

# NORDIC FIs & COVERED

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## 'Turmoil' in Danish auctions as ARMs spreads widen sharply



Spreads on Danish one year ARM bonds widened by up to 10bp over the first three days of the latest refinancing auction season this week and bid-to-cover ratios hit lows, despite a sharp fall in supply, with market participants struggling to remember such turbulent conditions and understand the moves.

Worst hit were Realkredit Danmark (RD) one year ARM bonds, which, after being auctioned at 14bp over Cita on Monday on the first day of Danish auctions were sold at 17bp over on Tuesday and then 24bp over on Wednesday, before spreads stabilised today (Thursday), with RD achieving a level of 22bp over.

"I have never seen a move like that and I have been in this market for 10 years," said an analyst in Copenhagen, who described the situation as "turmoil".

"It's a wake-up call for all of us."

The bid-to-cover on RD's one year ARM bonds fell to 1.6 on Tuesday and Nykredit Realkredit achieved only 1.53 when it began one year auctions that

day. The analyst described these as "very low" and a funding official at one institution said that they were the lowest since at least 2008 and contrasted sharply with a bid-to-cover of almost 4 times achieved by Nykredit on the first day of sales in the last auction season, in August.

"Normally people put in bids very close to the end, so we were expecting to put in orders, but then they didn't materialise," he said. "You can imagine if we had been issuing the same amount as three months ago — it could have been quite challenging."

The weak auctions came despite a sharp drop in supply from previous auctions and a fall in expected sales from Dkr260bn to Dkr192bn (Eu25.8bn), according to another analyst, with Danish lenders having successfully incentivised borrowers to move out of adjustable rate mortgages (ARMs) into alternative and longer dated products. Nykredit alone cut its one year ARM bond sales from an

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## FI amortisation plan 'strongest so far', but prospects queried

Swedish FSA proposals that new mortgage loans be amortised down to 50% of a property's value according to a specified schedule would be credit positive for banks and covered bonds, according to Moody's, but an industry representative suggested that implementation will be difficult.

The Swedish FSA (Finansinspektionen, or FI), announced the proposals on Tuesday of last week (11 November).

The regulator noted that Swedish households have larger buffers than prior to the introduction of a mortgage cap in 2010, and that almost all new mortgage holders with LTVs of more than 75% make repayments and very few households take out loans above the mortgage cap. However, the regulator said that new borrowers with a lower LTV often choose to postpone amortisation.

"This is worrying as international experience indicates that households with an LTV of more than 40%-50% are inclined to cut back on other consumption when economic conditions change," said the FSA. "What concerns FI is thus the negative effects on

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### Latest Nordic FI benchmarks

#### Senior unsecured (z spreads mid)

JYBC	FRN	06/17	31bp
POHBK	1.125%	06/19	23bp
DANBNK	FRN	11/18	39bp

#### Covered bonds (asw spreads mid)

NDASS	1.000%	11/24	-3bp
DNBNO	0.375%	10/19	-2bp
SBAB	0.625%	10/21	-1bp

Source: CACIB trading 19/11/14

# Bottom seen for ARMs spreads after 'wake-up' call in auctions

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initially expected Dkr74bn to Dkr37bn.

Nykredit's one year spread also widened, from 14bp on Tuesday to 20bp on Wednesday, while Nordea performed best, widening from 11bp to 15bp. The first analyst also noted that the divergence in spreads ran counter to a trend of recent years, and that the week's auctions threw up what he considered to be anomalies, such as DLR Kredit trading marginally inside RD at the start of the week — "that doesn't reflect the underlying," he said — although today DLR was said to be 3bp-4bp wider than RD. Bid-to-covers were also higher today, with RD achieving 3.32 on its one years and Nykredit 2.76.

"It seems like there's a good chance we are stabilising," said the funding official.

He meanwhile noted that three and five year ARMs bonds, which had historically moved around more across auction seasons while one years remained "rock solid", had instead shifted in parallel with the one year movements.

The analyst said that it is "extremely difficult" to interpret the reasons for the week's activity.

"Bottom line," he said, "things simply got too expensive."

He noted that the Danish market had rallied alongside euros, but without the support of the European Central Bank's third covered bond purchase programme.

However, he and other market participants also suggested that pending implementation of the Liquidity Coverage Ratio was having varied and unclear effects on the market. Some suggested that those institutions having to comply with the LCR requirement would be preferring government bonds for either regulatory or price reasons. Another said that the different performance of Nordea and RD, for example, might be explained by the different timing of implementation of LCRs for their parents in Sweden — where LCRs have already been in force — and Denmark, respectively, noting that own issues cannot be included in LCRs.

Nordea is selling Dkr29.66bn and Eu900m in total, while RD is raising Dkr58.6bn and Eu1.457bn, with both ending tomorrow (Friday). Nykredit is raising Dkr74.2bn in total until Wednesday. DLR Kredit is raising Dkr20.2bn and Eu840m to Tuesday, and then Dkr590m and Eu15m on 3 December. BRFkredit began its sales yesterday (Wednesday) and continues through to next Wednesday, selling some Dkr44.5bn of bonds. ■

## OP mandates 10 year into weaker market

**OP Mortgage Bank is set to launch a 10 year benchmark imminently, having announced the mandate this (Thursday) afternoon for launch in the near future.**

The deal will be the second from Finland since the launch of the European Central Bank's third covered bond purchase programme, after Nordea Bank Finland on 29 October issued the first CBPP3-eligible benchmark after the programme's launch. That was a Eu1bn 10 year that was priced at 1bp over mid-swaps.

Euro benchmark covered bond issuance this week — including deals for Belfius, Crédit Agricole Home Loan SFH and Helaba — continued last week's weaker tone, with oversubscription levels falling far short of the typical three times subscription levels of CBPP3's first two weeks. Pricing versus outstandings has also been less aggressive and the movement from IPTs to re-offer smaller, although the three aforementioned deals all set historic tight levels for their respective jurisdictions. ■

## Danske wraps up 2014 funding in Eu1bn FRN

**Danske Bank sold a Eu1bn four year senior unsecured floating rate note at Euribor plus 38bp on Wednesday of last week (12 November) to complete its funding target for 2014.**

The Danish bank published its third quarter results on 30 October and, according to bankers at the leads, moved to take advantage of the prevailing benign market conditions and launched the new issue ahead of other potential supply.

Leads BNP Paribas, Credit Suisse, Danske, HSBC and Société Générale went out with IPTs of three month Euribor plus the low 40s, which compared with a level of 24bp for a three year FRN Danske launched in May. Guidance was set at the plus 40bp area on the back of Eu1.2bn of demand, and the re-offer at 38bp after a total Eu1.8bn of orders were placed. A lead banker said this reflected a 3bp-4bp new issue premium.

He said that the four year maturity was chosen as it fitted the issuer's maturity profile, and it is now Danske's longest outstanding senior bond. ■

## Nordic FIs & Covered Bonds

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# Challenges seen for FI plan, but action welcomed

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the Swedish economy (the ‘macroeconomic risks’) that may arise if something unforeseen were to happen to households or in the wider world. This may exacerbate economic downturns and reduce economic growth.

“For this reason, FI wants new mortgage holders to repay more than they currently do. This will increase their resilience to shocks and reduce the risk of a negative effect on the Swedish economy if something unforeseen happens in Sweden or abroad.”

The regulator proposed that new mortgage loans, which are typically capped at 85% LTVs, be amortised at 2% of the loan per year until the LTV falls to 70%, when amortisation would be 1% per year until the LTV falls to 50%.

“Banks and covered bonds will benefit from the amortisation requirement because it will improve the quality of asset portfolios,” Moody’s said on Monday. “Indeed, our default expectation for a loan with a 50% LTV is just about half of our default expectation for a loan with a 70% LTV, reflecting the increased risk of high LTV loans.”

The regulator’s move comes after the Swedish Bankers’ Association on



Jonny Sylvén, ASCB

7 October put forward similar recommendations, which in turn were just the latest in a series of moves from Sweden’s authorities and banks to tackle the issue. Moody’s described the Swedish FSA’s announcement as “the strongest measure so far” in detailing the speed at which new mortgage borrowers should amortise.

The Swedish Bankers’ Association proposal had been withdrawn ahead of the Swedish FSA’s, after the Swedish

Competition Authority raised questions over such an agreement between mortgage lenders.

Jonny Sylvén, head of the Association of Swedish Covered Bond Issuers (ASCB) secretariat within the Swedish Bankers Association, said that the proposed regulation is a “second best” versus the industry body’s recommendations and may prove difficult to implement.

“A lot of people will not be able to handle amortisation if, for example, they become unemployed two years into their mortgage,” he said. “The banks – as they did before the 1990s crisis – have the flexibility to allow the borrower to stop amortising and then restart when they are able to again.

“Writing something like this into a regulation will be difficult.”

However, he said that action is necessary.

“It will further strengthen the culture that has been established so far for households with higher LTVs and the increase in amortisation that we have seen through the amortisation plans” said Sylvén. “It is one more small step, but no-one wants a big step because it will be negative for the housing market.” ■

## First Scope Nordic bank ratings in A+ to A- range

**Rating agency Scope has published its first ratings of financial institutions in the Nordic region — covering Danske, DNB, Nordea and Swedbank — and noted strong prudential and credit metrics supported by stable funding — notably through covered bonds — but also overheating housing prices in Norway and Sweden.**

Scope assigned its first bank ratings in April as part of a push into competing with the leading rating agencies. In October it hired former Standard & Poor’s senior covered bond analyst Karlo Fuchs to enter covered bond ratings.

Yesterday (Wednesday), Scope assigned Danske Bank an Issuer Credit Strength Rating (ISCR) and long term unsecured debt rating of A-, stable, DNB ratings of A+, stable, Nordea ratings of A+, stable, and Swedbank ratings of A-, stable.

“Scope’s credit assessment of the four Nordic banks takes into account

their strong prudential and credit metrics, notably ample capital positions and good-to-excellent asset quality indicators,” it said. “As opposed to a majority of banking markets in Europe, for example, large banks in both Sweden and Norway have navigated relatively well the financial crisis years.

“On the other hand, the Danish banking sector has been more affected by the crisis, although recently the trend has been improving”

The rating agency said it sees an overheating of house prices in Norway and Sweden as challenges that could affect the large banks’ asset quality metrics, which it said are “excellent”. Scope said that these could also be reduced by asset risk weights being adjusted to be more in line with international standards.

Nordic banks’ “very high reliance” on covered bond funding is said by Scope to be a strength because it provides

funding stability and predictability, which was demonstrated during the crisis when other market funding sources were impaired.

Scope said its ratings take into account the bail-in regime being implemented in the EU/EEA and that it considers state support for banks in distress to be highly unlikely, and noted that the ratings — including those of minority government-owned DNB — do not include any notching uplift for state support.

Danske is rated Baa1/A/A by Moody’s, S&P and Fitch, DNB A1/A+/AA by Moodys, S&P and DBRS, Nordea Aa3/AA-/AA by Moodys, S&P and DBRS, and Swedbank A1/A+/A+ by Moody’s, S&P and Fitch, according to the respective issuer websites.

Scope said that none of the ratings were solicited. All are based on public information and only Swedbank participated in Scope’s rating process. ■

# Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 19/11/14.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
<b>AKTIA (*AKTIA REMB)</b>				<b>POHKBK</b>			
XS0640889803*	3.125	22/06/2016	-7	XS0785351213	1.625	23/05/2017	-16
XS0946639381	1.125	25/06/2018	-7	XS0646202407	3.500	11/07/2018	-12
XS1056447797	1.000	15/04/2019	-7	XS1076088001	0.750	11/06/2019	-10
<b>BRF</b>				XS1045726699	1.500	17/03/2021	-6
XS0882166282	2.500	31/01/2018	49	XS0758309396	2.625	20/03/2017	5
<b>DANBNK</b>				XS0540216669	3.000	08/09/2017	8
XS1113212721	0.375	26/08/2019	-5	XS0931144009	1.250	14/05/2018	15
XS0469000144	4.125	26/11/2019	-8	XS1077588017	1.125	17/06/2019	23
XS1071388117	1.250	11/06/2021	1	XS1040272533	2.000	03/03/2021	34
XS0519458755	3.750	23/06/2022	4	<b>SAMBNK</b>			
XS0627692204	3.875	18/05/2016	6	XS0693226978	2.750	19/10/2016	-12
XS0751166835	3.875	28/02/2017	12	XS0834714254	1.625	27/09/2019	-9
XS1139303736	3mE+35bp	19/11/2018	39	XS0640463062	3.875	21/06/2021	-1
<b>DNBNO</b>				<b>SBAB</b>			
XS0728790402	2.375	11/04/2017	-13	XS1117542412	0.625	07/10/2021	-1
XS0877571884	1.000	22/01/2018	-9	XS0968885623	2.375	04/09/2020	44
XS0992304369	1.125	12/11/2018	-8	<b>SEB</b>			
XS0794233865	1.875	18/06/2019	-7	XS0548881555	2.625	16/10/2017	-13
XS1117515871	0.375	07/10/2019	-5	XS0894500981	1.500	25/02/2020	-7
XS0637846725	3.875	16/06/2021	-1	XS0988357090	1.625	04/11/2020	-6
XS1137512742	3mE+10bp	17/11/2021	11	XS0614401197	4.125	07/04/2021	-3
XS0759310930	2.750	21/03/2022	0	XS0628653007	3.750	19/05/2016	7
XS0856976682	1.875	21/11/2022	1	XS0730498143	3.875	12/04/2017	8
XS0522030310	3.875	29/06/2020	19	XS0592695000	4.250	21/02/2018	16
XS0595092098	4.375	24/02/2021	34	XS0972089568	2.000	18/03/2019	16
XS0732513972	4.25	18/01/2022	35	XS0854425625	1.875	14/11/2019	16
<b>EIKBOL</b>				XS1033940740	2.000	19/02/2021	33
XS0736417642	2.250	25/01/2017	-6	<b>SHBASS</b>			
XS0851683473	1.250	06/11/2017	-9	XS0760243328	1.875	21/03/2017	-15
XS0794570944	2.000	19/06/2019	-1	XS0906516256	1.000	19/06/2018	-10
XS1044766191	1.500	12/03/2021	2	XS1050552006	1.000	04/01/2019	-8
<b>JYBC</b>				XS1135318431	0.625	10/11/2021	-2
XS0856532618	3mE+110bp	20/05/2015	10	XS0490111563	3.750	24/02/2017	4
XS1078186001	3mE+50bp	19/06/2017	31	XS0732016596	3.375	17/07/2017	4
<b>LANSBK</b>				XS0794225176	2.250	14/06/2018	2
XS0926822189	1.125	07/05/2020	-2	XS0965050197	2.250	27/08/2020	11
<b>MINGNO</b>				XS0693812355	4.375	20/10/2021	18
XS0893363258	2.125	21/02/2018	28	XS0819759571	2.625	23/08/2022	26
XS1069518451	1.500	20/05/2019	37	<b>SPABOL</b>			
<b>NDASS</b>				XS0495145657	3.250	17/03/2017	-9
XS0478492415	3.500	18/01/2017	-15	XS0820929437	1.250	28/02/2018	-10
XS0731649660	2.375	17/07/2017	-16	XS0738895373	2.750	01/02/2019	-9
XS0965104978	1.375	20/08/2018	-14	XS0995022661	1.500	20/01/2020	-4
XS1014673849	1.250	14/01/2019	-11	XS0942804351	1.500	12/06/2020	-2
XS0778465228	2.250	03/05/2019	-10	XS0587952085	4.000	03/02/2021	-1
XS0874351728	1.375	15/01/2020	-7	XS0674396782	3.375	07/09/2021	0
XS0591428445	4.000	10/02/2021	-5	<b>SPAROG</b>			
XS1132790442	1.000	05/11/2024	-3	XS0853250271	2.000	14/05/2018	35
XS0801636571	2.250	05/10/2017	13	XS0965489239	2.125	27/02/2019	40
XS0916242497	1.375	12/04/2018	13	XS0876758664	2.125	03/02/2020	46
XS0728763938	4.000	11/07/2019	19	XS1055536251	2.125	14/04/2021	63
XS0520755488	4.000	29/06/2020	21	<b>SWEDA</b>			
XS1032997568	2.000	17/02/2021	30	XS0496542787	3.375	22/03/2017	-16
XS0801636902	3.250	05/07/2022	21	XS0925525510	1.125	07/05/2020	-5
<b>NYKRE (*senior secured)</b>				XS1069674825	1.125	21/05/2021	-4
LU0787776052*	3.250	01/06/2017	29	XS0768453101	2.375	04/04/2016	8
LU0921853205*	1.750	02/05/2018	33	XS0740788699	3.375	09/02/2017	15
LU0996352158*	1.750	28/01/2019	37	XS1045283766	1.500	18/03/2019	16

Source: Crédit Agricole CIB Trading, Bloomberg – See disclaimer on page 5

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