Danske Bank

Danske Bank 2020 Fixed Income Top Trades

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Important disclosures and certifications are contained from page 26 of this report

2020 Fixed Income Top Trades overview

1: Buy 1% 2050 callables vs. DGB'29

2: Buy 2Y flex bonds ASW (Cita or 3M Cibor)

3: A flatter DKK swap curve between 2Y and 10Y

4: Sell 10Y SGB ASW on increased supply

5: Sell 5Y SEK BEI vs Germany

6: Pay NOK IRS 2Y outright

7: Long periphery versus core-EU govies

8: Buy new syndicated deals from Ireland and Finland in 2020

9: Buy the Bund spread at 40bp

Looking back on our Fixed Income Top Trades for 2019

- 6 of 8 Fixed Income Top Trades for 2019 were closed with profit, 1 was unchanged and 1 with a loss. See our top trades for 2019 here

Fixed Income Top Trades 2019 - Overview

	Trade	Opened	Closed	Comment	P/L
#1:	Receive the 5Y USD swap in a 2s5s10s USD fly	04/12/2018	02/01/2019	Profit target hit (-21bp)	14.0bp
#2:	Pay Mar-20 and receive Sep-19 3M Euribors	04/12/2018	08/03/2019	Loss taken after new ECB forward guidance	-8.7bp
#3:	Buy callable 2'50 and sell DGB 0.5% 2027	04/12/2018	28/03/2019	Closed as BPV in 2'50 is too low	97bp
#4:	Sell Dec 2028 SGBi's vs. Apr 2030 DBRi's	04/12/2018	29/03/2019	Closed with a small profit	4bp
#5:	Pay 2Y2Y NOK vs EUR and buy long-end NGB vs. Bunds	04/12/2018	15/08/2019	Closed with a profit	18.0bp
#6:	Long 5Y Spain vs. 5Y France	04/12/2018	01/03/2019	Closed 1bp from profit-target	24bp
#7:	Long 10Y Finland vs. 10Y Denmark	04/12/2018	20/02/2019	Closed with a small profit	0.5bp
#8:	10Y-30Y steepener 5Y Forward	04/12/2018	22/03/2019	Closed with profit, as the e risk of a bullish flatetning is growing.	11.3bp

Source: Danske Bank. Past performance is not a reliable indicator of current or future results.

Central bank and market overview

Central banks on hold and stable yields in 2020

… look for carry trades

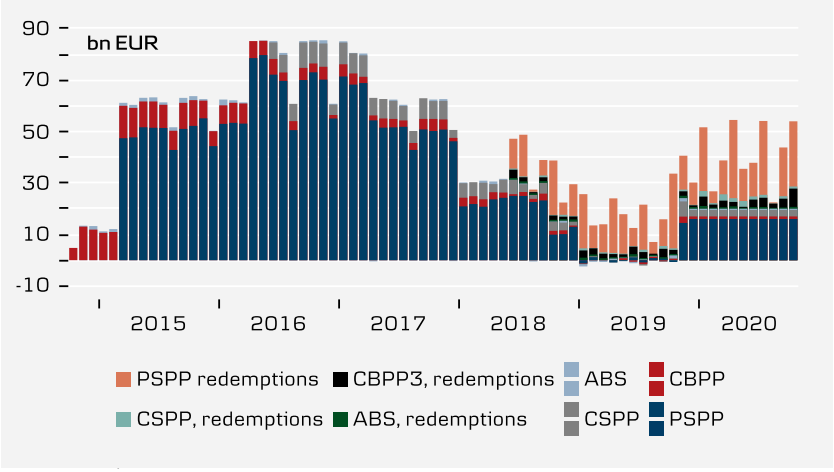
- Our overall view on EUR and Scandi fixed income markets is to look for value in carry trades as reflected by some of our top trades for 2020.
- Central banks such as the ECB, Riksbanken and the Danish central bank are expected to be on hold in the coming months supporting less volatile markets, whereas we see a high probability of a rate hike in Norway.
- All in all, we expect 10Y German yields to trade in a somewhat tight range during the coming year.
- Our carry top trades are long 30Y Danish callables vs. DGBs, long periphery vs core EUR govies and curve flatteners in DKK (or EUR swaps/bonds).
- Our relative value trades are to go for higher short rates in Norway and be short SGB vs SEK swaps given higher SGB issuance. Further, we see value in buying syndicated deals at the beginning of 2020 from Ireland and Finland.

ECB and EUR yield outlook: lame duck turns to ugly duckling?

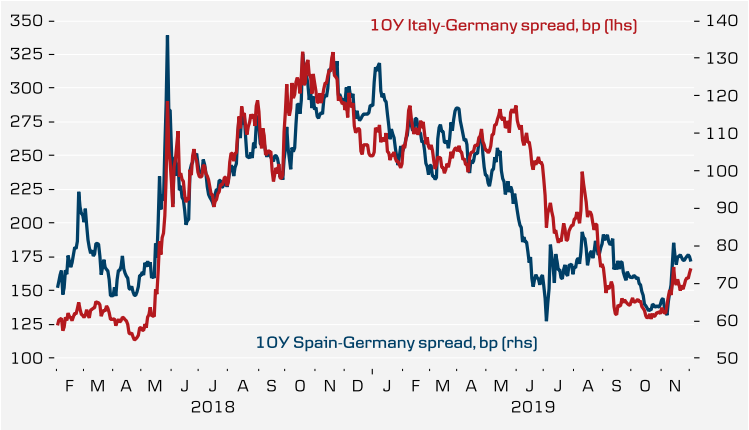
… periphery to be the outperformer in 2020

- ECB restarted its net asset purchases as part of its easing stance in September.
- The ECB's net asset purchases and its reinvestments will average EUR36bn / month next year (EUR20bn net purchases and EUR16bn reinvestments). Therefore, the term premium will remain low (and negative through 2020), and leave bunds to trade in a relatively tight range between -0.5% to 0%. In trade 9, we recommend positioning for Bund ASW wideners.
- We expect the rating upgrade cycle to continue as economic fundamentals remain solid and fiscal space is present should it be needed. Therefore we remain positive on particularly Ireland (supported by SMP redemptions) and Finland, trade 8.
- Despite the periphery still being volatile after this year's political events, we favour the periphery to take our bets for the outperformer of 2020 for outrights and particularly the 5y point.
- We do not find attractive risk / reward opportunities in the EONIA front from a pure central bank view, where 1y1y EONIA is trading close to the EONIA spot level, indicating no change in policy rate on that horizon. We have no policy changes in our forecast horizon.

QE restarted and large reinvestment



Italy and Spain to tighten and benefit for yield hunting environment

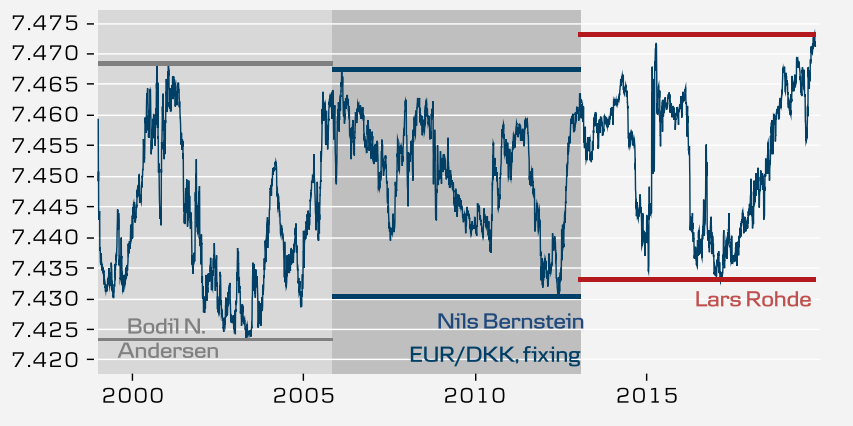


Source: Danske Bank. Past performance is not a reliable indicator of current or future results.

Danish central bank and yield outlook: value in mortgage bonds

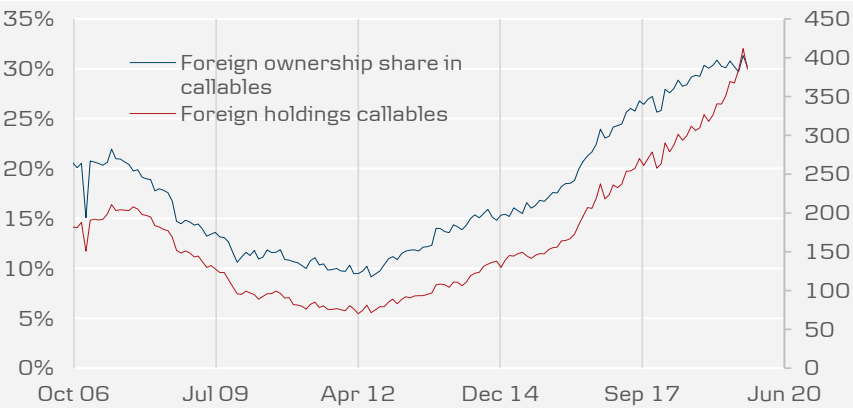
- EURDKK has traded close to record high levels after the 10bp cut (mirroring the ECB cut) in September. Danmarks Nationalbank (DN) has intervened on a small scale in October and November to cap EUR/DKK topside. The discount in FX forwards has increased, but tighter DKK liquidity in Q1 along with the risk of a Danish rate hike should narrow this some – hence, the extra pickup for foreign investors hedging EURDKK is set to be reduced from current very high levels. All in all, we expect EUR/DKK to continue to above 7.4700 on 12M and until DN hikes rates. Our base case is still for DN to keep rates on hold on 12M.
- The Danish funding requirement will be lower in 2020 compared to 2019 and given fewer buybacks of government guaranteed mortgage bonds in 2020, we see room for more buybacks of DGBs in the range of DKK20bn to support liquidity.
- DGBs are trading at a tight spread to Germany and the outlook for tighter liquidity short term could add pressure on short rates and short DGBs. Callable bonds offer significant carry and we see value in buying 1% 2050 callables bonds and underweighting 10Y DGBs in 2020 (see trade 1). For callable bonds, we still expect foreign investors to buy a significant amount as in 2015-19.

EUR/DKK at the top end of the historic trading range



Source: Macrobond Financial

Foreign demand for Danish callable bonds to continue in 2020

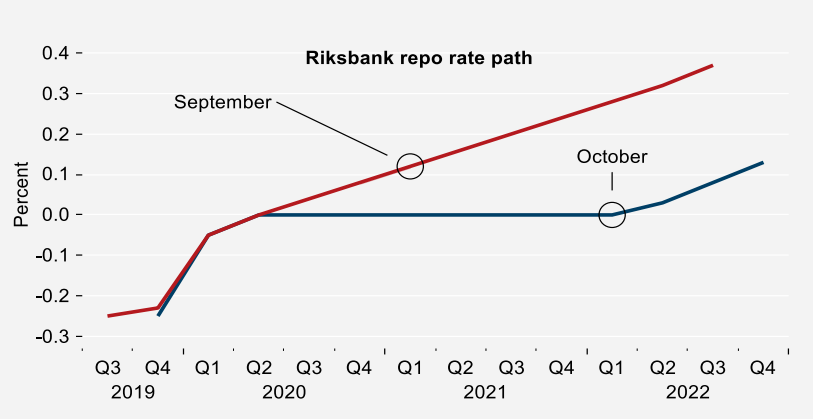


Source: Nationalbanken, Danske Bank

Riksbank and SEK yield outlook: ending negative rates

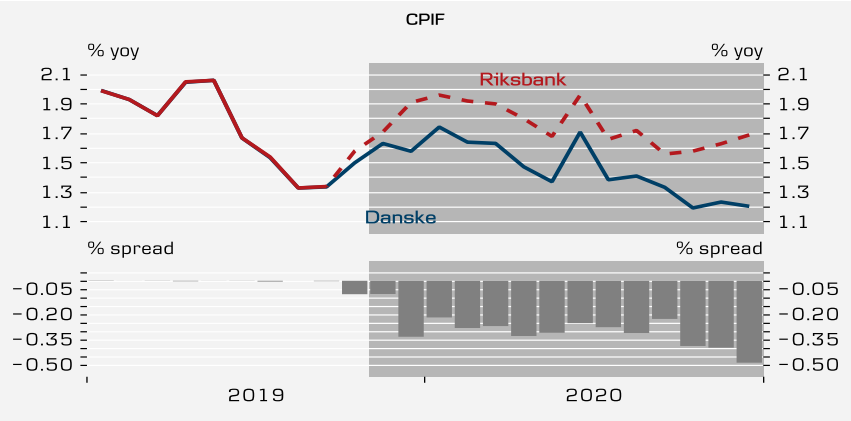
- The Swedish economy is shifting down a gear in line with the rest of Europe. While declining housing starts suggest further downside in housing investments in 2020, private businesses' capex is cooling off too.
- The Riksbank no longer sees room for a protracted hiking cycle. The policy rate is expected to be raised to zero in December, followed by unchanged rates through Q1 22.
- Inflation – in particular up to summer – has been underpinned by markedly higher food prices, in turn a result of last year's drought. More recently food price pressures have abated and next year CPIF inflation should gradually decline.
- In the meantime the Debt Office is planning to raise issue volumes in nominal bonds from January next year. Total issuance will increase from SEK30bn this year to SEK51bn in 2020. The bulk of supply will be in 10 year bonds. Taking RB QE into account, net supply to the market will be positive for the first time in several years.

RB expects to hold steady at zero for two years



Source: Riksbank

Inflation drops back next year

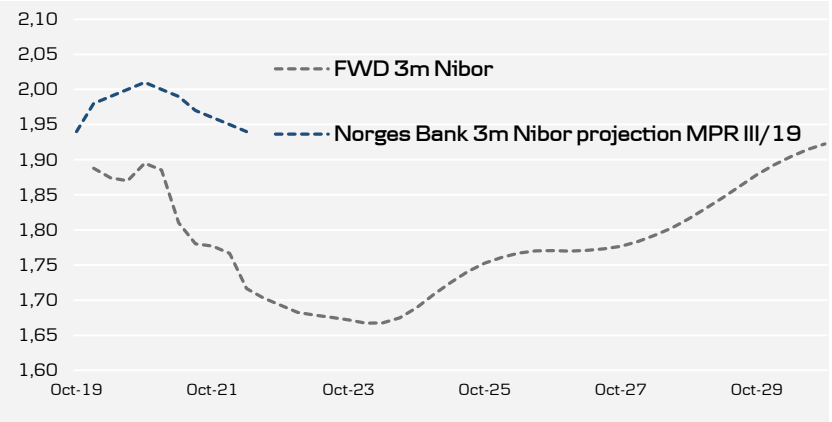


Source: Danske Bank, Riksbank

Norges Bank and NOK yield outlook: still upside potential

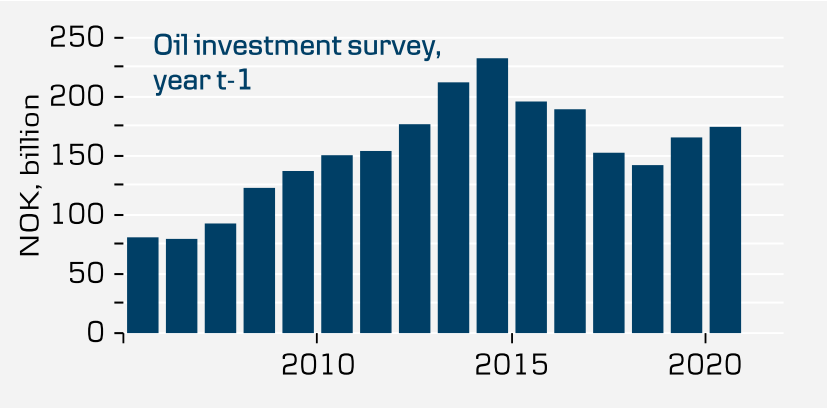
- Norges Bank's 25bp hike 19 September was the fourth hike in one year – bringing the sight deposit interest rate to 1.5%. Norges Bank is signaling unchanged interest going forward – and a higher probability that the next move will be a hike than a cut.
- We think the probability is underestimated for a Norges Bank hike during the spring. The market discounts unchanged interest rates short term and a slightly lower interest rate level for 2021.
- Oil investment will increase about 15% in 2019 and recent investment surveys indicate a positive contribution from oil-related investments to GDP in 2020 as well, however, at a much more moderate scale than in 2019. GDP growth should remain above trend. Inflation is close to but slightly above the 2% inflation target. The NOK at present is weaker than expected by Norges Bank in the September Monetary Policy Report (MPR).
- Given that the market does not fully discount Norges Bank's interest rate guiding and that we see a high probability of a target hike during the spring, we suggest paying NOK IRS 2yr outright at the current level.

NB signals unchanged target rate going fwd



Source: Macrobond Financials, Norges Bank, Danske Bank

Positive contribution from oil in 2020 as well



Source: Statistics Norway, Danske Bank

EUR government bond and Danish mortgage bond supply in 2020

Negative net supply from Netherlands and Finland in 2020

	Deficit (% of GDP)*	Bond supply EUR bn**		Redemptions (EUR bn)		Net supply		ECB QE		Net supply (Gross - ECB QE - redemptions)	
	2020	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Germany	0.5%	164	164	164	148	0	16	49	0	-50	16
France	-2.2%	205	200	127	129	78	71	38	0	40	71
Italy	-2.1%	245	250	202	195	43	55	32	0	10	55
Spain	-1.7%	105	114	84	92	21	22	23	0	-2	22
Belgium	-1.7%	28	28	21	22	7	6	7	0	0	6
Austria	-0.1%	17	20	15	26	2	-6	6	0	-4	-6
Netherlands	0.4%	25	21	30	29	-5	-8	11	0	-16	-8
Finland	-0.8%	10	9	13	5	-3	4	4	0	-6	4
Ireland	0.2%	17	16	17	13	0	3	4	0	-4	3
Portugal	-0.3%	13	15	8	8	5	7	5	0	0	7
Greece	0.1%	5	5	1	9	4	-4	0	0	4	-4
Total		834	842	682	675	152	166	179	0	-26	166
Denmark	0.4%	60	75	53	62	7	13	0	0	7	13
Sweden	-0.5%	60	39	124	114	-64	-75	0	0	-64	-75
Norway	6.1%	50	47	0	68	50	-21	0	0	50	-21

* Domestic Central banks/Ministry of Finance/EU commission

** Nominals and linkers

Source. Danske Bank, European Ministries of Finance

- There are some notable changes to the supply in 2020 . Finland and Netherlands will have negative net issuance in 2020.
- If we look at the net supply, where QE is also included, then Germany, Spain, Finland, Netherlands, Ireland and Portugal will see negative net supply in 2020
- Sweden and Norway will see negative net issuance in 2020.

Higher issuance in Danish non-callable bonds and lower expected issuance in callable bonds

Higher supply in 3Y and 5Y flex bonds...

Auction supply for flex and floaters 2020

	1Y	3Y	5Y	1Y EUR	Total (DKK)
Flex *))**					
- Feb'20	43 (50)	26 (25)	31 (16)	0.15 (0.15)	101 (92)
- May'20	5 (5)	6 (3)	10 (9)	0 (0)	21 (17)
- Aug'20	24 (27)	13 (6)	10 (7)	0 (0.1)	47 (41)
- Nov'20	24 (28)	9 (5)	19 (6)	0.9 (0.7)	59 (44)
Total 2020	96	54	70	1.1	228
Total 2019	110	39	38	0.9	194
Float **)					
- Feb'20					13 (14)
- May'20					89 (79)
- Aug'20					18 (22)
- Nov'20					0 (19)
Total					120 (134)

**) Assumes 80% refinancing rate and takes into account expected remortgaging of subsidized social housing.*
***) In (parantheses) realized supply for 2019.*

... but less issuance in callable bonds in 2020

DKKbn	Issuance	Daily average
2020 Exp	**300,000-400,000**	**1,200-1,600**
2019 YTD	583,804	2,741
2018	227,226	931
2017	194,405	787
2016	185,568	761
2015	350,933	1,456
2014	233,119	948
2013	144,513	620
2012	221,073	941
2011	68,395	294
2010	137,509	588
2009	57,473	237

- Issuance in callables was record high in 2019 driven by prepayments given the large drop in yields and the introduction of 0.5% 30Y callable bond. For 2020, we expect less prepayment activity and hence lower issuance, but net issuance is also expected to be lower than in 2019.
- Large supply of 5Y flex bonds for 2020, but with downside risks. This will also be a theme for the coming three years.

Source. Danske Bank, European Ministries of Finance

12mth carry and roll-down

2020: the carry+roll down is best in the 10Y segment apart from Italy

GERMANY	Segment					
12mth horizon	2	5	10	15	20	30
"Coupon" Carry	-0.66%	-0.59%	-0.36%	-0.21%	-0.07%	0.20%
Roll-down	0.00%	0.19%	0.57%	0.31%	0.32%	0.10%
Total carry	-0.66%	-0.40%	0.22%	0.10%	0.25%	0.30%
Total carry + funding	-0.10%	0.16%	0.76%	0.65%	0.81%	0.84%
Total carry + funding (riskadjusted)	-0.05%	0.03%	0.07%	0.03%	0.03%	0.03%
Funding rate	-0.56%	-0.56%	-0.54%	-0.55%	-0.56%	-0.54%

NETHERLANDS	Segment					
12mth horizon	2	5	10	15	20	30
"Coupon" Carry	-0.63%	-0.51%	-0.20%	-0.03%	0.13%	0.21%
Roll-down	-0.01%	0.29%	0.58%	0.37%	0.23%	0.25%
Total carry	-0.64%	-0.22%	0.37%	0.34%	0.35%	0.47%
Total carry + funding	-0.14%	0.30%	0.87%	0.86%	0.88%	0.97%
Total carry + funding (riskadjusted)	-0.07%	0.06%	0.08%	0.05%	0.04%	0.03%
Funding rate	-0.50%	-0.52%	-0.50%	-0.52%	-0.53%	-0.50%

FRANCE	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.62%	-0.44%	-0.06%	0.22%	0.44%	0.72%
Roll-down	-0.01%	0.36%	0.66%	0.63%	0.65%	0.33%
Total carry	-0.63%	-0.07%	0.59%	0.85%	1.09%	1.05%
Total carry + funding	-0.13%	0.43%	1.09%	1.35%	1.59%	1.55%
Total carry + funding (riskadjusted)	-0.06%	0.08%	0.10%	0.08%	0.07%	0.05%
Funding rate	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%

BELGIUM	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.63%	-0.39%	-0.04%	0.24%	0.49%	0.75%
Roll-down	-0.01%	0.36%	0.63%	0.58%	0.58%	0.46%
Total carry	-0.64%	-0.03%	0.59%	0.83%	1.06%	1.21%
Total carry + funding	-0.12%	0.47%	1.11%	1.33%	1.57%	1.72%
Total carry + funding (riskadjusted)	-0.06%	0.09%	0.11%	0.07%	0.07%	0.06%
Funding rate	-0.52%	-0.50%	-0.52%	-0.51%	-0.51%	-0.52%

SPAIN	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.38%	-0.07%	0.42%	0.74%	0.97%	1.32%
Roll-down	0.12%	0.36%	0.58%	0.68%	0.62%	0.30%
Total carry	-0.25%	0.29%	1.00%	1.42%	1.60%	1.62%
Total carry + funding	0.22%	0.80%	1.49%	1.98%	2.15%	2.26%
Total carry + funding (riskadjusted)	0.11%	0.15%	0.13%	0.12%	0.09%	0.08%
Funding rate	-0.48%	-0.51%	-0.49%	-0.56%	-0.56%	-0.64%

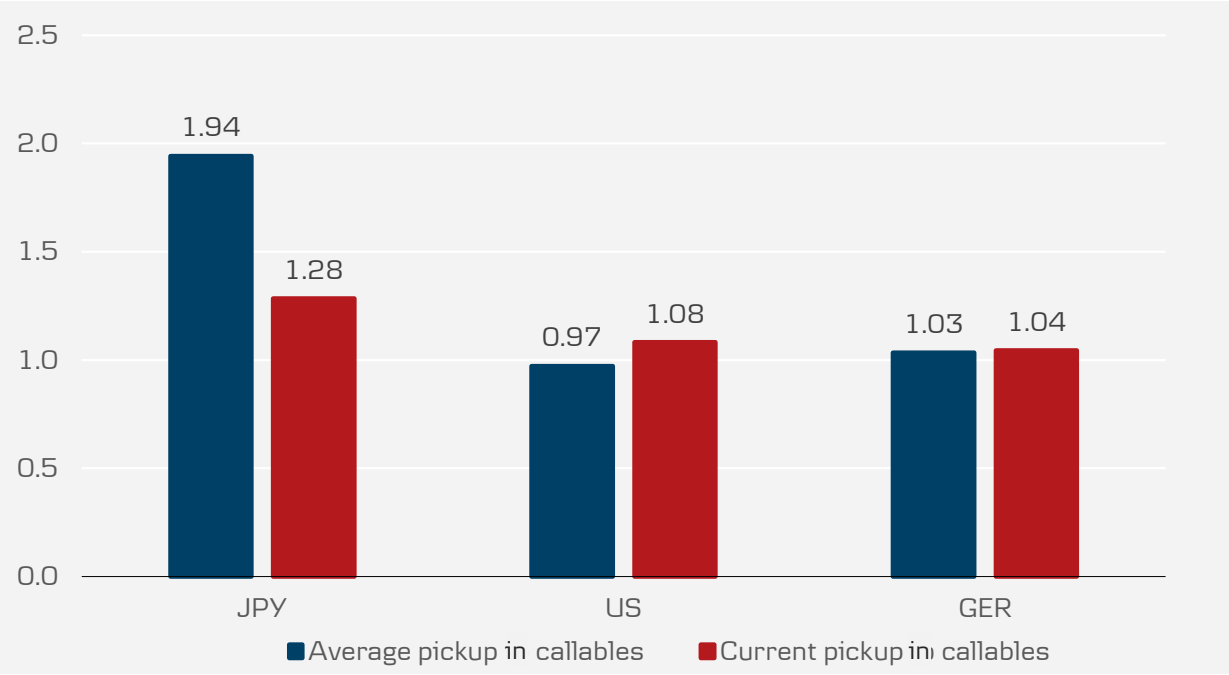
IRELAND	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.48%	-0.26%	0.10%	0.42%	0.61%	0.88%
Roll-down	0.03%	0.40%	0.65%	0.71%	0.56%	0.73%
Total carry	-0.45%	0.14%	0.74%	1.13%	1.17%	1.61%
Total carry + funding	0.01%	0.63%	1.23%	1.64%	1.72%	2.06%
Total carry + funding (riskadjusted)	0.00%	0.11%	0.11%	0.11%	0.08%	0.07%
Funding rate	-0.46%	-0.49%	-0.49%	-0.51%	-0.55%	-0.44%

ITALY	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.02%	0.54%	1.06%	1.69%	1.93%	2.17%
Roll-down	0.14%	0.60%	1.04%	0.96%	0.68%	0.24%
Total carry	0.12%	1.14%	2.10%	2.65%	2.60%	2.42%
Total carry + funding	0.59%	1.60%	2.57%	3.11%	3.08%	2.89%
Total carry + funding (riskadjusted)	0.29%	0.31%	0.24%	0.20%	0.15%	0.13%
Funding rate	-0.47%	-0.46%	-0.47%	-0.46%	-0.48%	-0.47%

PORTUGAL	Segment					
	2	5	10	15	20	30
"Coupon" Carry	-0.42%	0.00%	0.45%	0.82%	1.09%	1.53%
Roll-down	0.10%	0.47%	0.74%	0.76%	0.80%	0.34%
Total carry	-0.31%	0.47%	1.19%	1.59%	1.89%	1.87%
Total carry + funding	0.19%	0.91%	1.69%	2.15%	2.37%	2.31%
Total carry + funding (riskadjusted)	0.07%	0.17%	0.15%	0.13%	0.11%	0.06%
Funding rate	-0.50%	-0.45%	-0.51%	-0.56%	-0.48%	-0.44%

Source. Danske Bank

2020: still high excess pickup in Danish callable bonds vs. EUR, US, JPY and Danish government bonds



Source. Danske Bank

- Excess carry in callable bonds is still at an attractive level for both Danish investors (compared to swaps and DGBs) and foreign investors compared to EUR/US and also JPY investors. Pickup to JGB is reduced given the larger drop in EUR rates vs. JPY rates, but it is still around 1.3%.
- The blue bar indicates the average buy-weighted pickup in callables since 2015 when foreign investors started to buy Danish callable bonds.

Danske Bank Fixed Income Top Trades

1: Buy 1% 2050 callables vs. DGB'29

- High excess carry in 1% 2050 and DGB'29 trading tight to Germany

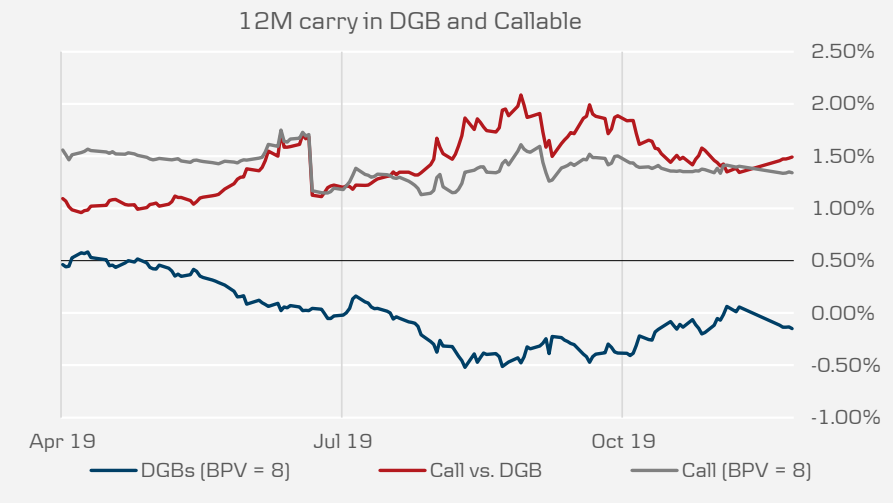
- 1% 2050 trades close to 98.8 currently. This means that prepayment risk is low given the potential for price increases if yields drop. Hence, our view is that the empirical negative convexity is relatively low given minor changes in yields.
- 12M horizon return is highest in 1% 2050 vs. other callable bonds, and 1% 2050 has been in demand from foreign investors seeking high carry and stable duration. Issuance is currently also in 1% 2050 meaning that 1% 2050 will continue to see increased weight in different bond indices that is also somewhat tracked by foreign investors.
- We see value in 1% 2050 and expect OAS to be broadly stable during the coming period.
- 10Y DGBs are trading close to Germany and we see attractive and still high excess carry in 1% 2050 callables.

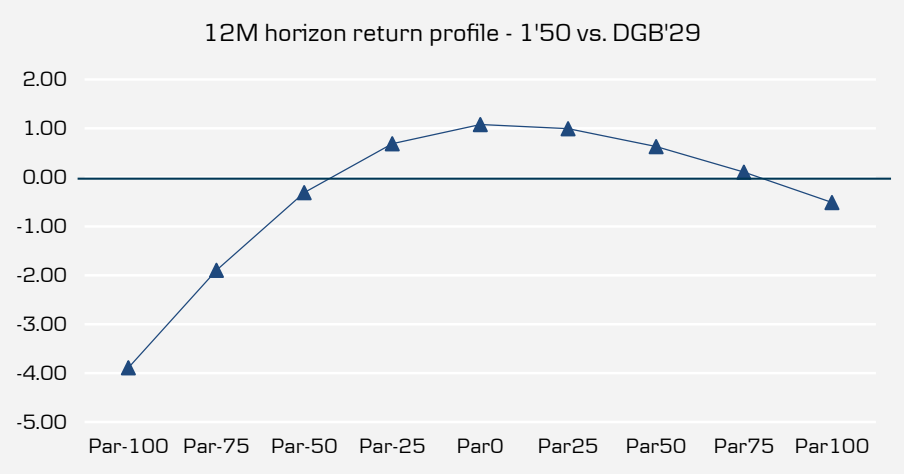
Conclusion

- Buy 1% 2050 @98.85 (nom 100) versus DGB'29 @108.21 (nom 80), HPR 12M +110bp. Target: 100bp profit.

Risk factors

- Sharp rise in 10Y yields of 20-25bp within 1-2 months
- Rebalance hedge ratio if yields drop given lower duration in 1% 2050





Source: Danske Bank

2: Buy 2Y flex bonds ASW (Cita or 3M Cibor)

- Positive carry, attractive break-evens and low correlation to DKK-EUR spreads

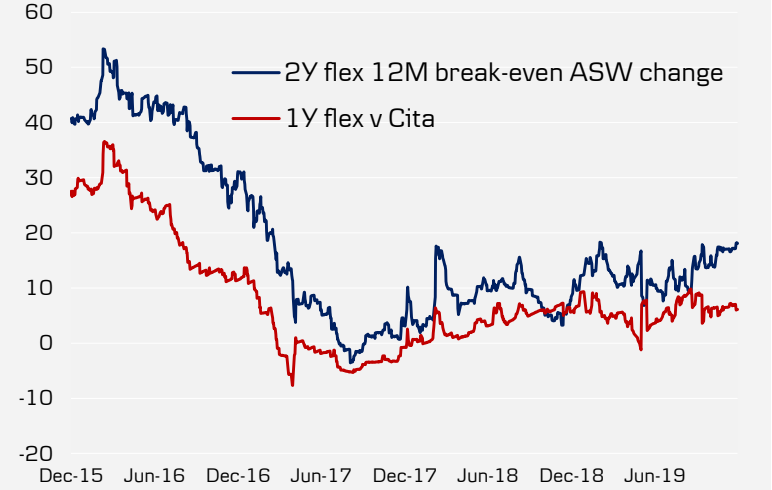
- At the short end of the flex curve we find the 2Y point (still) attractive versus swaps. Given the current situation with EURDKK trading at elevated levels, which could continue for an extended period of time, we prefer hedged strategies at the short end of the curve.
- The 2Y ASW spreads have seen very low correlation to DKK-EUR swaps spreads historically, when controlling for credit spreads and cross-currency basis, meaning that investors are protected in a scenario of sustained weakening pressure on the DKK.
- Furthermore, a less negative cross-currency basis tends to tighten 2Y ASW spreads by a factor of 0.5. This is most likely due to the DGB curve flattening simultaneously, and the effect is also present in the 1Y segment of the flex curve.
- Lastly, the break-even ASW widening is currently at the highest level since 2017 at 17bp, meaning that 1Y flex bonds in 12M should widen by 17bp in order for the strategy to close with a loss.

Conclusion.

- Buy RD jan'22 versus Cita @14bp, HPR 12M 17bp including funding @-57bp.
- Alternatively versus 3s @-8bp, 3bp lower carry but some protection against credit spread widening.

Risk factors

- Prolonged period of highly negative cross-currency basis maintaining the steepness of the short end DGB curve.
- Large supply of flex risk in February could be a short-term driver of higher ASW spreads given low demand from outright investors.



Source: Danske Bank

3: A flatter DKK swap curve between 2Y and 10Y

- A cheap protection against an independent rate hike from the Danish Central Bank

- The DKK is at a very weak level against EUR, and there is a risk of a further outflow related to the proceeds from the holiday payments being invested abroad without a currency hedge.
- There is no rate hike priced into the DKK swap curve.
- There is positive carry on the trade as the Danish swap curve is very flat between 1Y and 2Y relative. Hence, the negative carry on the short leg (2Y DKK swap) is only 0.02%, while there is a positive carry of 0.93% on the 10Y DKK swap.
- Hence, a BPV-neutral curve flattener gives a positive carry of 0.95% on a 12mth horizon = 0.96% - 0.02%*(BPV on 10Y swap)/(BPV on 2Y swap)
- The break-even steepening is 9bp.
- The curve flattening trade can also be done in EUR swaps

Conclusion

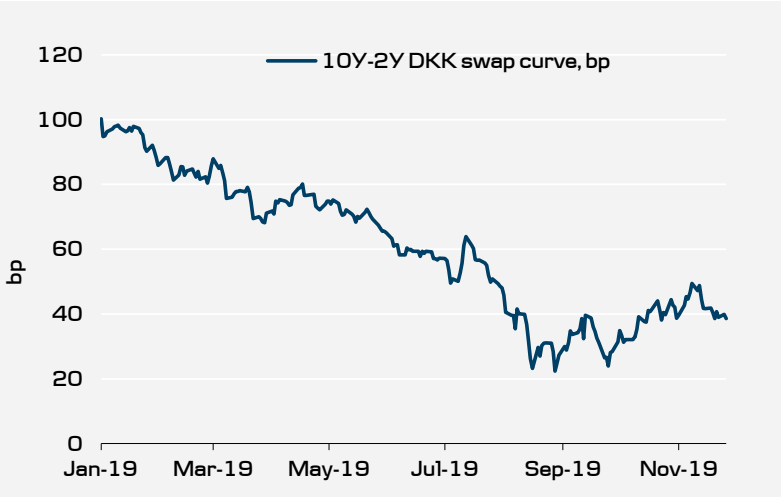
- Pay 2Y DKK swap and receive 10Y DKK swap @39bp (risk-neutral). Target 25bp. Loss 45bp. 12mth carry 0.95% .

Risk factors

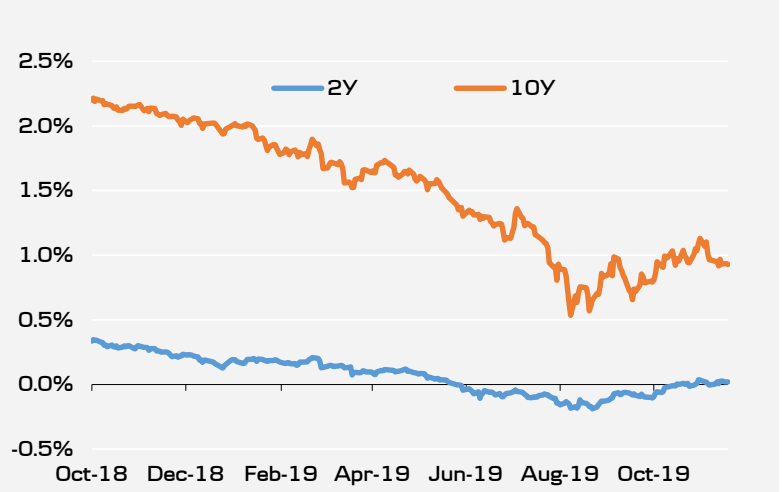
- A bearish steepening of the EUR swap curve as the ECB is seen to be 'behind the curve' on monetary policy.

Source: Danske Bank

The slope of the Danish swap curve 2Y-10Y



The 12mth carry on 2Y DKK swaps and 10Y DKK swaps



4: Sell 10Y SGB ASW on increased supply

- Market will have to absorb significant net SGB risk for the first time since 2014

- The Swedish National Debt Office (SNDO) will increase nominal SGB supply next year, up from SEK30bn in 2019 to SEK51bn in 2020 (SEK60bn 2021), with supply concentrated in the 10y area. The Riksbank will reinvest about SEK25-30bn in nominal SGBs up to December 2020. Hence, the market needs to absorb the largest net supply of SGBs since 2014.

- The SNDO's borrowing forecast assumes that no money will flow out from the tax account during 2020 (but SEK20bn in 2021). An estimated SEK75bn is sitting on the tax account for investment purposes (at 0% yield), but with the Riksbank hiking to zero in December and Stibor in positive territory, there is a clear risk that money will flow out of the tax account more rapidly, increasing the borrowing requirement further during 2020.

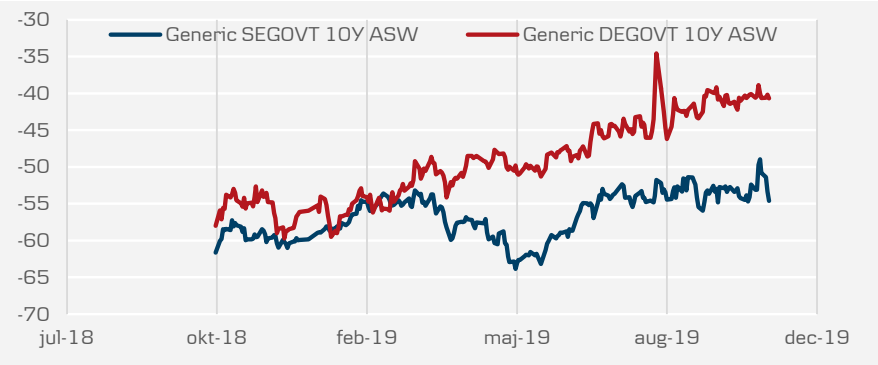
Conclusion

- Sell SGB1061 (Nov 2029) ASW @ -55bp. P/L: -46bp/-62bp.

Risk factors

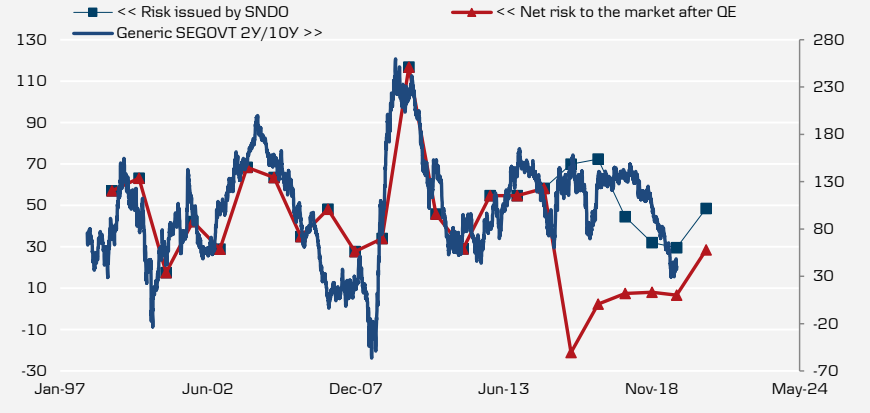
- Riksbank forced to increase QE reinvestment volumes on slowing inflation.

10y SGB ASWS trading expensive compared to Bund ASW



Source: Danske Bank

Amount of issued risk vs 2s10s yield curve



Source: Danske Bank, SNDO

5: Sell 5Y SEK BEI vs Germany

- The current SEK inflation rate will be difficult to sustain and relative pricing vs German BEI very stretched

- SEK BEI spreads suffered somewhat during autumn when the y/y rate of SEK inflation dropped markedly, but has since recovered rapidly.
- The difference versus Germany is striking: a 5Y generic BEI box trades at a very large +80bp.
- The 5Y BEI box vs DBRi's has tended to follow the relative inflation rate – current rather extreme levels will be difficult to sustain, especially as the tailwinds from the SEK are fading.

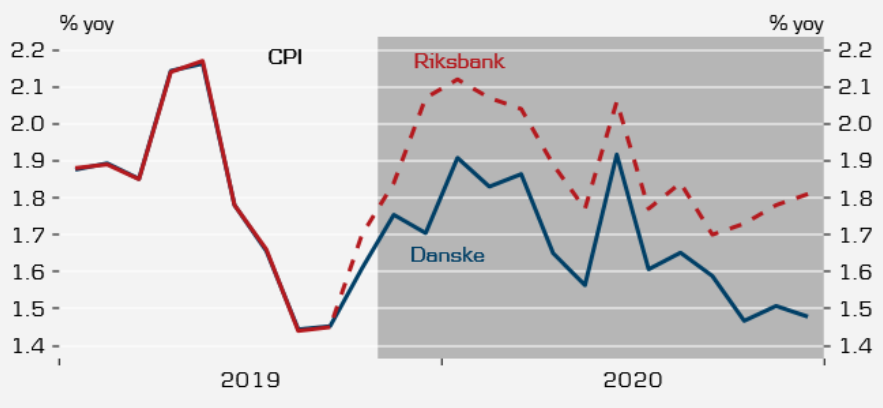
Conclusion

- Sell SGBi3112 (Jun 2026) and buy SGB1059 (Nov 2026) vs. selling DBRi Apr 2026 and buying DBR Feb 2026 at +100bp. P/L : 65/120bp.

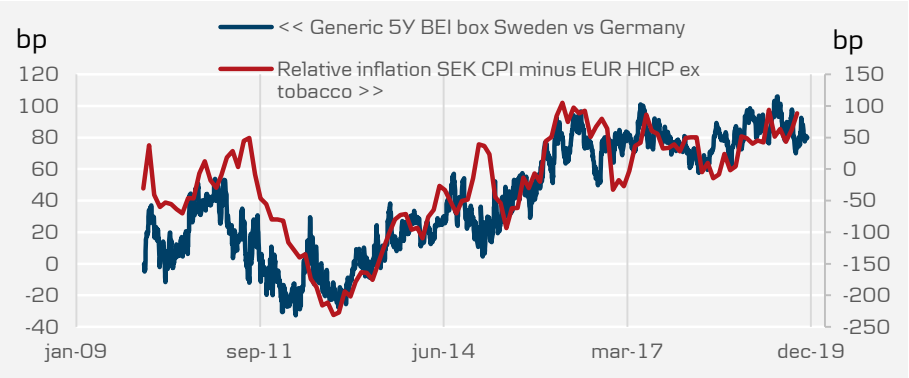
Risk factors

- Renewed SEK weakness could push Swedish inflation higher once again, supporting SEK BEI spreads.

RB appears overoptimistic on inflation – but tailwinds from the SEK are fading



Relative rate of inflation correlates strongly with the 5Y BEI box



Source: Danske Bank, Macrobond Financial, Riksbank

6: Pay NOK IRS 2Y outright

- The market discounts too low a probability of an interest rate hike in 2020

- As discussed on slide 9 the economic outlook suggests a high probability of a Norges Bank hike during spring 2020. The market discounts that 3M Nibor will edge lower in 2021 and the 2Y NOK swap and 6M Nibor curve is completely flat. Swap rates have been sliding lower recently – partly due to lower international interests and partly as a spillover from lower short-end bond yields.
- Norges Bank has recently, after being criticized in September for hiking when 'everybody' was cutting or on hold, said that Norges Bank has no problem being active and hiking if data and risk analyses suggest that a hike is correct. They have no problem cutting rates again later if data shows that conditions have changed. A weak NOK and a strong economy suggest that the market may be surprised during the spring by a hawkish Norges Bank.

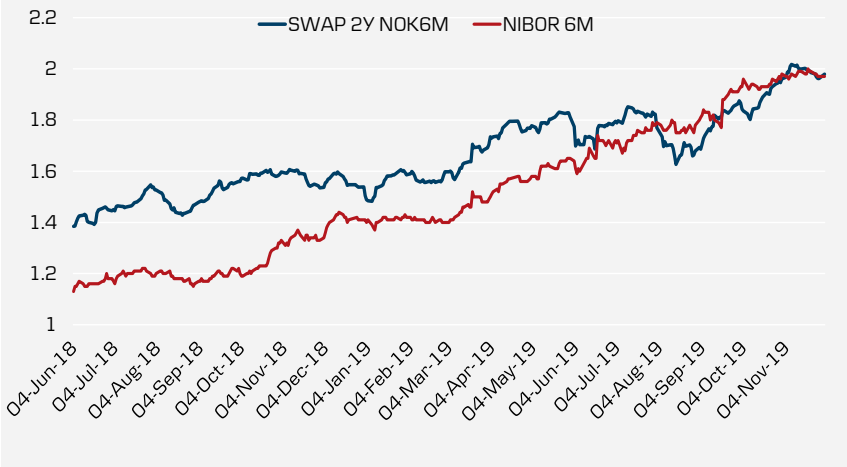
Conclusion

- Pay NOK IRS 2Y outright at 196bp for a 2.20% target

Risk factors

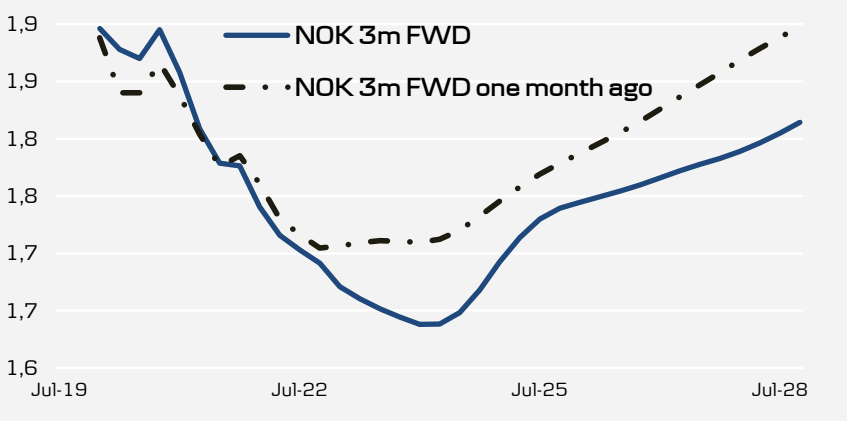
- A slowdown in the Norwegian economy or a pronounced appreciation of the NOK

Pay NOK IRS 2Y outright



Source: Danske Bank

The market once again discounts somewhat lower interest rates for 2021 - 2025



Source: Danske Bank

7: Long periphery versus core-EU

- Carry and roll-down as well as positive rating story is supportive of spread contraction

- We are still long periphery versus core-EU as a top trade. We have done this for several years and this year is no different.
- There is still a healthy yield pick-up in the periphery versus core-EU from carry and roll-down.
- There is a positive rating story for both Spain and Portugal on the back of the reform process that has been going on for several years.
- The periphery (Spain, Italy and Portugal) has been repriced modestly as we are getting closer to year-end.
- The macroeconomic outlook for both Spain and Portugal is better than the eurozone as the GDP forecasts for Spain and Portugal are 1.7% and 1.5%, respectively, while the GDP forecast for the eurozone is only 1% in 2020.

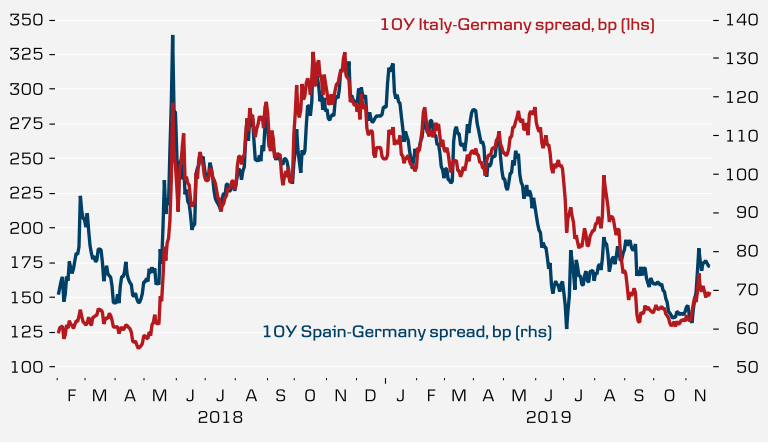
Conclusion

- Buy SPGB 0.6% 31/10/2029 vs DBR 0% 04/08/2029 @ 76bp. P/L 60bp/85bp. Excess carry 0.30%.
- Buy SPGB 2.75% 10/24 vs OBL 0% 10/24 @ 48bp. P/L 35bp/60bp. Excess carry 0.64%.

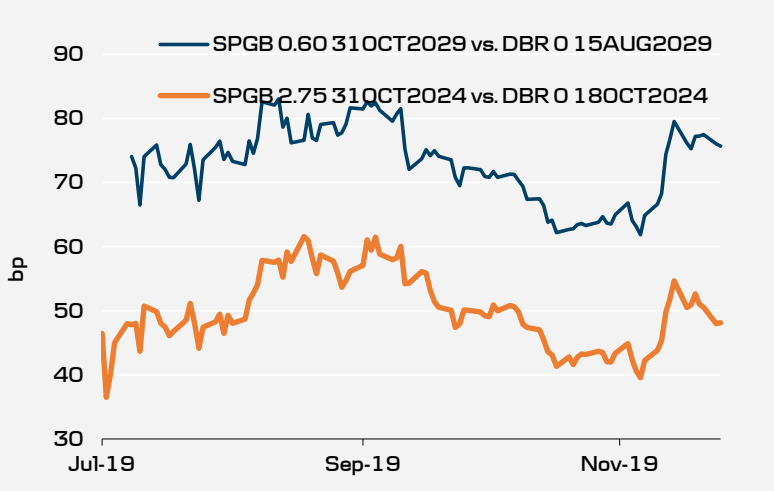
Risk factors

- Political uncertainty. The minority government in Spain cannot agree with left-wing parties on a budget and this could lead to another election in 2020.
- Slow growth and political uncertainty lead to a change in the positive rating cycle and Spain is placed on negative outlook.

10Y Spain versus Germany relative to the move in 10Y Italy vs. Germany, bp



5Y and 10Y Spain versus Germany, bp



Source: Danske Bank

8: Buy new syndicated deals from Ireland and Finland in 2020

- There is a solid new issue premium

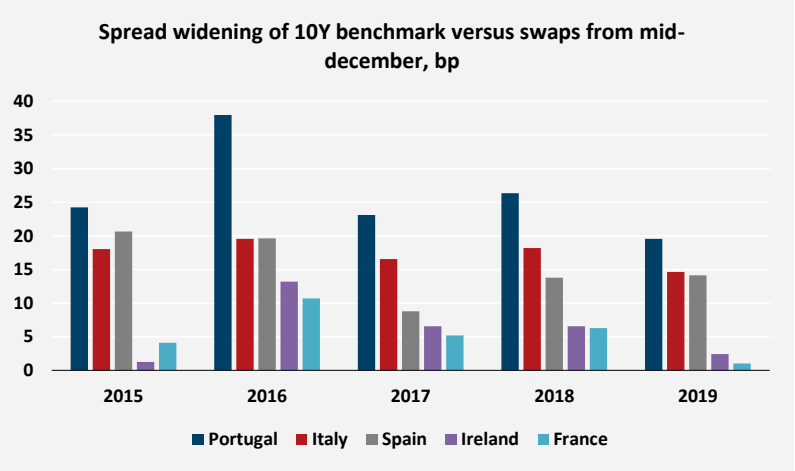
- The spread between the periphery and semi-core EU relative to swaps/Germany typically widens ahead of the new syndicated deals from mid-December and into the New Year as shown in the chart to the right, where we look at the spread widening for Portugal, Spain, Italy, Ireland and France for the past five years.
- Hence, as the syndicated deals are launched in January there is a decent new issue premium and potential performance.
- If we look the ASW-spread for the new syndicated deals and the movement after 10 days, in most years the bonds outperform the swaps (green numbers). Furthermore, it is not just due to a performance in the Bund spread as the moves in peripheral, semi-core and agency are larger than the move in the Bund spread as shown in the chart on the right.
- We expect that Ireland and Portugal will be the first to launch new deals in January, while Finland typically ends the new issuance season. We expect that Ireland could opt for a new 15Y bond with maturity in 2034 as there are bonds in the 10Y and 11Y segment. Finland is expected to do a new 10Y bond.

Conclusion

- Hence, we recommend buying the new Irish government bond at the syndicated deal in early January as well as buying the new Finnish government bond at the syndicated deal expected in February. Both trades are done versus swaps.

Risk factors

- A general widening of the swap spread in Q1.



A new issue premium at the syndicated deals

	2014	2015	2016	2017	2018	2019
Germany	-2	13	5	4	1	-1
Finland	-1	4	8	10	4	1
Austria	3	9	2	-1	-1	-1
Belgium	4	11	2	-2	-3	8
Ireland	19	12	-2	-4	3	10
EFSF	0	17	-13	3	7	14
EIB	17	-6	9	6	2	6
KfW	4	2	0	7	3	5
Spain	-3	9	10	-19	9	2
Italy	-1	45	-10	-6	21	16
Portugal	26	46	-4	22	30	23
Slovenia	18	-3	19	0	8	12
Slovakia	11	37	1	19	10	10

Source: Danske Bank

9: Buy the Bund spread at 40bp

- Position for a seasonal widening in January / February

- We expect the Bund spread to follow the trend we have seen in the past 6 of 7 years, when the Bund spread has widened in January and February (with the exception of last year). The move in the Bund spread in the first two months of the year is typically around 10bp.
- It may seem 'odd' that the Bund spread should widen at the start of the year, when there is plenty of issuance of SSAs, financials and corporate bonds. However, issuers traditionally 'swap' bonds back into floating rate and thus are receivers in the swap market. Investors are more mixed and thus the swap flow is skewed towards receiving.
- However, given large redemptions from Germany in Q1, the ECB QE restart, a cheap funding rate for Bunds (around -50bp) and an almost flat roll-down on the ASW spread curve, the demand for Bunds has more than offset the flow effect from issuers receiving in the swap market.
- Furthermore, recent spread tightening offers attractive entry levels (at the lowest level in past years).

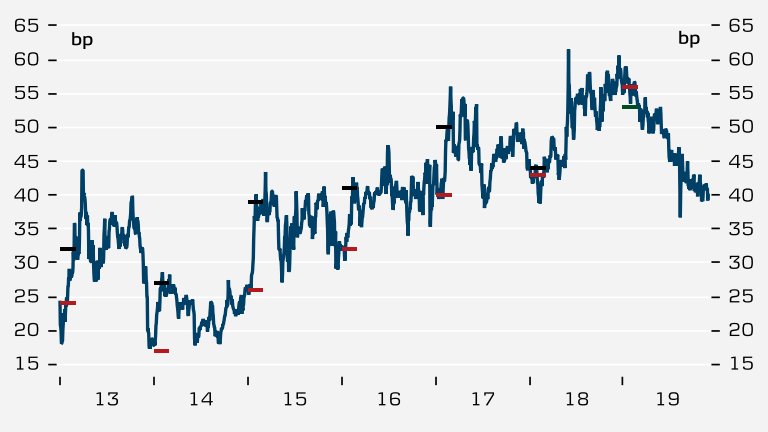
Conclusion

- Buy the Bund spread at 40bp. P/L 50bp/35bp. Carry is 'flat' on 3m horizon.

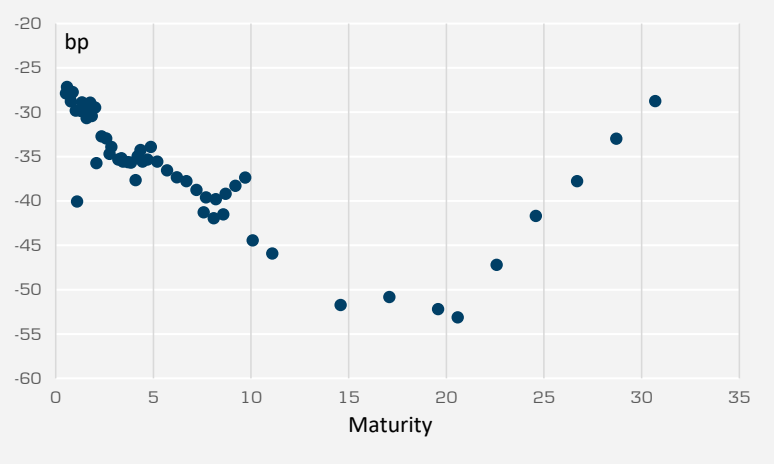
Risk factors

- A significant increase in the yields as seen in 2015 could lead to an increase in the ASW spread as investors use Bunds to hedge interest rate risk.

Bund ASW widening in Jan/Feb in 6 of past 7years are expected to continue in 2020



'Flat' carry on long Bund spread position (German government ASW curve)



Source: Danske Bank. Past performance is not a reliable indicator of current or future results.

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