more defensive view. On this background we see the below listed opportunities:

- Outright RV: On the curve we find the NETHER 0%15JAN2024 attractive both outright (yield) and vs swaps (see slide 5).
- Trade ideas: NETHER steepeners 10s6s are attractive in both yield-terms and in ASW-terms (see slide 4).

Timestamp: 08:15, 06 April 2018

Bond name	TTM	DUR	Yield	ASW 6m	ASW 3m	G-spread	Yield 3m horizon (R=-40bp)			3m z-scores		Amt (EURbn)	ISIN
							3m Roll	3m Carry	C&R per risk	ASW 6m	Yield		
4% 15.Jul.19	1.27	1.23	-0.65	-42.7	-37.2	-6.5	4.8	-6.4	-1.5	0.4	-0.7	14.7	NL0009086115
0.25% 15.Jan.20	1.78	1.76	-0.62	-43.5	-37.8	-3.1	7.6	-5.5	1.3	-0.5	-1.2	15.3	NL0010881827
3.5% 15.Jul.20	2.28	2.17	-0.54	-45.7	-39.7	0.1	10.1	-3.5	3.2	-0.3	-1.3	15.1	NL0009348242
3.25% 15.Jul.21	3.27	3.09	-0.38	-47.8	-41.2	1.4	14.4	0.4	4.8	-0.8	-1.4	16.5	NL0009712470
0% 15.Jan.22	3.78	3.77	-0.26	-42.4	-35.6	5.0	16.2	3.5	5.5	-1.0	-1.4	15.4	NL0011896857
2.25% 15.Jul.22	4.27	4.06	-0.20	-46.9	-39.8	1.7	17.7	5.0	5.5	-1.1	-1.4	15.3	NL0010060257
3.75% 15.Jan.23	4.78	4.45	-0.11	-47.1	-39.8	1.4	19.0	7.2	5.7	-1.3	-1.4	4.3	NL0000102275
7.5% 15.Jan.23	4.78	4.22	-0.11	-49.7	-42.3	-2.5	19.0	7.2	5.7	-1.5	-1.5	8.24	NL0000102077
1.75% 15.Jul.23	5.27	5.03	-0.02	-43.6	-36.1	3.2	20.1	9.6	5.8	-1.3	-1.3	15.83	NL0010418810
0% 15.Jan.24	5.78	5.77	0.11	-37.6	-29.9	8.7	20.9	12.7	6.0	-1.3	-1.3	8.46	NL0012650469
2% 15.Jul.24	6.28	5.89	0.15	-40.8	-33.0	6.8	21.5	13.8	5.9	-1.3	-1.2	15.32	NL0010733424
0.25% 15.Jul.25	7.27	7.19	0.31	-37.4	-29.4	9.6	22.2	17.6	5.7	-1.3	-1.2	15.22	NL0011220108
0.5% 15.Jul.26	8.27	8.09	0.42	-37.6	-29.5	9.2	22.2	20.5	5.4	-1.4	-1.2	15.11	NL0011819040
0.75% 15.Jul.27	9.27	8.94	0.54	-35.7	-27.5	9.2	21.6	23.5	5.2	-1.4	-1.3	15.38	NL0012171458
5.5% 15.Jan.28	9.78	8.13	0.53	-43.6	-35.4	-8.3	21.1	23.2	4.9	-1.5	-1.3	13.03	NL0000102317
0.75% 15.Jul.28	10.28	9.91	0.66	-33.4	-25.2	11.6	20.5	26.4	5.0	-0.6	-0.7	5.85	NL0012818504
2.5% 15.Jan.33	14.78	12.72	0.88	-41.1	-33.7	13.2	12.2	32.1	3.5	-1.2	-1.3	13.56	NL0010071189
4% 15.Jan.37	18.78	14.56	0.95	-50.0	-43.4	2.3	5.5	33.8	2.7	-1.2	-1.4	14.85	NL0000102234
3.75% 15.Jan.42	23.78	17.71	1.07	-46.4	-40.8	2.8	5.5	36.6	2.4	-1.3	-1.4	15.33	NL0009446418
2.75% 15.Jan.47	28.78	21.58	1.17	-35.9	-31.2	2.0	24.0	39.1	2.9	-1.2	-1.5	13.25	NL0010721999

Source: Nordea Markets, Bloomberg



Timing and auction details

- The auction will take place on **Tuesday 10 April 2018**.
- ISIN: **NL0012650469** current outstanding: EUR 8.46bn.
- Maturity date: 15 January 2024
- **Target amount 10 April: EUR 1.5 – 2.5bn.**
- We expect EUR 6.6bn remains be issued (including Tuesdays auction) in the NETHER 0%15JAN2024 in 2018, ensuring the series reaches EUR 15bn. This also implies an additional two auctions after the auction on Tuesday 10 April.
- So far in 2018 the DSTA has issued EUR 7.74bn, with a target to reach EUR 23-29bn.

From the DSTA:

On the issue date at 10 a.m. (CEST), the DSTA will announce the price at which Primary Dealers can buy the issue. The issuance will take the form of a tap auction, during which the DSTA may revise the price at any time. The price will be announced on the screens of MTS Netherlands and Bloomberg DSTA. Professional and private investors may participate in the auction through the Primary Dealers. The list of Primary Dealers and the borrowing requirements are available on the website. Primary Dealers have the right (under the usual conditions) to use the “non-comp” facility after the auction has been closed. Liquidity of the bond will be guaranteed through a repo facility available to the Primary Dealers.

Further information on the rules and principles of the DDA can be found on the [DSTA website](#).

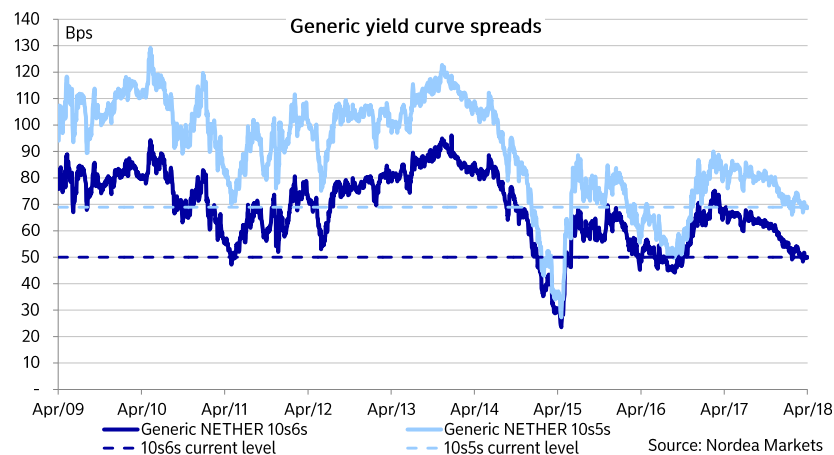
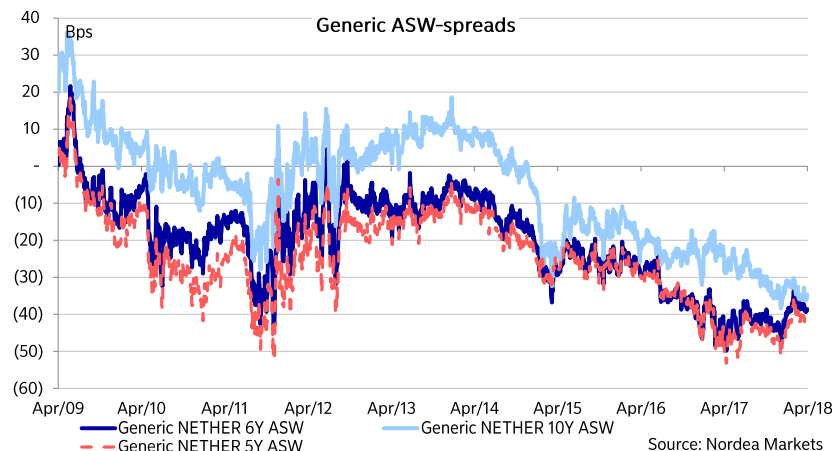
Trade ideas

Looks cheap outright on the curve

- In ASW-terms the bond looks cheap on the curve. As is the case looking at outright yield considering risk adjusted roll and carry (see next slide).

Enter curve steepeners

- The ASW-curve has flattened significantly, (see top graph to the right) with the 6-year and 10-year trading at almost equal levels. In a historical perspective its clear that QE has been a driver behind this development, and thus as we approach the end of QE we would expect the ASW curve to steepen. Here the NETHER 6-year is attractive vs the 10-year.
- The yield-curve has also flatten, and the 10s6s is approaching the lows seen in August 2016, and we therefore have to go back to April 2015 to find lower levels.
- Interestingly the 10s6s is also at a lower absolute level when looked at in a historical context, than when compared to the 10s5s.
- An alternative would be to go short 10-year DBR, but in a steepening scenario we would expect that the 10-year NETHER would widen more than DBR.



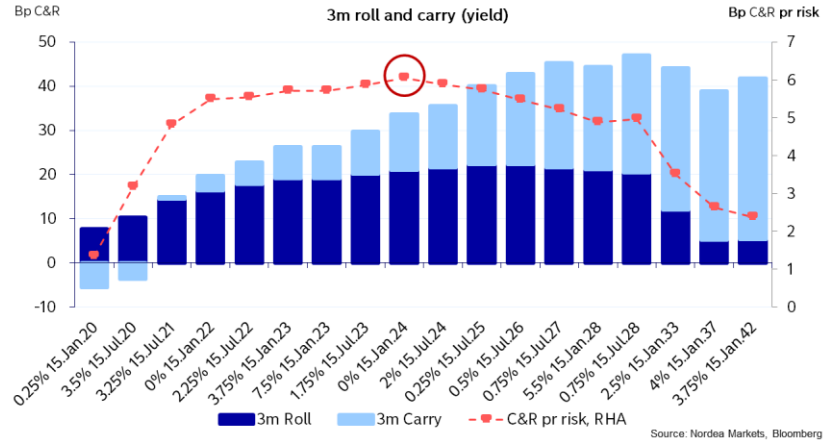
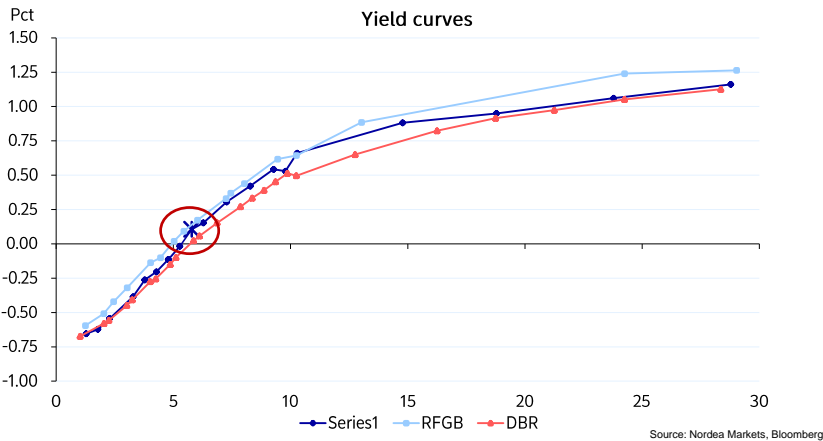
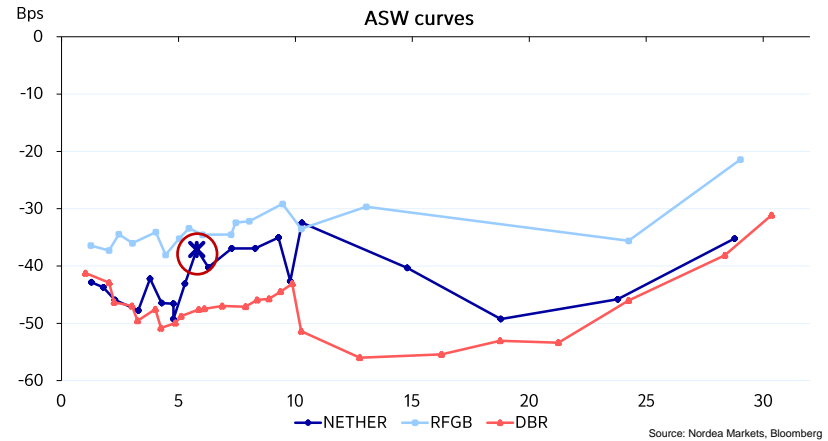
NETHER ASW and yield curves

ASW curve

- On the ASW-curve it is clear that the NETHER 10-year offers a pickup relative to the surrounding bonds.
- We estimate that there in ASW-terms is a new issue premium of 3.5-4bp.

Yield curve

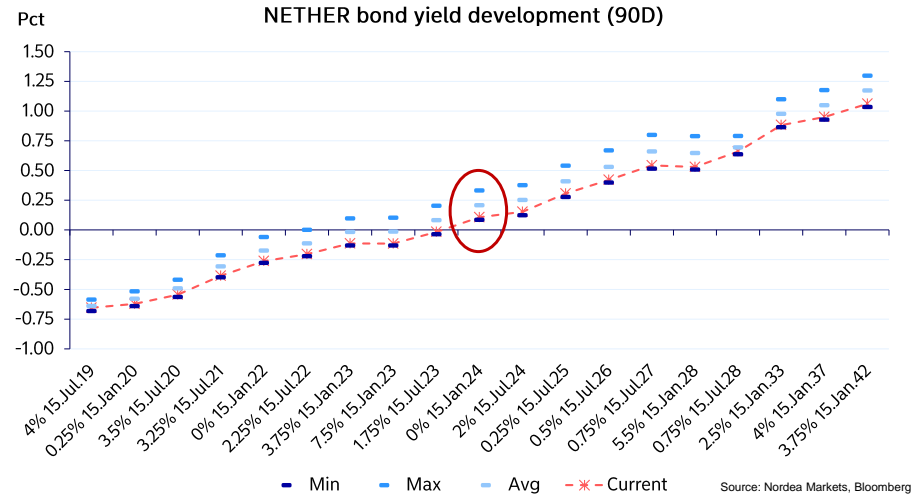
- Outright on the yield curve the picture is similar with swaps, and we find there is a new issue premium of 3.5-4bp.
- Measured by risk adjusted roll and carry it is also clear that the NETHER 0%JUL2024 offers the highest value on the Dutch curve.
- In absolute terms the new 10-year offers more.



NETHER curve movement (past 90 days)

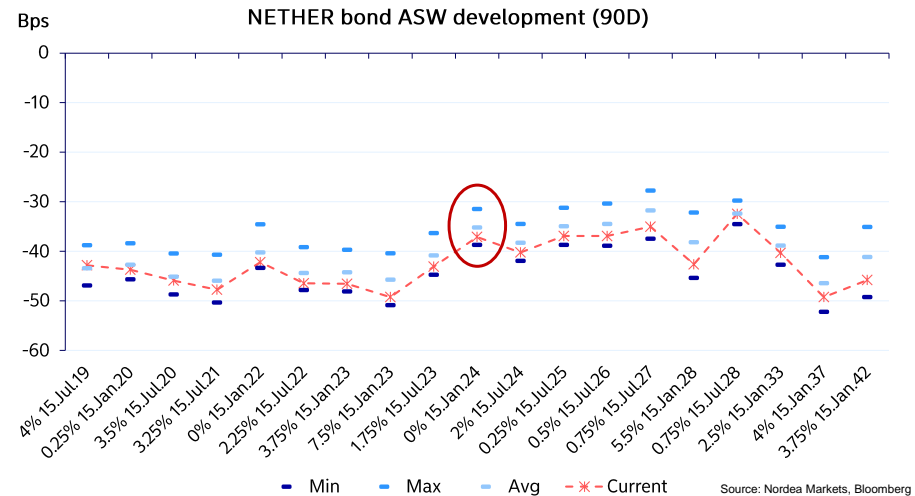
The yield curve

- Yields in general lie at levels close to the lower bound observed during the past 90 days.
- The most recent high in 2018 was seen at the beginning of February, where the 0%JAN2024 reached 0.33%. Yields have since fallen almost 25bp.
- So far in April the 0%JUL2024 has hovered in the range 0.08% - 0.11%.



The ASW curve

- ASW-spreads levels have also moved lower during the past 90 days. But as with yields, ASW levels have fallen back from their recent highs, and currently lie at the lower bound observed during the past 90 days.





Appendix

2018 Supply outlook: Decreasing in volume

- **A steady budget surplus is expected** for the entire four year term of the new government (EMU-balance of 0,5% of GDP in 2018). This includes expectations of new policies (tax cuts and increased spending), which will make public finances less positive than previously expected.
- **NETHER bond supply will decrease** to EUR 23-29bn, which points towards a possible reduction of EUR 6-7bn compared to 2017's EUR 32.5bn (2017 target was set at EUR 30-35bn). Taking into account the possibility of further selling of the governments stake in ABN Amro we expect final supply to end in the lower half of the target. Overall Dutch government paper supply has fallen from EUR 60bn (or more) in recent years to currently EUR 50bn or possibly less.
- **An active buyback strategy** also in 2018 in bonds with a remaining maturity of up to 2 years, which in 2017 amounted to EUR 4.3bn. Hereof EUR 3.7bn matures in 2018 implying an increase of the funding needed to complete the buyback.
- **Benchmark volumes will be reduced.** On maturities of up to and including 10-years, the new target is *at least EUR 12bn within a year* (can be increased), instead of the current EUR 15bn. On bonds longer than 10-years the new target is *at least EUR 10bn*, but not necessarily within 1 year.
- **Auction target volumes will be reduced.** Lower supply has resulted in the DSTA reducing target auction volumes to EUR 1.5-2.5bn from EUR 2-3bn.
- **Details on 2018 supply**
 - 7Y; re-opening of the 0%15JAN2024
 - 10Y; a new 10-year benchmark 0.75%15JUL2028
 - 15-30Y; reopening the 2033 and/or 2047 or a new bond

Appendix

2018 Supply outlook: ... But duration is higher

Borrowing requirement	2018 (€ bn)
Capital market redemptions 2018	38.5
Money market ultimo	18.6
Cash surplus	-3.6
Total funding	53.5

Source: DSTA, Nordea Markets

Bonds vs T-bills	2018 (€ bn)
Issuance of DSLs	23 – 29
Money market ultimo	24.5 – 30.5
Total funding	53.5

Source: DSTA, Nordea Markets

Bond supply	2018 (€ bn)
7Y; reopening minimum EUR 8.6bn	9
10Y; new 10-year benchmark	12-15
15-30Y; reopening or new DSL	2-5
Total DSL funding	23-29

Source: DSTA, Nordea Markets

Historical funding (planned/realized)	Planned 2018 (€ bn)	Planned 2017 (€ bn)	Realized 2017 (€ bn)	Planned 2016 (€ bn)	Realized 2016 (€ bn)
Issuance of DSLs	23 – 29	30 – 35	32.5	25 – 30	26.6
Money market ultimo	24.5 – 30.5	24.4 – 29.4	18.6	28.2 – 33.2	18.9
Total funding	53.5	59.4	52.5*	58.2	45.2

* Including cash proceeds on bonds not sold at par (EUR 1.4bn)

Source: DSTA, Nordea Markets

Key take-a-ways

- The total borrowing requirement is EUR 53.5bn.
- The split is almost 50/50 between bonds and T-bills.
- Compared to 2017 the DSTA has decided not to issue at the 5-year point. This implies that the average weighted maturity of supply in 2018 will be higher than in 2017.
- There is a high probability that final 2018 supply will lie in the lower range of the target, not least when judging from previous years.

Thank you!

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