

DANMARKS
NATIONALBANK

DANISH GOVERNMENT DEBT MANAGEMENT POLICY

Strategy 2nd half of 2016



Published 23 June 2016 - Translation



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MAIN POINTS

- The target for issuance of domestic government bonds in 2016 is reduced to kr. 65 billion due to an improvement of the central government's finances.
- Issuances are focused in the 2-year and 10-year bonds.
- The central government conducts buy-backs and switch operations to support market liquidity.

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ISSUANCE STRATEGY

TARGET FOR ISSUANCE OF DOMESTIC BONDS IS KR. 65 BILLION IN 2016

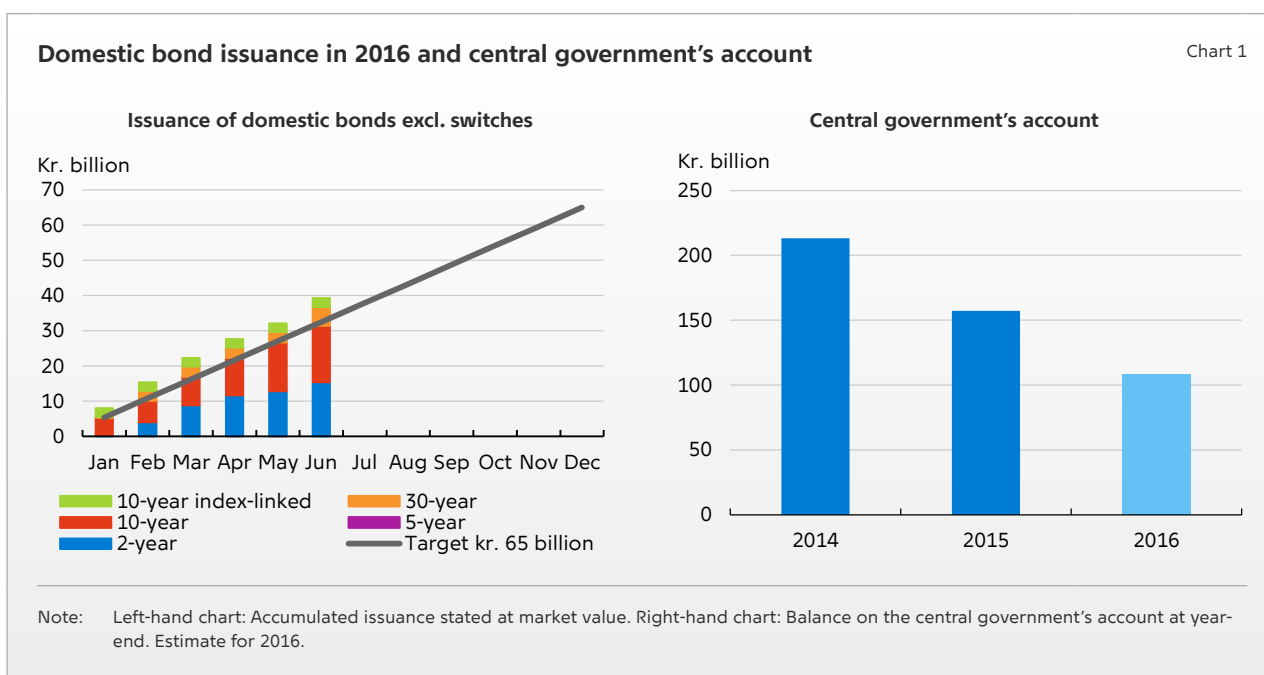
The target for issuance of domestic bonds in 2016 is reduced from kr. 75 billion to kr. 65 billion. The reduction reflects an improvement of the government's finances, cf. Economic Survey, May 2016. The issuance of government bonds in 2016 up to and including 23 June totals kr. 39 billion, which is in line with the target, cf. Chart 1 (left).

The balance on the central government's account has been extraordinary high since the financial crisis. It is currently assessed that a balance in the range of kr. 75-100 billion is a sufficient liquidity reserve. With a target for issuance of kr. 65 billion, the balance is expected to be just above kr. 100 billion by end-2016, cf. Chart 1 (right). Hence, there will still be room for conducting buy-backs in papers maturing after 2016 by drawing on the central government's account.

The target for issuance of government bonds of kr. 65 billion implies continuity in the average sale per auction. In the 1st half of 2016 the average sale per auction was kr. 2.9 billion at market value. In the 2nd half of 2016, the expected average sale per auction is approximately kr. 2.5 billion.

FOCUS ON 2-YEAR AND 10-YEAR ISSUANCES

The central government's on-the run papers and benchmarks papers are unchanged from the 1st half of 2016, cf. Table 1. The issuance strategy is still focused on the 10-year and the 2-year nominal on-the-run papers. The 10-year bond, 1'75'2025, is the most important benchmark-paper and the outstanding amount of kr. 81 billion leaves room for a further build-up of the paper in order to support liquidity. In the 2-year maturity



On the run issues and benchmark bonds, 2nd half of 2016

Table 1

Maturity segment	Security	Outstanding ¹ , kr. billion
Nominal bonds		
2-year	0.25 per cent bullet loan 2018	40.6
5-year	3 per cent bullet loan 2021	92.5
10-year	1.75 per cent bullet loan 2025	81.2
30-year	4.50 per cent bullet loan 2039	127.0
Inflation-linked bonds		
10-year	0.1 per cent DGBi 2023	36.6

1. Outstanding amount in nominal value as of value date 23 June 2016. Outstanding amount in the inflation-linked bond is measured at indexed nominal value.

segment, the remaining time to maturity of the 0.25'2018-paper is assessed to be appropriate, and a further build-up of the paper contributes to a smoothening of the redemption profile.

The 5-year, 30-year and inflation-linked bonds continue as on-the-run issues.

T-BILLS

The target for outstanding T-bills at end-2016 is kr. 30 billion. Auctions take place twice a month. New 6-months T-bills will be opened at the auctions with value date in the beginning of September and December.

SWITCHES AND BUY-BACKS

To support liquidity in the Danish government bonds market two switch operations will be held each month in 2016. Calendar dates will be announced in line with auctions in T-bills and government bonds. Papers will be announced no later than one trading day before the switch takes place. Switches for a total amount of kr. 30 billion can be conducted in 2016, measured by the market value of the issued paper in the switches. Up to and including 23 June sales in connection with switches amounted to kr. 10.5 billion. Switches are not included in the issuance target but they contribute to a further build-up of the on-the-run papers. The central government also support market liquidity by buying back securities directly from the market. Buy-backs from the market can be conducted in all domestic and foreign papers, although on-the-run issues are excepted as a general rule.

The papers bought back from the market are either placed in one of the government funds or in the government's own holding and can be used in the central government's securities lending facility.

FOREIGN ISSUANCE

The strategy is not to issue foreign bonds in 2016. Issuance can be conducted in the Commercial Paper-programs.

MARKET RISK MANAGEMENT

In 2016, the very robust central government debt profile will be maintained. The expected excess costs from maintaining a high duration is estimated to be close to zero, and the target for the maturity for the central government debt in 2016 is set to 11.5 years +/- 1 year.