Norwegian Covered bonds from a EUR Perspective

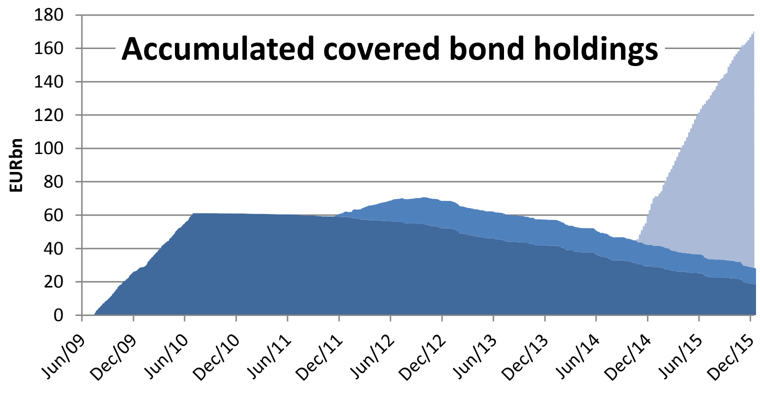
Morten Rasmussen
Oslo – 20th January 2016

Nordea Markets

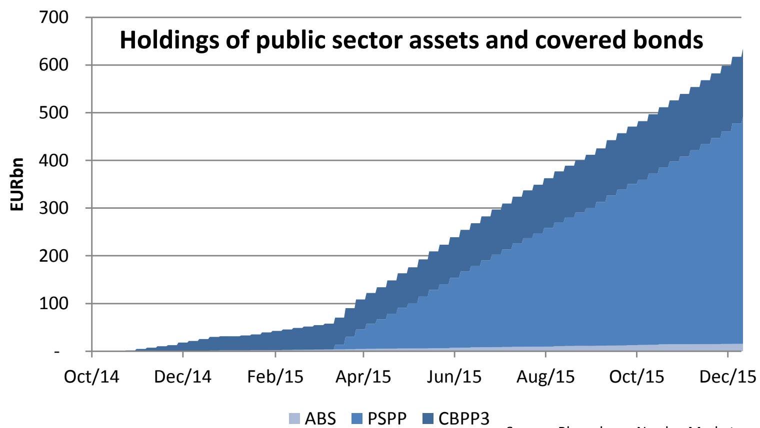
CBPP3 is the current challenge for Norwegian OMFs

- Bought volumes under the Covered Bond Purchase Programme (CBPP3) are huge, and have surpassed EUR 170bn.
- If buying continues at the current pace until March 2017, then the ECB will own between 45-50% of EUR benchmark covered bonds from the Euro area.
- This naturally has an impact on spreads on Euro area covered bonds, which trade at cheaper levels than Norwegian.
- But as we approach the end of the CBPP3 the pricing distortions will lessen.
- How much depends on the degree to which maturing bonds will be reinvested.

Redemptions will be **reinvested**, which essentially means that until otherwise indicated **the QE programme will be open-ended** at the desired balancesheet size.

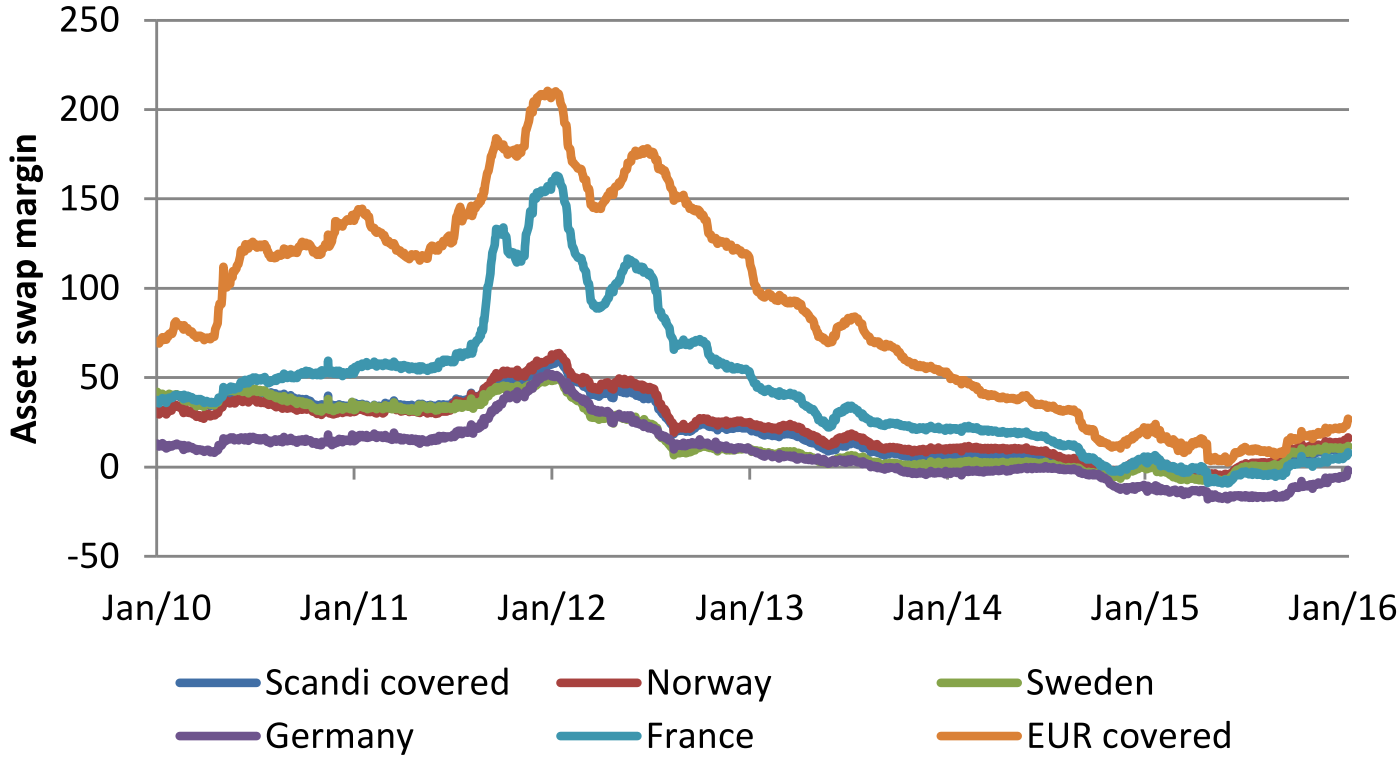


Source: Bloomberg, Nordea Markets



Source: Bloomberg, Nordea Markets

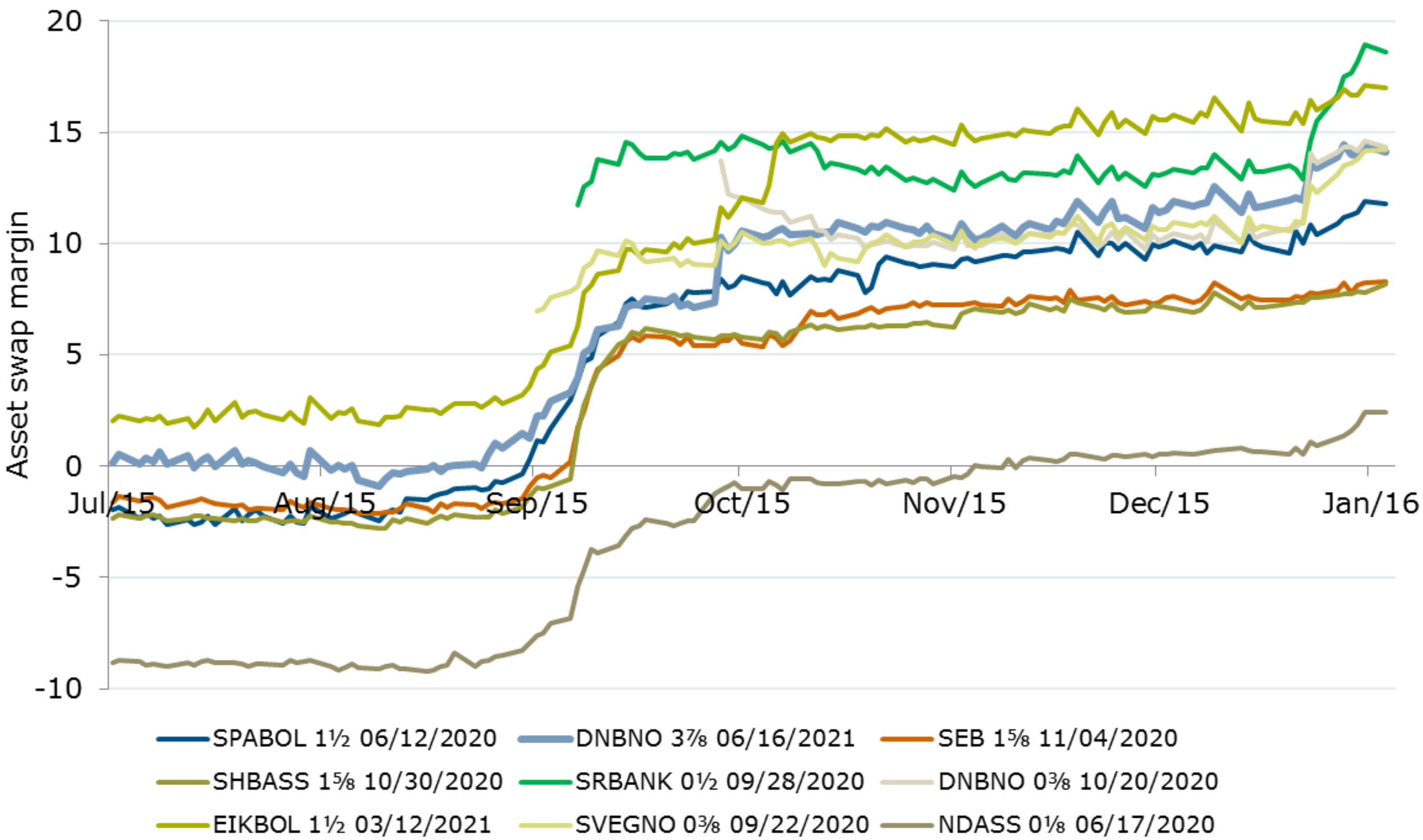
Norwegian relative to Sweden and core



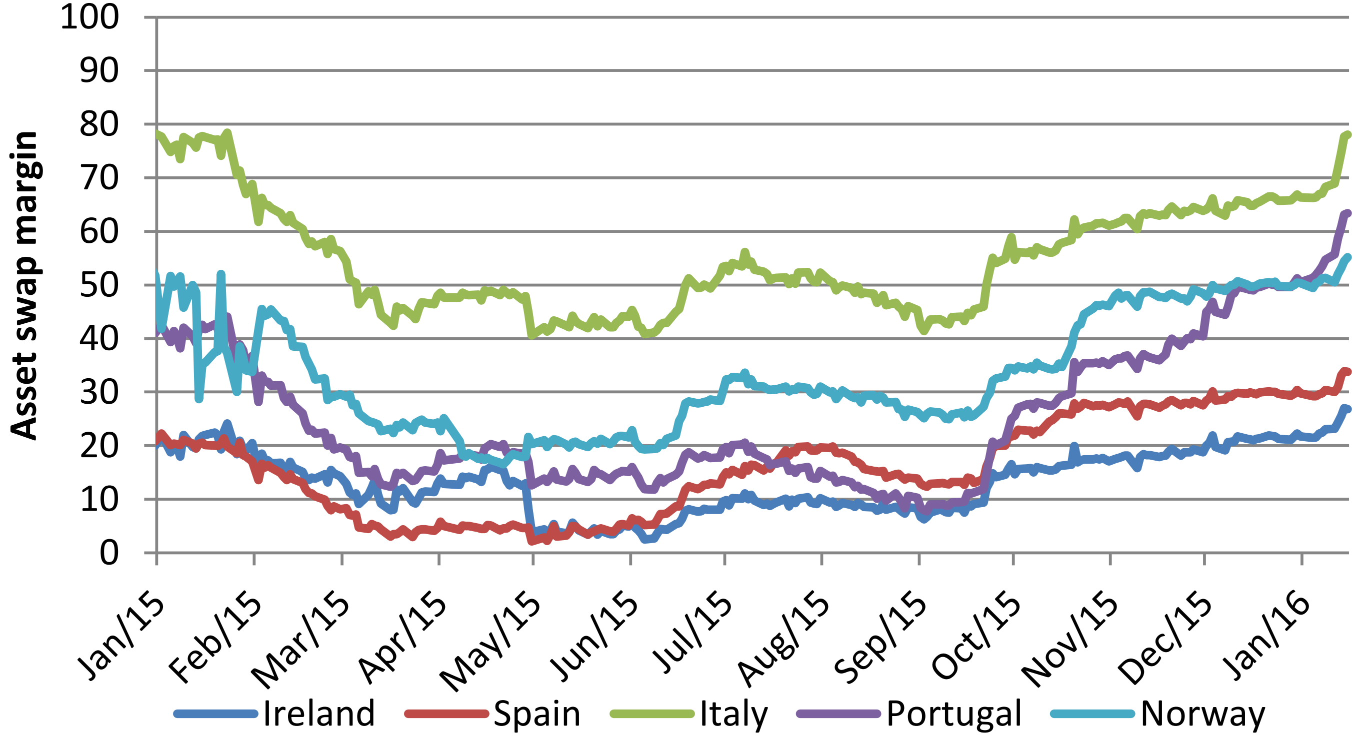
Source: iBoxx, Nordea Markets

Measured since the financial crisis Norwegian EUR covered bonds have fared well moving in line with core markets.

Norwegian covered to Nordic peers



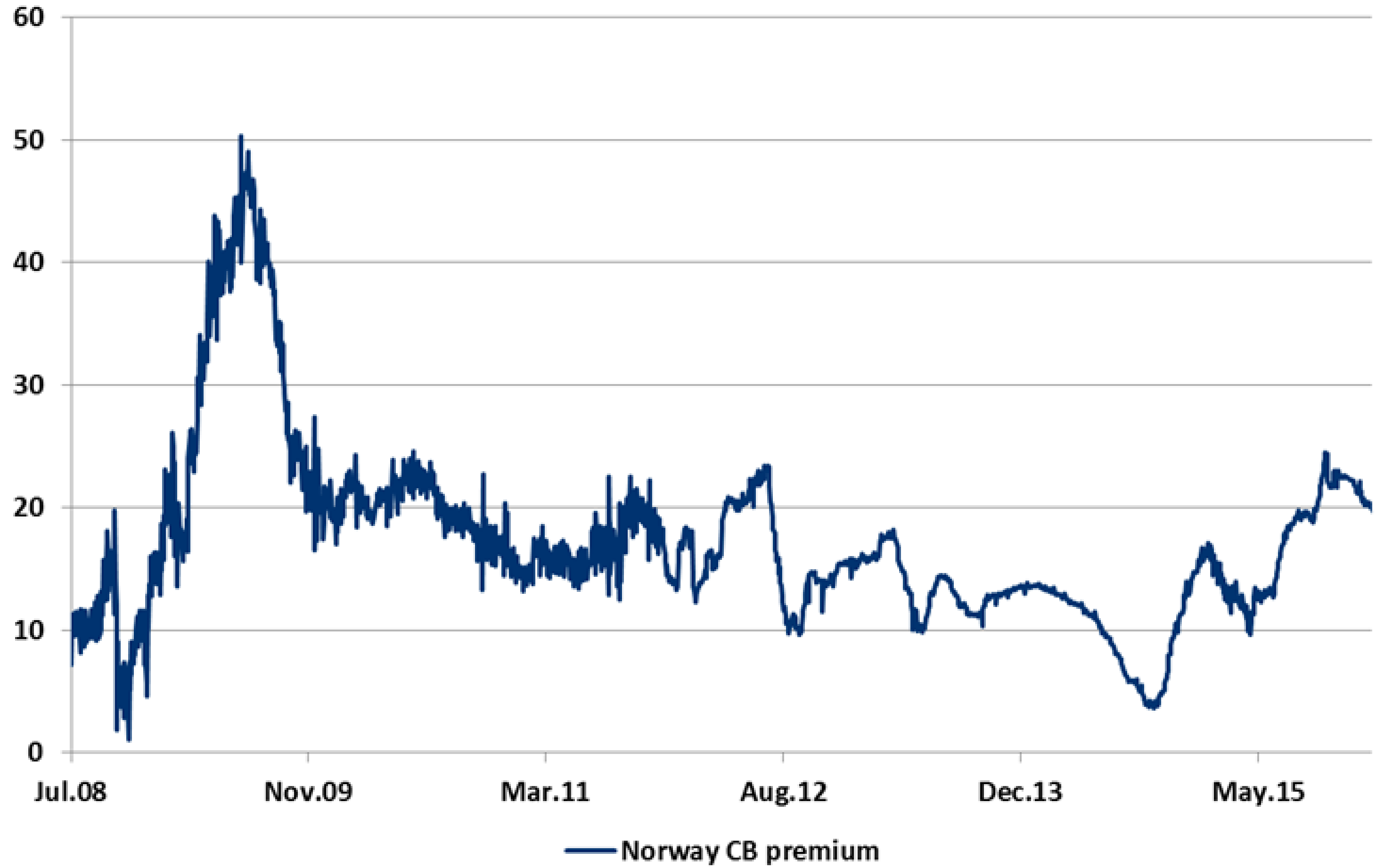
Norwegian relative to the periphery



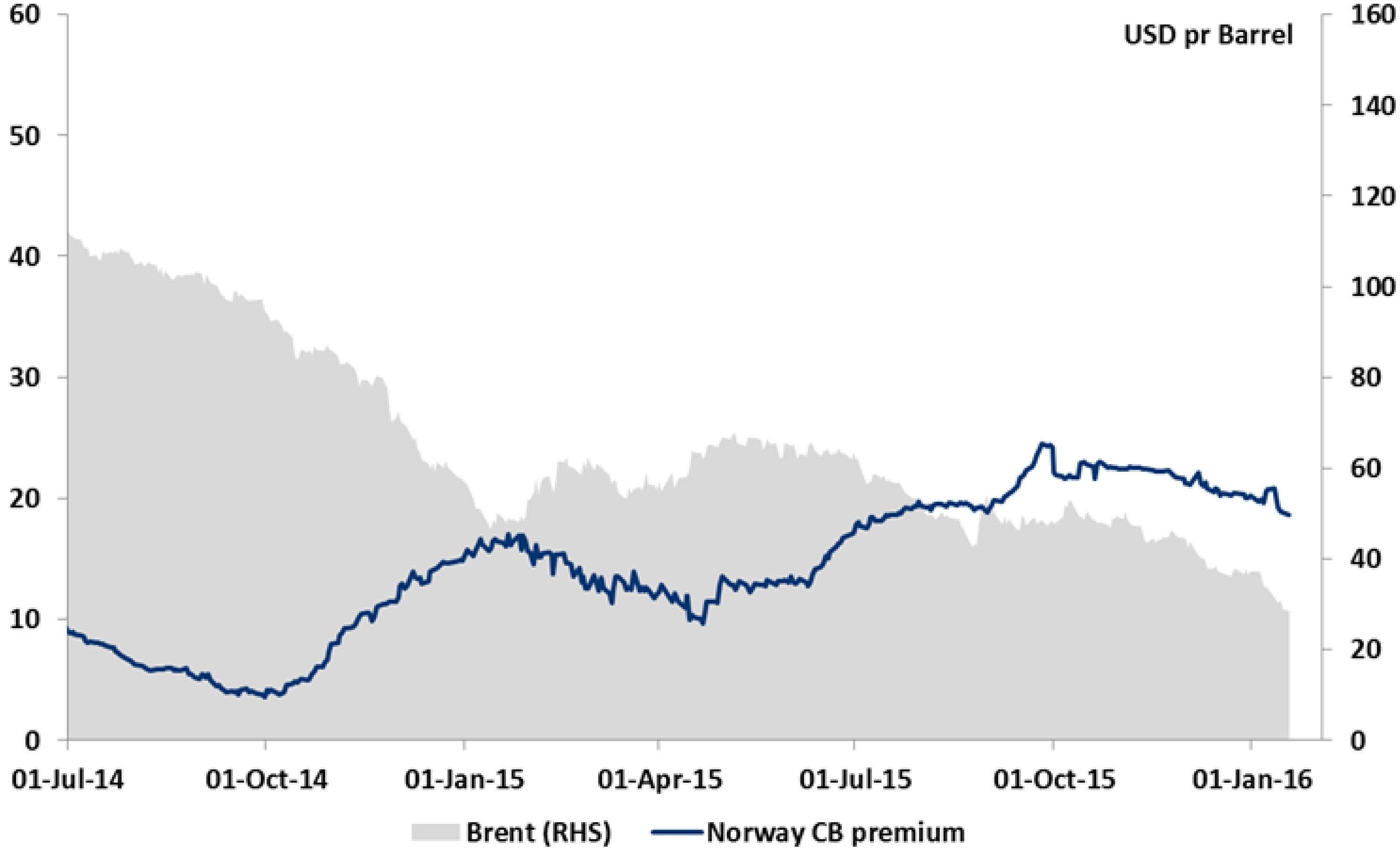
Source: iBoxx, Nordea Markets

BUT since the beginning of 2015 Norwegian covered bonds measured by the iBoxx index composition have traded wider than the periphery.

Norway Risk premia in EUR Covered Bond markets

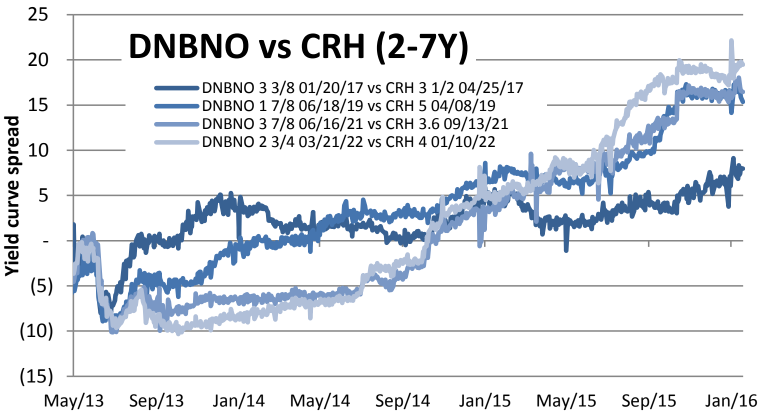


Norway Risk premia vs Oil

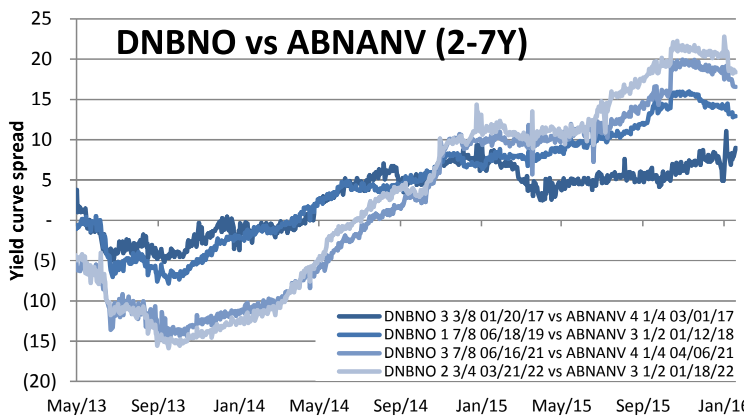


Actual spread levels

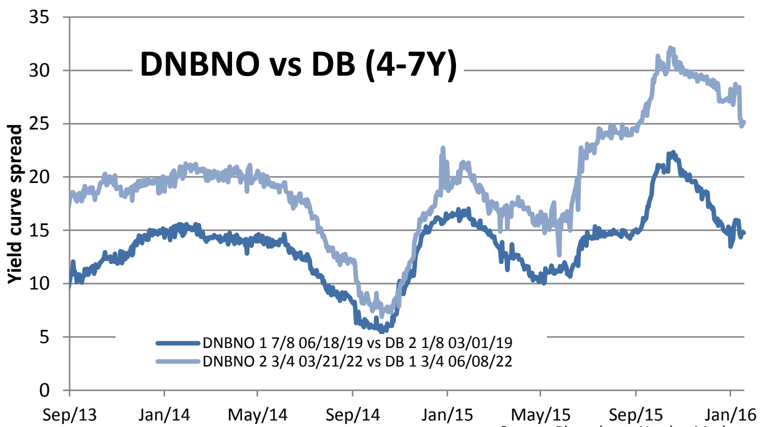
- iBoxx levels are to some degree misleading, as the indices do not take duration into account.
- But Norwegian levels continue to be higher than what fundamental factors would indicate,
- This due to concerns of a housing market bubble, and falling oil prices.
- Spreads do look to have peaked.



Source: Bloomberg, Nordea Markets



Source: Bloomberg, Nordea Markets



Source: Bloomberg, Nordea Markets