

Market Pulse DKK:

Estimated prepayments of DKK 59bn – are preliminary prepayments aligned herewith? And is issuance a concern?

- 30Y refinancing rates have declined significantly such that our prepayment model estimates DKK 59bn for the July term (excluding subsidized housing). Preliminary prepayments from Monday however points to a slightly lower number. We believe that the very recent drop in rates is slowing preliminary prepayments and that they will accelerate over the next six and a half weeks such that the estimate of DKK 59bn will be realized
- We are not particularly concerned that increasing issuance starting already next week, with quarter end issuance will stress the market. The main reason for that is the indirect QE of 1.8% (subsidized housing buy-back) in the callable segment combined with the fact that all other risk premiums are reduced or even eliminated
- We reiterate our recommendation of being long the callable segment

We predict DKK 59bn in prepayments for the July term (excl. subsidized housing)

The low refinancing rates wasn't seen at the April term but is expected to be fully factored in at the July term

The 30Y refinancing rate have been declining since the start of the year. The effect of this wasn't really seen in the prepayments at the April term (DKK 28bn) due to the notification date, 1 February

With more than six weeks left to the next notification date for the July term (1 May) we will most likely see the full effect of the large drop in rates in prepayments. Currently 1.5%50 trades at 98.4

Applying our prepayment model* on the current yield level we get an estimate of DKK 59bn for the July term. Using our ML-model we get a slightly lower number. This number is without the announced prepayments of DKK 17.9bn stemming from refinancing of subsidised housing

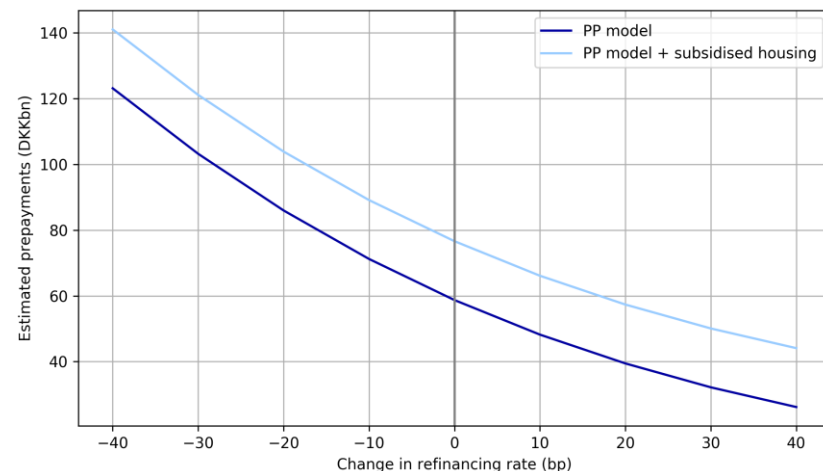
Further decrease in the refinancing rate will increase prepayments, but the full impact as illustrated in the lower chart will most likely not be factored in fully at the July term, since the borrowers reaction time is somewhat slow

Rewinding to the same point in time one quarter ago (30-35bp higher refinancing rates) the model predicted some DKK 30bn in prepayments which is very close to the realized amount of DKK 28bn.)

Yield on price-98 callable bond recent two years



Prepayments for the July term assuming different changes in refinancing yields



The information in preliminary prepayments points to lower prepayments

We expect that preliminary prepayments will accelerate fast and that the model estimate will be reached

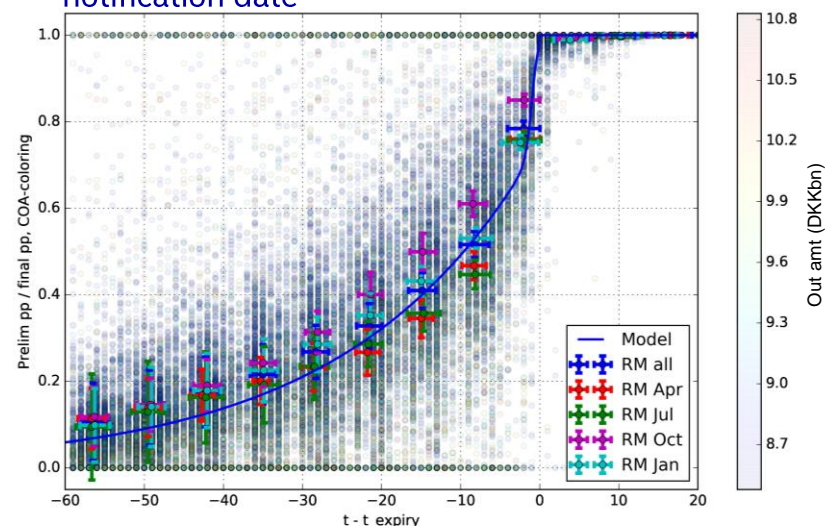
We have previously shown that systematic usage of preliminary prepayments can improve accuracy and reduce potential bias when predicting prepayments ([here](#))

Including the preliminary prepayments from Monday we get an estimate of DKK 52bn which is DKK 7bn lower than the base model using only NPV and pool factor.

There are still more than six weeks to the notification date and since the large drop in rates occurred within the last couple of weeks, we expect preliminary prepayments to catch up and thus align the estimates of the two models. We will follow this development in the weeks to come

The table shows model predictions of prepayments on 2.5%47's and it also illustrates that the preliminary prepayments points to slightly lower prepayments than what the base model predicts

Historical relations between preliminary prepayments and final prepayments plotted against days to the notification date



Expected prepayments on the 2.5%47's using the model without and with preliminary prepayments

	PP model	PP model incl. prelim pp
NYK 2.5%47	13.3	12.2
NDA 2.5%47	13.3	12.4
RD 2.5%47	12.9	11.5
JYSKE 2.5%47	13.5	12.4
NYK 2.5%47	13.3	12.2
NDA 2.5%47IO	15.1	13.7
RD 2.5%47IO	13.9	11.5
JYSKE 2.5%47IO	14.1	11.8

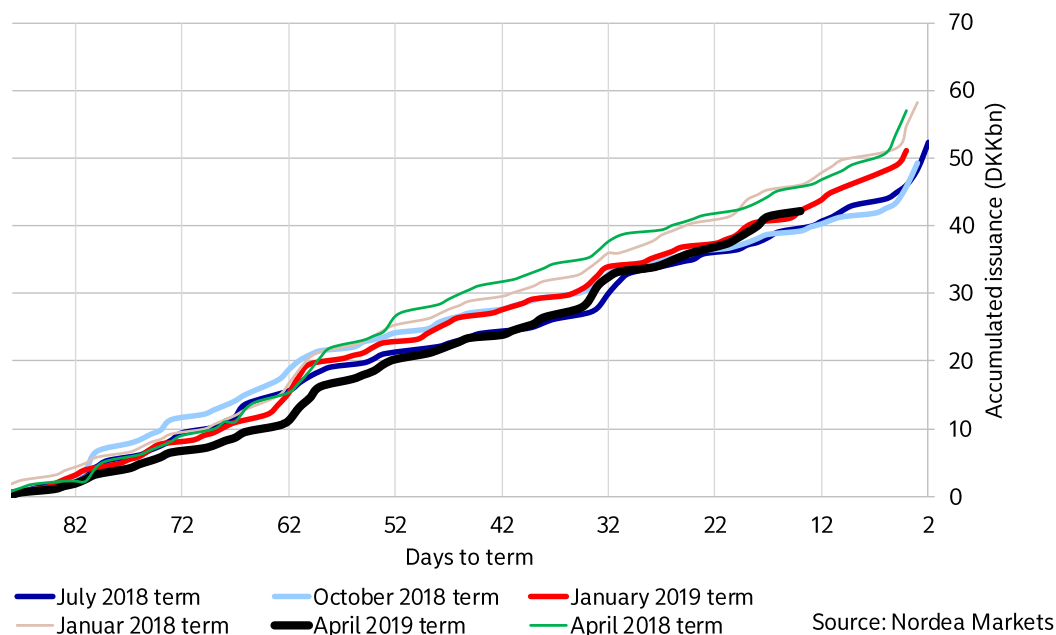
Issuance will increase as prepayments accelerate

The quarter end issuance next week will supply the market with DKK 7bn and kick off an April with high issuance as a consequence of high prepayments

Next week we expect that the quarter end issuance to be around DKK 7bn in callables. This will be the starting point of many weeks to come with high issuance as the prepayments will accelerate. Thus we expect that the Q2 issuance will be 30bn higher than the last many quarters and end up at DKK 85bn all else equal (see chart below)

Due to the reduction in the segment as subsidised housing loans are refinanced into government bonds, we are not particularly concerned about issuance pressure and we reiterate our recommendation of being long the callable bond segment (read more [here](#) and [here](#))

Accumulated issuance in callables per quarter



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