

Government Bonds Weekly

- Possible new TLTRO and the government bond markets

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Supply and ratings

- Negative net cash flow for a second week in a row

Cash flow

- The net cash flow turns negative for a second week in row. It was EUR-15bn this week and is estimated at EUR-11.3bn in the coming week as EUR12bn in issuance will hit the market and only small coupons are coming to the market.
- Italy will conduct its mid-month tap in the 3y, 8y, 20y bonds for up to EUR5.5bn. The German Finanzagentur will launch the Dec-20 Schatz with a EUR4bn size and tap EUR1.5bn in the Aug-2048 bund.
- The Netherlands will conduct the last tap this year with a EURO.75bn tap in the off-the-run DSL Jan-42 bond. The Netherlands has already fulfilled its funding requirement for 2018 and we estimate that the net supply for 2019 will be negative by EUR7bn. For more see the previous issue of [Government Bonds Weekly](#), 9 November. In Scandinavia, we have Norway (estimated 10Y) and Sweden (8y and 14y) tapping the markets. Finally, Portugal will tap the 4.95% 2023 and 2.125 2028 bonds for EUR1-1.25bn in total.

Ratings

- The Netherlands (AAA/stable) is up for review by S&P and Austria (Aa1/stable) by Moody's. Austria is on positive outlook from Fitch and may get a positive outlook from Moody's. The debt-to-GDP ratio is expected to drop from 74.2% in 2018 to 70.5% in 2019, which eventually should pave the way for Austria returning to a AAA rating. The Netherlands is firmly anchored in the triple A camp with debt-to-GDP estimated to drop below 50% in 2019 with a budget surplus of 1%.

BTP-Bund spread back at 300bp again

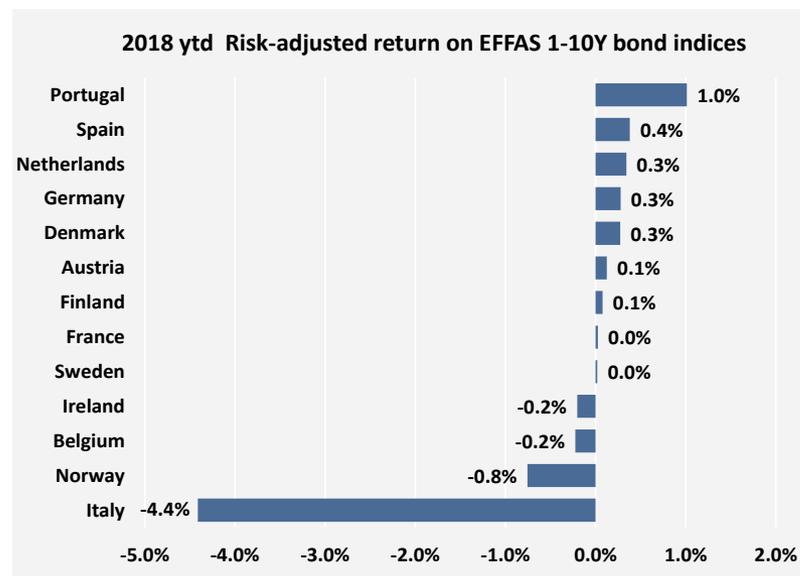


Source: Danske Bank

Trade overview: Italy drags other periphery countries lower

- We have based many of our trade recommendations on the view that both periphery and semi-core would be able to perform against core and swaps in 2018. Hence, since the Italian crisis reached a new level in early October, our trades have in general been under water.
- The last week has been no different and renewed pressure on Italy, after 'positive' rating announcements had supported it at the beginning of November, and heavy EGB issuance have weighed on sentiment. Note we have no active BTP trade recommendations.
- It means that our long 15Y Portugal vs swaps has lost another 6bp and our long 10Y Spain vs Bunds has lost another 3bp.
- We have been long Ireland this year. But the combination of Brexit and the taps by the NTMA yesterday has weighed on sentiment over the past week. However, we are comfortable with our long Ireland. The economy continues to boom and the Brexit fears seem overstated in the bond market relative to the GBP performance seen in the past two months and the Brexit news reported in media.

Core-EU markets moving up the ladder – periphery losing



Note: we calculate the risk-adjusted return, as there are small differences in the duration of the EFFAS 1-10Y for the individual countries; we scale all countries to the duration of Germany, so countries with a higher duration than Germany will have the absolute return 'scaled down' and vice versa – this should give a more accurate picture of the 'league table'

Source: Bloomberg, Danske Bank

TLTRO II

- *So far the early repayment has been modest, but it is expected to pick up in 2019.*
- *Will it be substituted by a new TLTRO? We believe so.*
- *This will mainly benefit Italian banks as they have been the largest takers of the TLTRO II, and their funding costs have risen significantly on the back of the clash between the EU and Italy.*
- *Spanish banks have also taken a significant amount of money, but the Spanish banks are not facing the same pressure as Italian banks.*
- *Hence, the impact on the government bond market is mainly going to affect Italian government bonds and possibly covered bonds.*

A new round of TLTROs in 2019? Yes, we think so

	TLTRO II.1	TLTRO II.2	TLTRO II.3	TLTRO II.4	Total
Allotment date	24/06/2016	22/09/2016	15/12/2016	22/03/2017	
Amount (EUR bn)	399	45	62	233	740
# of bidders	514	249	200	474	
First early voluntary repayment date (quarterly afterwards)	27/06/2018	26/09/2018	19/12/2018	27/03/2019	
Maturity	24/06/2020	30/09/2020	16/12/2020	24/03/2021	
Current outstanding amount	382	44	62	233	722
Early repayment	17	1	0	0	18

Source: Danske Bank, ECB

- There has been significant speculation regarding a new round of TLTROs to replace to old TLTRO II in 2019. Banks have already begun to redeem the TLTROs as shown in the table above. However, this has not had any impact on the market.
- When the maturity of the TLTROs is less than 1yr, then they 'fall out' of the NSFR for the banks and that could give an incentive to replace the TLTROs with new funding.
- Furthermore, as the banks have to pledge collateral against the TLTROs, then we could see selling of e.g. government bonds or a lack of reinvestments if the government bonds mature in 2019.
- So an early repayment hits the market on two fronts - firstly through increased bank funding (covered bonds, senior debt etc.) and secondly possible selling of government bonds/lack of reinvestment in government bonds.
- We believe the ECB will avoid big distortion in the market due to an early repayment of the TLTROs, and is likely to introduce a new TLTRO III in 2019. See more in our [ECB Research](#), 9 November 2018.
- If the TLTRO is replaced with fresh ECB funding with attractive funding rates it is supportive for credit products and since Italian banks are the largest taker of the TLTRO (see page 6), then this would benefit especially Italian government bonds.

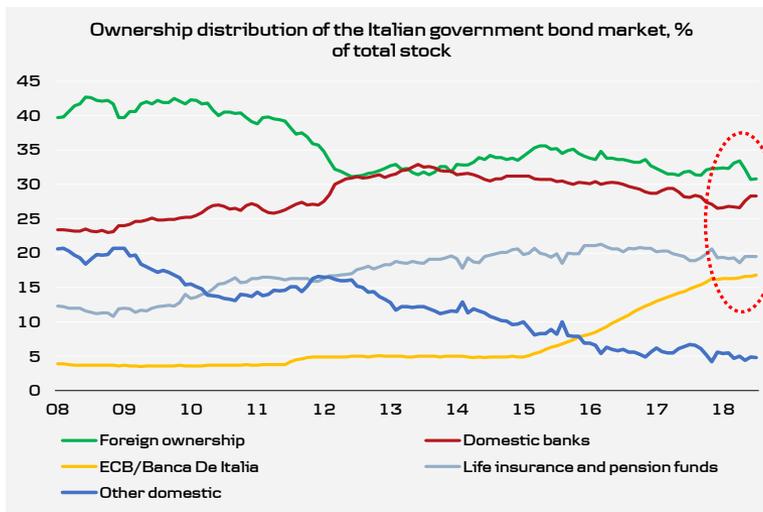
Italy has been the largest taker of TLTRO II

- Italy has been the largest taker of the TLTROs in 2016 and 2017 followed by Spain as shown by the table
- However, if we look at the ownership distribution of Italian government bonds then it did not increase during 2016 and early 2017 – so it does not seem as if they have bought significant amounts of BTPs for the TLTRO money.
- That said an early repayment is likely to add pressure on Italian banks as their funding costs have risen on the back of the clash between the EU and Italy on the budget for 2019. The CDS for e.g. Intesa and Unicredit have risen by more than 100bp.
- An additional pressure on the banks would also have impact on the Italian government bonds as the Italian banks have bought Italian government bonds as foreigners have sold bonds.
- Hence, a replacement would be beneficial for Italian government bonds.
- Spanish banks have also taken in the TLTROs, but they do not face the same pressure on the funding cost as the Italian banks – hence an early repayment from Spanish banks should not have much impact on Spanish government bonds.

Potential maximum new take-up of 'TLTRO3' is EUR1 trn

(bn EUR)	Eligible loan stock (Sep.18)	Max eligible take-up (30% of eligible loan stock)	Currently outstanding LTRO by country	Potential max new take up	Pot max new take up % of GDP
Germany	1453	436	88	348	11
Netherlands	409	123	28	95	13
Austria	224	67	20	47	13
France	1279	384	114	270	12
Finland	114	34	9	26	11
Luxembourg	83	25	5	20	36
Belgium	160	48	22	25	6
Spain	652	196	167	28	2
Italy	1001	300	239	61	4
Portugal	96	29	19	10	5
Ireland	69	21	3	17	6
Greece	115	35	8	27	15
Other	98	29	3	26	
Euro area	5754	1726	722 (TLTRO)	1004	9

Source: ECB, Danske Bank



Source: Danske Bank, Banca Italia

EU Commission Autumn forecasts

- *Giving rise to new concerns ahead of 13 November deadline for Italy*

EU Commission Autumn forecast give rise to new Italy concerns - but also underline the divided eurozone

- On 13 November the new Italian government will have to resubmit its budget to EU commission. During the week the [EU commission released its 2019 Autumn forecasts](#). The 2019 forecast for the Italian budget deficit was revised to 2.9%, well above the 2.4% deficit in the Italian draft budget. The 2020 budget deficit was penciled in at 3.1%. One important factor behind the higher deficit estimate by the EU commission is the 2019 1.2% GDP growth forecast compared with 1.5% in the draft budget from Italy.
- The EU Commission also published slightly higher estimates for the Spanish and Portuguese budget deficits for 2019 compared to the deficits in the draft budgets from the respective countries. But as the EU Commission also notes, the budget deficits are smaller in both countries compared to 2017. Furthermore, unlike the Italian budgets, the deficits are expected to decline further in 2020. We do not expect any market attention on the slightly higher deficit estimates for Spain and Portugal and remain long both countries.
- Finally, the EU Commission revised the budget estimates in an even more positive direction for Germany and Netherlands underlining the low net supply in these two countries next year. For more see the previous issue of [Government Bonds Weekly](#).

		Budgets provided for the EU, %			EU Autumn forecast		
		2019	2019	2019	2019	2019	2019
		GDP	Budget balance	Debt to GDP	GDP	Budget balance	Debt to GDP
Periphery	Italy	1.5	-2.4	130.0	1.2	-2.9	131.0
	Spain	2.3	-1.8	95.5	2.2	-2.1	96.2
	Portugal	2.2	-0.2	118.5	1.8	-0.6	119.2
Semi-core	Ireland	4.2	0.0	61.4	4.5	-0.1	61.1
	Finland	1.7	-0.1	59.1	2.2	-0.2	58.5
	Austria	2.0	0.1	70.5	2.0	0.0	71.0
	France	1.7	-2.8	98.6	1.6	-2.8	98.5
	Belgium	1.5	-1.0	100.2	1.5	-1.1	99.8
Core	Germany	1.8	1.0	58.0	1.8	1.2	56.7
	Netherlands	2.6	1.0	49.6	2.4	1.1	49.6

Sources: Various Draft budgetary plans 2019 and EU Commission autumn forecast

Supply: some EUR12bn coming to the market

week 46		issuer	type	maturity	coupon	size
Tuesday	13/11	Italy	BTPS	Oct-2021	2.30%	Up to EUR 2.5bn
		Italy	BTPS	Aug-2038	2.95%	Up to EUR 1.25bn
		Italy	BTPS	Nov-2025	2.50%	Up to EUR 1.75bn
		Germany	Schatz	Dec-2020	0.00%	EUR4bn
		Netherlands	NETHER	Jan-2042	3.75%	EUR 0.5-1.0bn
Wednesday	14/11	Norway	NGB	10Y		NOK 3bn
		Sweden	SGB	Jun-2032	2.25%	SEK 0.5bn
		Sweden	SGB	Nov-2026	1.00%	SEK1.0bn
		Germany	Bund	Aug-2048	1.25%	EUR 1.5bn
		Portugal	PGB	Oct-2023	4.95%	EUR 1-1.25bn
		Portugal	PGB	Oct-2028	2.13%	

Source: Danske Bank

- The net-cash flow turns negative by EUR11.3bn the coming week as EUR12bn in issuance will hit the market.
- Italy will conduct its mid-month tap in the 3y, 8y, 20y bonds for up to EUR5.5bn.
- The German Finanzagentur will launch the Dec-20 Schatz with a EUR4bn size and tap EUR1.5bn in the Aug-2048 bund.
- The Netherlands will conduct the last tap this year with a EURO.75bn tap in the off-the-run DSL Jan-42 bond. The Netherlands has already fulfilled its funding requirement for 2018 and we estimate that the net supply for 2019 will be negative by EUR7bn. For more see the previous issue of [Government Bonds Weekly](#).
- Finally, Portugal will tap the 4.95% 2023 and 2.125 2028 bonds for EUR1-1.25bn in total. Portugal intends to use the proceeds to reimburse part of the country's IMF Loan early.

No EUR redemption in the coming week and negative cash-flow

- Note the annual redemption and coupons in Denmark

Coupon + Redemption	Week 46	Week 47	Week 48	Week 49	Week 50
Germany	0.0	0.0	0.0	0.0	13.0
France		21.5			
Italy	0.6	0.0	20.4	0.0	0.3
Spain			0.5		
Portugal	0.0	0.0	0.0	0.0	0.0
Belgium					
Netherlands	0.0	0.0	0.0	0.0	0.0
Austria		0.4			
Finland	0.0	0.0	0.0	0.0	0.0
Ireland					
Slovakia	0.1	0.0	3.0	0.0	0.0
Greece					
EFSF	0.0	0.0	0.0	0.0	0.0
ESM	0.0	0.1	0.1		
Total - EUR	0.7	22.0	24.0	0.0	13.3
Denmark	67.9				
Sweden	2.0	0.0	7.3	0.0	0.0
Norway					

Note: all values are millions, local currency

Source: Danske Bank

Net cash flow	Week 46	Week 47	Week 48	Week 49	Week 50
Germany	-5.5	-3.0	-3.0		10.0
France		21.5		-8.0	
Italy	-4.4	0.0	10.4		-6.7
Spain		-4.0	0.5	-4.0	-4.0
Portugal	-1.0	0.0	0.0	0.0	-1.0
Belgium		-3.0			
Netherlands	-0.8				
Austria		0.4			-1.0
Finland					
Ireland					
Slovakia	0.1		3.0		
Greece					
EFSF	0.0	0.0	0.0	0.0	0.0
ESM	0.0	0.1	0.1		
Total - EUR	-11.5	12.0	11.0	-12.0	-2.7
Denmark	67.9	-2.5		-2.5	
Sweden	0.5		7.3		
Norway	-3.0			-3.0	

Note: All volumes are in billions, local currency.

Note: Negative means more issuance than coupon and redemption

Source: Danske Bank

Supply over the past week

- good demand for Ireland

week 45		issuer	type	maturity	coupon	sold	b-t-c	avg. Yield
Tuesday	06/11	EFSF	EFSF	Jan-2024	0.0%	4,000		
		Austria	RAGB	Cancelled				
Wednesday	07/11	Germany	Bund	Aug-2028	0.3%	2,397	1.4	0.42%
		Denmark	DGB	Nov-2023	1.5%	2,555	1.8	-0.11%
		Denmark	DGB	Nov-2027	0.5%	320	1.9	0.38%
Thursday	08/11	Ireland	IRISH	Mar-2023	3.9%	350	2.7	0.03%
		Ireland	IRISH	May-2028	0.9%	400	2.4	1.01%
		Spain	SPGB	Oct-2021	0.1%	1,222	2.2	0.10%
		Spain	SPGB	Jul-2023	0.4%	1,419	2.0	0.35%
		Spain	SPGB	Jan-2037	4.2%	553	2.4	2.22%
		Spain	SPGB	Jul-2066	3.5%	800	2.4	3.03%
		France	FRTR	Nov-2026	0.3%	1,720	2.1	0.54%
		France	FRTR	Nov-2028	0.8%	3,760	1.8	0.82%
		France	FRTR	May-2030	2.5%	1,465	2.1	0.93%
		France	FRTR	Apr-2041	4.5%	1,926	1.6	1.44%
	Sweden	SGBi	Dec-2027	0.1%	500	2.8	-1.41%	

Source: Danske Bank

Funding overview: funding target reached in several countries

Expected issuance (Bn)	Expected gross bond issuance 2018		Gross issuance 2018 YtD	Bonds maturing 2018	Net issuance 2018 YtD	Expected net issuance 2018	% issued YtD of expected gross	
	Official estimate*	Danske Markets					Official estimate	Danske Markets
Germany	147.0	147.0	131.0	160.0	-16.0	-13.0	89%	89%
France	210.0	210.0	209.5	115.9	113.5	94.1	100%	100%
Italy	240.0	240.0	219.0	182.5	80.3	57.5	91%	91%
Spain	126.0	126.0	123.0	57.3	65.7	68.7	98%	98%
Portugal	15.0	15.0	14.9	6.6	8.3	8.4	100%	100%
Greece	5.0	5.0	3.0	1.9	1.1	3.1	60%	60%
Belgium	31.0	31.0	30.4	23.6	6.8	7.4	98%	98%
Netherlands	23.0	23.0	22.9	39.1	-16.2	-16.1	100%	100%
Austria	18.5	18.5	17.6	19.3	-1.7	-0.8	95%	95%
Finland	11.0	11.0	9.0	5.0	4.0	6.0	82%	82%
Ireland	16.0	16.0	17.4	17.7	-0.3	-1.7	108%	108%
EU	6.0	6.0	4.8	5.9	-1.1	0.1	80%	80%
EFSF	28.0	28.0	28.0	23.9	4.1	4.1	100%	100%
ESM	23.0	23.0	15.5	13.0	8.5	10.0	67%	67%
Total - EUR	899.5	899.5	846.0	671.7	257.1	227.8	94%	94%
Denmark*	65.0	65.0	58.7	53.4	58.7	11.7	90%	90%
Sweden	41.0	41.0	36.9		36.9	41.0	90%	90%
Norway	50.0	50.0	41.0	0.0	41.0	50.0	82%	82%

*Denmark numbers are notional levels - i.e. not taking into account the additional revenue from sale of bonds trading above 100.

Source: Danske Bank

Current trades

Open strategies					
Type	Trade	Idea	Risk	Target & P/L	Target & P/L
Buy new 10Y IRISH benchmark	Buy IRISH 05/28 versus swaps @ +2bp	We expect Ireland to 'converge' with France, as there are strong fundamentals relative to France/Belgium and a positive rating story, where Ireland is expected to be upgraded to the 'AA' range	Brexit risk escalates where the outlook for an upgrade is diminished	Target	-10bp
				Currently	6bp
				Opened	2bp
				P&L (bp)	-4bp
				Opened	03-Jan-18
Buy 10Y France vs Germany	Buy FRTR 0.75% 5/28 vs DBR 0.5% 2/28 @ 30bp	France has widened to Germany as the Italian crisis has dominated. We argue that France is a complete different case and that the semi-core tightening will soon start again.	Further spill-over from France. Tapering sell-off as PSPP stops later this year.	Target	23bp
				Currently	37bp
				Opened	30bp
				P&L (bp)	-7bp
				Opened	01-Jun-18
Buy 10Y Denmark vs Germany	Buy DGB 0.50% 11/27 vs DBR 08/27 @6bp	Low supply of DGBs, buybacks and switches from the Debt Management Office is supportive for the Danish government bond market. Furthermore, investors who cannot buy Danish mortgage bonds can buy govts as a substitute	ECB QE as well as low supply and cheap funding rates for Germany and the Netherlands	Target	0bp
				Currently	7bp
				Opened	6bp
				P&L (bp)	-1bp
				Opened	06-Dec-17
Buy KfW vs Belgium	Buy KfW 0.375% 03/23] vs BGB 2.25% 16/23 @4bp	Cheap KfW vs. BGB		Target	-2bp
				Currently	5bp
				Opened	4bp
				P&L (bp)	-1bp
				Opened	12-Jan-18
Buy 15Y Ireland vs swaps	Buy IRISH 1.3% 05/33 vs swaps @4bp	Strong demand at the auction and ongoing purchase by the ECB. Potential for an upgrade. Modest funding requirement for the rest of 2018	Brexit risk and change in the rating outlook	Target	-5bp
				Currently	17bp
				Opened	4bp
				P&L (bp)	-13bp
				Opened	13-Apr-18
Buy 15Y Portugal vs swaps	Buy PGB 2.25% 04/34 vs swaps @91bp	There is limited supply for the rest of 2018 of PGBs. There is a new issue premium and ECB is buying more than the capital key	Risk-off sentiment, political problems in Spain and Italy	Target	75bp
				Currently	114bp
				Opened	91bp
				P&L (bp)	-23bp
				Opened	06-Apr-18

Source: Danske Bank

Current trades

Open strategies					
Type	Trade	Idea	Risk	Target & P/L	Target & P/L
Buy 10Y Spain vs Bunds	Buy SPGB 1.4% 04/28 vs DBR 0.5% 2/28 @104bp	Spain has widened as the Italian crisis has dominated. We argue that Spain is complete different case. The new Socialist government will also be fiscal prudent and is pro-Europe.	Further spill-over from Italy. Political uncertainty in Spain with the new government.	Target	70bp
				Currently	116bp
				Opened	104bp
				P&L (bp)	-12bp
				Opened	01-Jun-18
Buy 13Y Finland vs. 15Y Netherlands	Buy RFGB 0.35 '31 vs. Nether 2.5% '33 @7bp	Netherlands and Germany has outperformed in the 10Y to 30Y segment. Upcoming supply from Germany and Netherlands as well as buy-backs from ECB in the QE programme should be supportive for semi-core	The lack of supply of Dutch government bonds as the funding requirement is revised downwards	Target	2bp
				Currently	9bp
				Opened	7bp
				P&L (bp)	-2bp
				Opened	09-Aug-18
Buy 16Y Austria vs. 16Y Germany	Buy RAGB 2.4% 05/34 vs. Bund 4.75% 07/34 @33bp	Austria is looking cheap relative to Germany in the 10Y to 30Y segment.	The lack of supply of German government bonds	Target	25bp
				Currently	38bp
				Opened	33bp
				P&L (bp)	-5bp
				Opened	09-Aug-18
Buy 30Y France vs. 30Y Germany	Buy France 2.25% 05/48 vs. Bund 1.25% 08/48 @ 54bp	The France government yield curve is very steep relative to the Germany curve. This is driven from the long	The lack of supply of German government bonds	Target	45bp
				Currently	60bp
				Opened	54bp
				P&L (bp)	-6bp
				Opened	09-Aug-18
Buy 10Y Finland vs. 10Y Austria	Buy RFGB 2.75% 07/28 vs RAGB 0.75% 2/28 @-2bp	Finland has underperformed Austria in the 8-10Y segment after the outlook on Austrian government bonds was changed to positive and ahead of the supply from Finland in Q3	Austria receives an upgrade to AAA ahead of Finland	Target	-7bp
				Currently	0bp
				Opened	-2bp
				P&L (bp)	-2bp
				Opened	09-Aug-18
Buy 12Y Ireland (Green bond) vs. 15Y BGB (Green bond)	Buy IRISH 1.35% 03/31 vs. BGB 1.25% 04/33 @ 11bp	The Irish Green Bond came with a small new issue premium relative to Belgium. Furthermore, The Irish budget is much more prudent than the Belgian Budget for 2019, which might be "rebuffed" the EU commssion	The Brexit uncertainty escalates	Target	5bp
				Currently	8bp
				Opened	11bp
				P&L (bp)	3bp
				Opened	19-Oct-18

Source: Danske Bank

Closed trades

Closed strategies					
Type	Trade	Idea	Risk	Target & P/L	Target & P/L
Buy the new 10Y Portuguese benchmark. Profit taken March 9, 2018 as profit target reached.	Buy PGB 2.125% 10/28 vs swaps @ +114bp	Solid fundamentals and the possibility of a further upgrade is very supportive for Portuguese government bonds	Fiscal slippage in the Portuguese economy and increased political risk in Spain. Abrupt end to QE	Target	70bp
				Currently	70bp
				Opened	114bp
				P&L (bp)	44bp
				Opened	12-Jan-18
Buy DKK break-even inflation - closed on March 23- Profit target reached	Buy DGBi 0.1% 11/23 vs DGB 1.5% 11/23 @1.1%	The monthly inflation fixings in Denmark are expected to be higher than 1.1% in the first half of 2018. Furthermore, the Danish Central Bank will launch a new 12Y linker, and we expect there to be switches between the old and the new linker	A decline in inflation	Target	1.30%
				Currently	1.31%
				Opened	1.10%
				P&L (bp)	21bp
				Opened	06-Dec-17
Buy the new 10Y Spanish benchmark. Closed on April 5. Profit target reached	Buy SPGB 1.4% 4/28 vs swaps @+44bp	Solid fundamentals and the possibility of further rating upgrades is supportive for government bonds. Very strong demand seen at syndication. Investors still looking for carry	Fiscal slippage in the Spanish economy and increased political risk (Catalonia). Spillover from Italy, if election in March goes badly. Abrupt end to ECB QE.	Target	25bp
				Currently	21bp
				Opened	46bp
				P&L (bp)	25bp
				Opened	26-Jan-18
Buy 5y BTP vs 2y Schatz. Closed May 28 at the opening.	Buy BTPS 0.95% 3/23 vs BKO 0% 3/20	The 5y segment of the curve offers the best carry and market to postposne first ECB hike further	Political risk is Italy and early ECB hikes	Target	100bp
				Currently	.190bp
				Opened	126bp
				P&L (bp)	-64bp
				Opened	06-Apr-18
Buy the Bund ASW spread. Closed on July 13, 2018	Buy the Bund ASW spread @46bp	There is a negative net supply of German government bonds in Q1. This is usually very supportive for the Bund ASW spread, and we see a widener of the Bund spread of c.10bp from mid-January	Heavy issuance hedged by Bunds or a sharp sell-off as seen in 2015	Target	55bp
				Currently	55bp
				Opened	46bp
				P&L (bp)	9bp
				Opened	06-Dec-17
Buy 5Y Sweden vs Germany. Closed August 17, 2018]	Buy SGB 1.5% 11/23 vs OBL 0% 10/22 @38bp	The combination of a steep curve as well as scarcity in the SGB market due to the Riksbank frontloading reinvestments in 2018 and very modest supply is positive for SGBs	The Riksbank turns more hawkish as inflation rises more than expected and housing market stabilises	Target	15bp
				Currently	34bp
				Opened	38bp
				P&L (bp)	4bp
				Opened	4307500.00%

Source: Danske Bank

Closed trades

Closed strategies						
Type	Trade	Idea	Risk	Target & P/L	Target & P/L	Target & P/L
Buy 5Y Finland vs Belgium (closed September 7, 2018)	Buy RFGB 1.5% 04/23 vs BGB 2.25% 16/23 @0bp	The fundamental outlook and the possibility of an upgrade is better in Finland than in Belgium. Furthermore, scaling down QE will diminish the purchase in BGBs. Political uncertainty in Belgium	Upward revision of the borrowing requirement in Finland. QE purchase in BGB continues to be above the capital key	Target		-6bp
				Currently		-6bp
				Opened		0bp
				P&L (bp)		6bp
				Opened		12-Jan-18
Buy Denmark vs Netherlands (closed September 7, 2018)	Buy DGB 0.50% 11/27 vs Nether 0.75% 07/27 @ -2bp	Low supply of DGBs, buybacks and switches from the Debt Management Office is supportive for the Danish government bond market. Furthermore, investors who cannot buy Danish mortgage bonds can buy govts as a substitute	ECB QE as well as low supply and cheap funding rates for the Netherlands	Target		-8bp
				Currently		-7bp
				Opened		-2bp
				P&L (bp)		5bp
				Opened		06-Dec-17
Buy 5Y Denmark vs Netherlands (closed September 7, 2018)	Buy DGB 1.5% 11/23 vs Nether 1.5% 07/23 @9bp	Denmark has been under pressure since the start of the year, but with Danish Debt Office buying back bonds, and the low supply - then the spread should tighten	Continued pressure from the Danish mortgage market	Target		0bp
				Currently		3bp
				Opened		9bp
				P&L (bp)		6bp
				Opened		22-Feb-18

Source: Danske Bank

Fixed income top trades 2018

Trades	Opened	Closed	Comment	P/L
#1: Sell 1Y10Y ATMS EUR straddle	05/12/2017	15/02/2018	Stop loss	-125cts
#2: 1Y forward 2Y-10Y flattening of the USD swap curve	05/12/2017	09/04/2018		12.0bp
#3: Pay 2Y3M USDOIS versus receive 1Y3M USDOIS	05/12/2017	18/05/2018	Hit target	24.8bp
#4: Buy Bund spread	05/12/2017	13/07/2018	Hit target	9bp
#5: Buying the new 10Y PGB and the new 10Y IRISH government bond at the expected syndication	05/12/2017	PGB 09-03-2018		44bp/0bp
#6: Buy 30Y 2% callable bonds against DGBs	05/12/2017	16/01/2018		1.06pts
#7: Buy 5Y non-callable bonds against DGBs (RD 2% Jan-22 vs DGB 1.5% 11/23)	05/12/2017			0.25%
#8: Buy DGBi 0.1% 2023 vs DGB 1.5% 2023	05/12/2017	23/03/2018	Hit target	20bp
#9: Buy DGB 0.5% 11/27 relative to EU peers such as Bund 08/27(open) and DSL 11/27 (closed)	05/12/2017	07/11/2018	vs DSL closed	0bp/5bp
#10: Buy SGB 1.5% 11/23 (SGB1057) vs Bobl	05/12/2017	17/08/2018	Closed with profit	4bp
#11: Receive MAR-19 SEK RIBA	05/12/2017	07/09/2018	Closed with profit	22.0bp
#12: Receive 1Y1Y USDSEK CCS	05/12/2017	18/05/2018	Stop loss	-6.1bp
#13: Receive 1Y1Y SEK vs EUR and pay 5Y5Y NOK vs EUR	05/12/2017	28/05/2018	Hit target	31.3bp
#14: Receive 1Y1Y USDNOK CCS	05/12/2017	18/05/2018	Stop loss	-8.6bp
#15: Receive EUR 1Y1Y-2Y1Y-3Y1Y EUR swap fly	20/12/2017	25/05/2018		12.5bp
#16: Receive Dec-18 to Mar-19 EONIA swap	11/01/2017	20/03/2018		5.2bp
#17: Receive 1Y1Y EUR real rate	01/03/2018	09/04/2018		11.5bp
#18: Sell 1Y5Y ATMF EUR payer swaption	01/03/2018	20/03/2018		23.9cts
#19: Tactical 5Y-30Y EUR steepener 5Y fwd	01/03/2018	15/06/2018		15.9bp
#20: Sell 10Y10Y vs buy 1Y1Y euro HICPxt inflation swap	01/03/2018	25/05/2018		16.0bp
#21: Receive 2Y2Y EUR swap	20/03/2018	25/05/2018		18.5bp

Note: The estimated P&L includes roll-down

Note: Our Fixed Income Top Trades 2018 include derivatives trades as well as bond trades.

Source: Danske Bank

An overview of the 12M carry in selected EU government bonds – the 5Y segments provide the best carry but in Italy it is the 2Y

GERMANY		Segment					
12mth horizon	2	5	10	15	20	30	
"Coupon" Carry	-0.59%	-0.15%	0.45%	0.68%	0.86%	1.08%	
Roll-down	0.10%	0.62%	0.91%	0.62%	0.41%	-0.04%	
Total carry	-0.49%	0.46%	1.37%	1.30%	1.27%	1.04%	
Total carry + funding	0.10%	1.01%	1.91%	1.98%	1.43%	1.60%	
Total carry + funding (riskadjusted)	0.04%	0.19%	0.19%	0.11%	0.06%	0.05%	
Funding rate	-0.59%	-0.55%	-0.54%	-0.69%	-0.52%	-0.57%	

NETHERLANDS		Segment					
12mth horizon	2	5	10	15	20	30	
"Coupon" Carry	-0.60%	-0.05%	0.50%	0.84%	0.95%	1.16%	
Roll-down	0.09%	0.88%	0.58%	0.94%	0.49%	0.68%	
Total carry	-0.50%	0.83%	1.09%	1.78%	1.43%	1.85%	
Total carry + funding	0.03%	1.32%	1.68%	2.31%	1.97%	2.53%	
Total carry + funding (riskadjusted)	-0.01%	0.26%	0.14%	0.15%	0.08%	0.08%	
Funding rate	-0.53%	-0.49%	-0.59%	-0.54%	-0.53%	-0.46%	

FRANCE		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	-0.47%	0.01%	0.80%	1.15%	1.34%	1.69%	
Roll-down	0.12%	0.70%	1.10%	1.02%	0.14%	0.80%	
Total carry	-0.35%	0.71%	1.89%	2.17%	1.48%	2.49%	
Total carry + funding	0.15%	1.21%	2.39%	2.67%	1.98%	2.99%	
Total carry + funding (riskadjusted)	0.07%	0.22%	0.25%	0.18%	0.09%	0.12%	
Funding rate	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	-0.50%	

BELGIUM		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	-0.49%	0.09%	0.88%	1.28%	1.53%	1.80%	
Roll-down	0.14%	0.98%	1.08%	1.16%	0.31%	0.78%	
Total carry	-0.35%	1.07%	1.96%	2.44%	1.83%	2.59%	
Total carry + funding	0.15%	1.60%	2.51%	2.97%	2.35%	3.09%	
Total carry + funding (riskadjusted)	0.07%	0.32%	0.26%	0.21%	0.13%	0.14%	
Funding rate	-0.50%	-0.53%	-0.55%	-0.53%	-0.52%	-0.50%	

SPAIN		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	-0.14%	0.65%	1.60%	2.11%	2.31%	2.73%	
Roll-down	0.29%	1.19%	0.88%	2.00%	0.57%	0.70%	
Total carry	0.15%	1.84%	2.47%	4.11%	2.89%	3.43%	
Total carry + funding	0.68%	2.29%	2.94%	4.62%	3.36%	3.99%	
Total carry + funding (riskadjusted)	0.32%	0.42%	0.27%	0.35%	0.17%	0.19%	
Funding rate	-0.52%	-0.45%	-0.46%	-0.51%	-0.48%	-0.56%	

IRELAND		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	-0.46%	0.19%	1.05%	1.49%	1.67%	1.88%	
Roll-down	0.04%	0.76%	1.18%	0.98%	0.57%	0.32%	
Total carry	-0.43%	0.95%	2.23%	2.47%	2.24%	2.20%	
Total carry + funding	0.12%	1.47%	2.74%	3.00%	2.81%	2.59%	
Total carry + funding (riskadjusted)	0.05%	0.27%	0.29%	0.23%	0.17%	0.10%	
Funding rate	-0.55%	-0.52%	-0.51%	-0.53%	-0.57%	-0.39%	

ITALY		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	1.23%	2.72%	3.54%	3.76%	3.52%	3.76%	
Roll-down	0.64%	0.62%	0.80%	0.26%	1.05%	-1.97%	
Total carry	1.88%	3.34%	4.34%	4.02%	4.57%	1.79%	
Total carry + funding	2.36%	3.60%	4.56%	4.29%	5.30%	2.27%	
Total carry + funding (riskadjusted)	1.19%	0.78%	0.50%	0.38%	0.39%	0.14%	
Funding rate	-0.48%	-0.46%	-0.41%	-0.42%	-0.40%	-0.48%	

PORTUGAL		Segment					
	2	5	10	15	20	30	
"Coupon" Carry	-0.10%	0.74%	1.92%	2.42%	2.76%	3.16%	
Roll-down	0.16%	1.32%	0.90%	0.92%	0.95%	0.44%	
Total carry	0.05%	2.06%	2.82%	3.34%	3.71%	3.60%	
Total carry + funding	0.44%	2.69%	3.52%	3.87%	4.19%	3.90%	
Total carry + funding (riskadjusted)	0.20%	0.48%	0.38%	0.31%	0.25%	0.17%	
Funding rate	-0.39%	-0.63%	-0.70%	-0.54%	-0.47%	-0.31%	

Note. The funding rate is an indicative price for the repo rate for the bonds

Source. Danske Bank

Austria – Moody’s

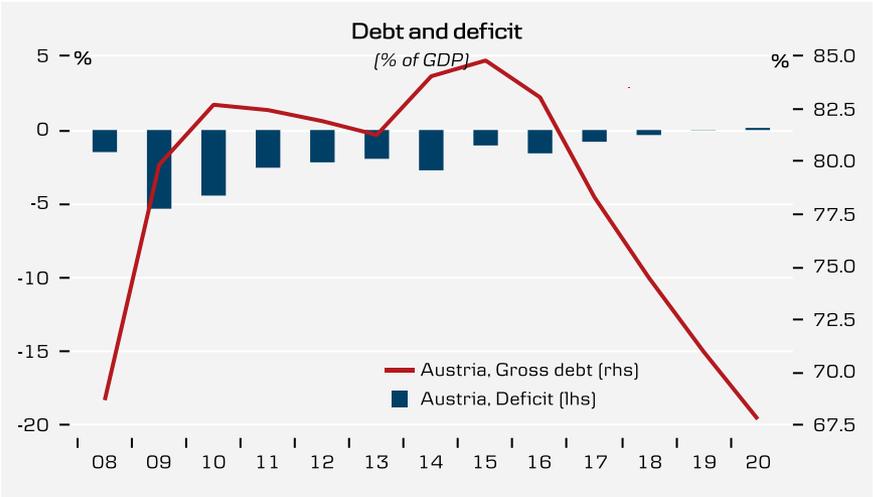
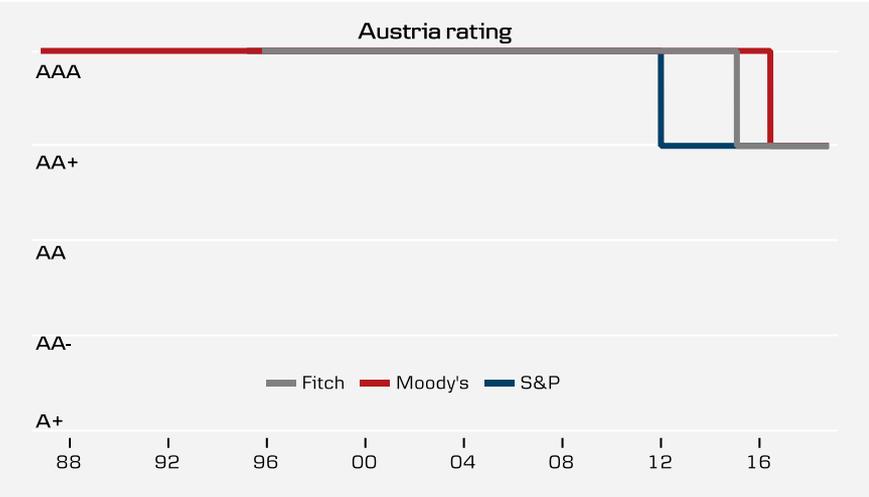
Moody’s: November 16

Austria	Moody's	S&P	Fitch
Rating	Aa1	AA+	AA+
Outlook	Stable	Stable	Positive
Potential rating decision	16 November 2018		
Requirement for upgrade	Austria's Aa1 government bond rating could come under upward pressure should medium-term economic growth outperform our expectations, particularly should this result from successful implementation of economic reforms that address some of the structural constraints identified. Further fiscal measures implemented through the government's medium-term budget plan which increase the prospects of a higher-than-expected decline in Austria's debt burden over the remainder of this decade would also be positive for the rating.	We could raise the ratings if the government put forward a more comprehensive fiscal plan that includes the impacts of substantial reform projects and underlines that fiscal gains of recent years were not a temporary improvement, but rather were structural -- which is in line with our base-case assumption. Implementation of elaborate reforms based on consensual but progressive decision-making, combined with reasonable funding solutions, would confirm the stability of Austria's political system. As such, a financial plan and eventual implementation consistent with Austria's stability pact would demonstrate the new government's willingness and ability to engage in prudent and effective policymaking.	- A continued decline in the GGGD/GDP ratio - Sustained economic growth and greater confidence in medium-term growth prospects, particularly if supported by the effective implementation of structural reforms.
Requirement for downgrade	Austria's Aa1 government bond rating could be downgraded if medium-term growth prospects to weaken further, particularly should that cause us to conclude that the modest downward trajectory in the government's debt burden was likely to reverse.	We could take a negative rating action if we observed a substantial deterioration in Austria's fiscal performance, particularly if we also concluded that an erosion of Austria's institutional strength and predictability of policymaking was the cause of such.	-Weaker nominal GDP growth or failure to place public debt on a downward trajectory over the medium term, for example because of significant slippage from fiscal consolidation targets. - Crystallisation of contingent liabilities, for example from the banking sector, that worsens the government debt profile.

Source: Fitch, S&P, Moody's

Austria - Moody's

Moody's: November 16



Source: Fitch, S&P, Moody's, European Commission

Netherlands – S&P

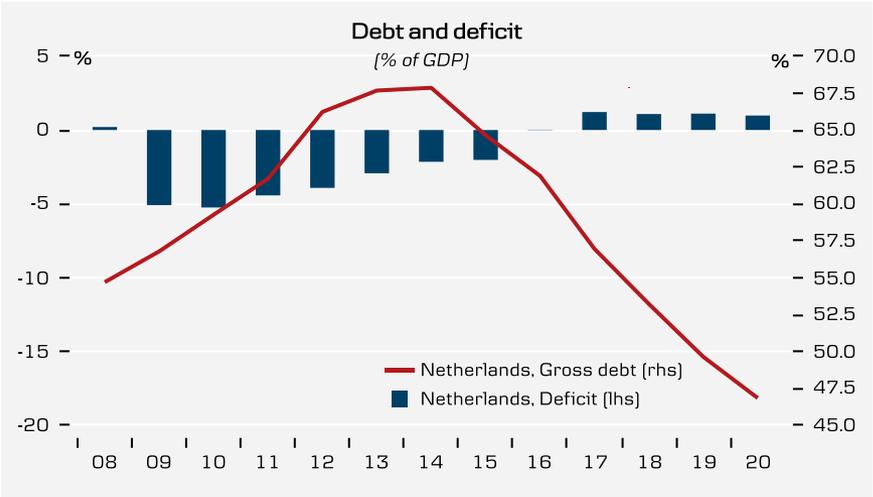
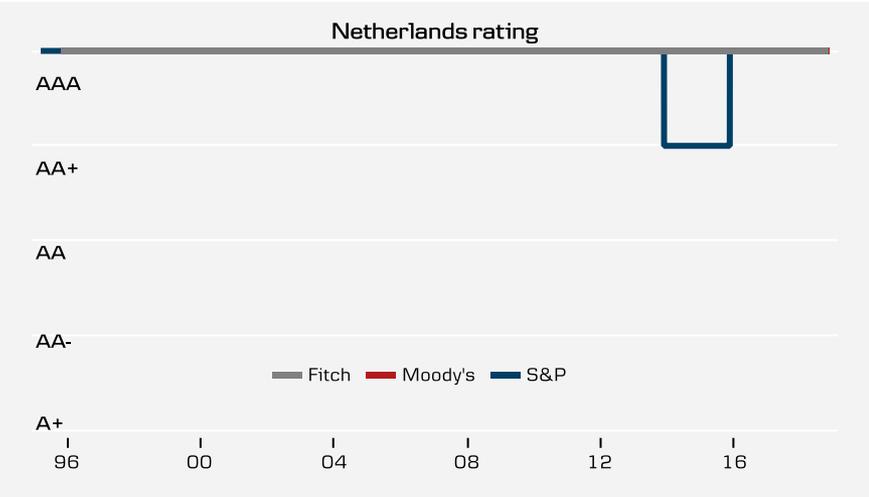
S&P: November 16

Netherlands	Moody's	S&P	Fitch
Rating	Aaa	AAA	AAA
Outlook	Stable	Stable	Stable
Potential rating decision		16 November 2018	26 October 2018
Requirement for upgrade			
Requirement for downgrade	<p>Downward pressure upon the rating might occur if we were to observe persistent economic weakness or if we were to conclude that fiscal metrics were likely to deteriorate significantly, with the deficit, the overall debt burden or debt-financing costs on a rising trend. Separately, a significant rise in the risk of euro area fragmentation, particularly prompted by events in core countries such as France (Aa2 stable) or Italy (Baa2 negative), which suggested a sharp rise in the risk of their exit from the euro area, would be negative for all euro area member countries and would exert pressure upon the rating of the Netherlands.</p>	<p>We could lower the ratings if, contrary to our current expectations, The Netherlands' economic growth prospects significantly worsened or if external or budgetary positions unexpectedly deteriorated, weakening the economy's capacity to absorb exogenous shocks.</p>	<ul style="list-style-type: none"> - A severe macroeconomic shock, potentially originating in the housing sector, or sharp fiscal loosening that reverses the downward trajectory in public debt. - Crystallisation of sizeable contingent liabilities, for example from the national mortgage/social housing guarantee schemes, or eurozone bail-out packages.

Source: Fitch, S&P, Moody's

Netherlands - S&P

S&P: November 16



Source: Fitch, S&P, Moody's, European Commission

Current rating and outlook

RATINGS

	Fitch	Moody's	S&P	DBRS
Germany	AAA	Aaa	AAAu	AAA
Finland	AA+	Aa1	AA+	AAH
Netherlands	AAA	Aaa	AAAu	AAA
Austria	AA+	Aa1	AA+	AAA
Belgium	AA-	Aa3	AAu	AAH
France	AA	Aa2	AAu	AAA
Ireland	A+	A2	A+	AH
Italy	BBB	Baa3	BBBu	BBBH
Spain	A-	Baa1	A-u	A
Portugal	BBB	Baa3	BBB-u	BBB
UK	AA	Aa2	AAu	AAA
Denmark	AAA	Aaa	AAA	AAA
Sweden	AAA	Aaa	AAAu	AAA
Norway	AAA	Aaa	AAA	AAA
Slovenia	A-	Baa1	A+	A
Cyprus	BBB-	Ba2	BBB-	BB
Greece	BB-	B3	B+	BH
EFSF	AA	Aa1	AA	WR
ESM	AAA	Aa1	---	---
EU	AAA	Aaa	---	---

Source: Moody's, Fitch, Standard & Poor's, DBRS

OUTLOOK

	Fitch	Moody's	S&P	DBRS
Germany	STABLE	STABLE	STABLE	STABLE
Finland	POS	STABLE	STABLE	STABLE
Netherlands	STABLE	STABLE	STABLE	STABLE
Austria	POS	STABLE	STABLE	STABLE
Belgium	STABLE	STABLE	STABLE	STABLE
France	STABLE	POS	STABLE	STABLE
Ireland	STABLE	STABLE	STABLE	STABLE
Italy	NEG	STABLE	NEG	STABLE
Spain	STABLE	STABLE	POS	STABLE
Portugal	STABLE	STABLE	POS	STABLE
UK	NEG	STABLE	NEG	STABLE
Denmark	STABLE	STABLE	STABLE	STABLE
Sweden	STABLE	STABLE	STABLE	STABLE
Norway	STABLE	STABLE	STABLE	STABLE
Slovenia	STABLE	STABLE	POS	STABLE
Cyprus	STABLE	STABLE	STABLE	POS
Greece	STABLE	POS	POS	POS
EFSF	STABLE	POS	STABLE	STABLE
ESM	STABLE	POS	---	STABLE
EU	STABLE	STABLE	STABLE	STABLE

Source: Moody's, Fitch, Standard & Poor's, DBRS

Rating calendar for 2018

Moody's	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Germany	19						13					
France					4					26		
Italy			16						[*]			
Spain				13						5		
Portugal				20						12		
Greece			30						21			
Belgium				27						19		
Netherlands		2					27					
Austria					25						16	
Finland				27						19		
Ireland				13						5		
Denmark					18						9	
Sweden			2					24				
Norway												Not scheduled

* Extended to no later than 31 October

Source: Moody's, Fitch, Standard & Poor's, DBRS

Fitch	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Germany		9						3				
France	26						20					
Italy			16					31				
Spain	19						13					
Portugal						1					30	
Greece		16						10				
Belgium						1					30	
Netherlands				27						26		
Austria	26						20					
Finland		9						3				
Ireland						15						14
Denmark	19					15						14
Sweden		2					27					
Norway			23							21		

Source: Moody's, Fitch, Standard & Poor's, DBRS

S&P	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Germany				27						26		
France				6						5		
Italy				27						26		
Spain				23						21		
Portugal				16						14		
Greece	19						20					
Belgium	12		23							21		
Netherlands						18					16	
Austria				16						14		
Finland				16						14		
Ireland						1					30	
Denmark				16						14		
Sweden			2						31			
Norway				23						21		

Source: Moody's, Fitch, Standard & Poor's, DBRS

DBRS	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Germany						8						7
France			16		11						9	
Italy	12						13					
Spain				6					28			
Portugal				20						12		
Greece					4		20					
Belgium		16							17			
Netherlands		9							10			
Austria			23							21		
Finland		2					20					
Ireland		16							10			
Denmark	12						6					14
Sweden					4					26		
Norway				27						26		

Source: Moody's, Fitch, Standard & Poor's, DBRS

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Arne Lohmann Rasmussen (Chief Analyst), Jens Peter Sørensen (Chief Analyst) and Philip Toft Lyngsø (Assistant Analyst).

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