

DANMARKS NATIONALBANK

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PORTFOLIO INVESTMENTS, JULY 2020

Foreign investors continue to purchase 30-year fixed rate mortgage

In 2020, foreign investors have continuously purchased Danish 30-year fixed rate callable mortgage bonds. In July, foreign investors owned kr. 389 billion corresponding to ownership share of 41 per cent. Ownership shares are especially high in mortgage bonds with coupons of 1 and 1.5 per cent where ownership shares are 46 per cent.

Foreign investors stock of mortgage bonds with coupons higher than 1.5 per cent has decreased since July 2019 as many Danish borrowers have prepaid the underlying mortgage loans and converted

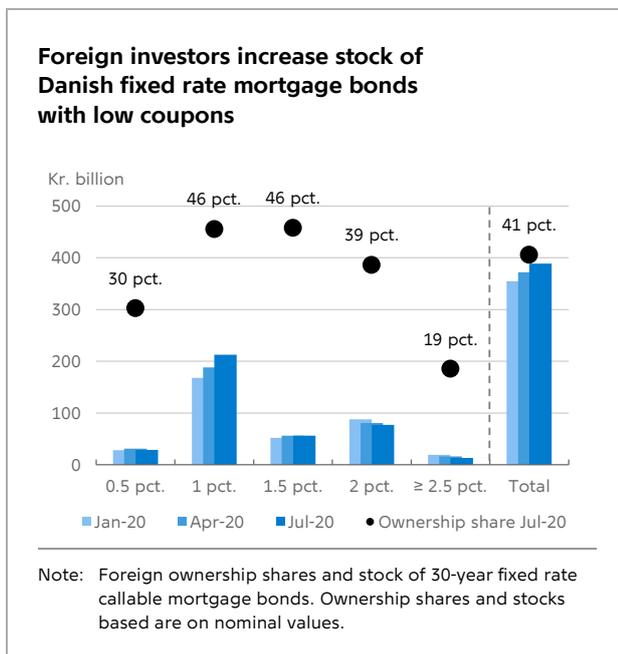
to loans with lower coupons. In July, 76 per cent of foreign investors stock of mortgage bonds had coupons of 1.5 per cent or lower.

Foreign ownership share of all Danish mortgage bonds was 24 per cent in July. This includes bonds with fixed rate, reference rate, and bonds with underlying adjustable rate mortgages.

International investors hedge currency risks

There is currency risk for foreign investors when investing in bonds denominated in Danish kroner. Investors often hedge this risk by concluding foreign exchange transactions (so-called currency swaps) with the aim of receiving returns in the domestic currency. Therefore, the prices on these exchange transactions may play an important role in the demand for Danish bonds.

Hedging of currency risk can both increase and decrease the total return for foreign investors. Foreign exchange transactions have e.g. on its own increased the return on Danish bonds for Japanese investors. This may have contributed to maintaining the Japanese investors' demand for long-maturity Danish bonds even though the interest span between the Danish and Japanese long interest rates has decreased since the beginning of 2019. According to Bank of Japan, Japanese investors have purchased Danish non-government bonds for kr. 46 billion since 2019.



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