

# Yield Outlook

## Arguments for policy restrictiveness fade

Disappointing growth signals continued to put downward pressure on global rates through September. Throughout the month, the curve has steepened in most areas, aligning with the historical patterns we typically observe during monetary policy easing. We expect that the decline in short-end rates will persist as the ECB/Fed softens their policy stance, while we expect the long end to rise. This ‘twist’ steepening of the curve (lower short-term/higher long-term rates) was evident throughout September, where an aggressive start to the Fed's easing strengthened beliefs in a soft landing. We assess that this rate dynamic will be prevalent over the next year

### US ‘jumbo’ cut bolsters belief in a soft landing

In mid-September, the Fed executed its first major policy easing, initiating a significant rate cut of 50bp. This move reinforced market confidence that US monetary policy is now being calibrated towards sustaining a robust economy and less towards curbing inflation pressures. The belief in a soft landing for the US economy has thus been strengthened, although it is still too early to determine whether this shift in monetary policy direction has come too late. Historically, the labour market softening we are currently witnessing often transitions into more severe weakening shortly thereafter. This risk remains, despite the recent rate reductions.

### Arguments for policy restrictiveness weaken in the eurozone

As anticipated, the ECB delivered its second rate cut in September. Today, the deposit rate stands at 3.5%, which is 50bp lower than the level at the first rate cut back in June. However, monetary policy in the eurozone remains quite restrictive, and with the current pace of rate cuts (25bp per quarter), it is likely to remain so for some time. Nonetheless, data since the start of the summer has challenged the notion that the ECB can continually pursue a gradual normalisation of monetary policy. Growth indicators (PMI) have significantly weakened since May, and the underlying inflation pressure now clearly appears to be diminishing. In particular, the drop in domestically generated inflation (mainly services) is crucial, as this has been where the ECB has previously justified its caution in easing policy. In light of the soft growth and inflation data from September, we have factored in another 25bp cut from the ECB in October. We expect the deposit rate to be lowered by a total of 1.5 percentage points by the end of 2025. Thus, the policy – as in the US – will by then be close to the central bank’s assessment of the ‘neutral’ rate level. However, the question remains whether this will be sufficient.

### A neutral policy stance may prove inadequate

The ongoing weakening of economic signals from the eurozone has initiated discussions on whether it is sufficient for the ECB simply to return policy to a neutral stance. Doubts have surfaced in the market, and as a result, the EUR forward curve factors in that the deposit rate will bottom out at 1.75% next year. This indicates, in our view, that the market has accounted for a significant probability that the policy will shift to being accommodative over the next year as growth continues to disappoint. Our baseline assumption remains that a soft landing can be achieved with a gradual normalisation of policy, and we expect growth indicators to improve soon. However, the risk has admittedly increased significantly that policy rates may need to be lowered more quickly and to a lower level than we currently pencil in our main scenario.

### Shortcuts

Forecast eurozone

Forecast US

Forecast UK

Forecast Denmark

Forecast Sweden

Forecast Norway

### Central bank policy rates

Country	Spot	+3M	+6M	+12M
USD	5.00	4.50	4.00	3.25
EUR	3.50	3.00	2.75	2.25
GBP	5.00	4.75	4.25	3.50
DKK	3.10	2.60	2.35	1.85
SEK	3.25	2.75	2.25	2.00
NOK	4.50	4.50	4.25	3.75

### 10Y government bond yields

Country	Spot	+3M	+6M	+12M
USD	3,75	3,95	3,95	4,00
EUR	2,13	2,15	2,15	2,35
GBP	3,98	4,00	4,00	4,00
DKK	2,03	2,05	2,05	2,25
SEK	2,00	2,40	2,40	2,60
NOK	3,33	3,40	3,40	3,50

Note: EUR = Germany

### 10Y swap rates

Country	Spot	+3M	+6M	+12M
USD	3,32	3,45	3,45	3,50
EUR	2,41	2,40	2,40	2,60
GBP	3,65	3,65	3,65	3,60
DKK	2,54	2,55	2,55	2,75
SEK	2,28	2,60	2,60	2,80
NOK	3,53	3,50	3,50	3,60

Note: Past performance is not a reliable guide to future returns

Source: Danske Bank (all three tables)

### Chief Analyst

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**We expect ‘twist’ steepening to continue**

We expect yield curves to steepen further across regions over the next 12 months as concerns about a hard economic landing recede. This is especially true in the eurozone, where both we and the market currently perceive the most significant downside risk to the economy; an improvement in data here could lead to considerable lifts in market rates. In both the US and Europe, we see long-term rates moving moderately higher, and we maintain our 12M targets for the 10Y US Treasury yield at 4% (up from 3.75% today) and the 10Y German Bund yield at 2.35% (unchanged from today). At the short end of the curve, we anticipate further declines, but not to the extent that the market currently predicts. This is particularly true for the ECB, where we assess that the market is overestimating the speed of easing from here.

**Forecast\***







	Horizon	Policy rate	3M xlbbr	6m xlbbr	2y gov	5y gov	10y gov	2y swap	5y swap	10y swap
USD**	Spot	5.00			3.56	3.51	3.75	3.40	3.23	3.32
	+3M	4.50			3.55	3.60	3.95	3.30	3.30	3.45
	+6M	4.00			3.50	3.60	3.95	3.25	3.30	3.45
	+12M	3.25			3.40	3.60	4.00	3.15	3.30	3.50
EUR*	Spot	3.50	3.33	3.15	2.06	1.95	2.13	2.35	2.28	2.41
	+3M	3.00	2.95	2.85	1.90	1.90	2.15	2.20	2.20	2.40
	+6M	2.75	2.71	2.61	1.85	1.90	2.25	2.15	2.20	2.50
	+12M	2.25	2.20	2.20	1.80	1.90	2.35	2.10	2.20	2.60
GBP**	Spot	5.00			3.94	3.82	3.98	3.89	3.63	3.65
	+3M	4.75			3.85	3.80	4.00	3.80	3.60	3.65
	+6M	4.25			3.66	3.70	4.00	3.61	3.50	3.65
	+12M	3.50			3.30	3.55	4.00	3.25	3.35	3.60
DKK	Spot	3.10	3.21	3.19	1.85	2.04	2.03	2.42	2.4	2.54
	+3M	2.60	2.85	2.90	1.65	1.95	2.05	2.25	2.3	2.55
	+6M	2.35	2.61	2.61	1.60	1.95	2.15	2.20	2.3	2.65
	+12M	1.85	2.10	2.10	1.55	1.95	2.25	2.15	2.3	2.75
SEK	Spot	3.25	3.16		1.67	1.71	2.00	2.05	2.07	2.28
	+3M	2.75	2.75		1.90	2.10	2.40	2.10	2.35	2.60
	+6M	2.25	2.38		2.10	2.30	2.50	2.30	2.50	2.70
	+12M	2.00	2.10		2.10	2.40	2.60	2.35	2.60	2.80
NOK	Spot	4.50	4.74	4.73	3.60	3.26	3.33	3.82	3.55	3.53
	+3M	4.50	4.70	4.70	3.45	3.25	3.40	3.75	3.50	3.50
	+6M	4.25	4.46	4.41	3.35	3.25	3.45	3.65	3.50	3.55
	+12M	3.75	3.95	3.90	3.25	3.25	3.50	3.55	3.50	3.60

\* German government bond yields and euro swap rates \*\* Based on OIS/SOFR swap rates.

Note: Past performance is not a reliable guide to future returns

Source: Danske Bank

Overview

	<ul style="list-style-type: none"> <li>The labour market has reached a better balance, and inflation figures have been softer in recent months. The focus of the Fed has shifted towards the risk of being too slow to ease. This bolsters the arguments for a rapid normalisation of policy.</li> <li>We anticipate rate cuts of 25bp at the next six meetings, but the probability of an even faster normalisation of policy has increased. We foresee long-term rates rising from here, while the short end will gradually decline as rates are lowered.</li> </ul>	<p>Swap rates (USD, SOFR), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>3.40</td> <td>3.15</td> <td>3.05</td> </tr> <tr> <td>5Y</td> <td>3.25</td> <td>3.30</td> <td>3.10</td> </tr> <tr> <td>10Y</td> <td>3.30</td> <td>3.50</td> <td>3.30</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	3.40	3.15	3.05	5Y	3.25	3.30	3.10	10Y	3.30	3.50	3.30
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5Y	3.25	3.30	3.10															
10Y	3.30	3.50	3.30															
	<ul style="list-style-type: none"> <li>In September, the ECB delivered its second rate cut of 25bp. We expect the next cut to follow in October. Since the spring, economic indicators within the eurozone have notably weakened, and recent inflation figures have also softened.</li> <li>Looking forward, we expect the ECB to lower policy rates by 150bp by the end of 2025, positioning the rates slightly above current market expectations, approximately at 1.75%. Concurrently, we anticipate long-term rates rising as the market alleviates fears of a deep European recession.</li> </ul>	<p>Swap rates (EUR, 6M Euribor), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.35</td> <td>2.10</td> <td>2.05</td> </tr> <tr> <td>5Y</td> <td>2.25</td> <td>2.20</td> <td>2.15</td> </tr> <tr> <td>10Y</td> <td>2.40</td> <td>2.60</td> <td>2.40</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.35	2.10	2.05	5Y	2.25	2.20	2.15	10Y	2.40	2.60	2.40
Maturity	Today	Danske Bank (+12M)	Forward (+12M)															
2Y	2.35	2.10	2.05															
5Y	2.25	2.20	2.15															
10Y	2.40	2.60	2.40															
	<ul style="list-style-type: none"> <li>Since the beginning of 2023, Denmark's Nationalbank has maintained a policy spread of 40bp relative to the ECB, a stance we anticipate will continue. Consequently, Denmark is expected to mirror the ECB's policy adjustments. Recently, the EUR/DKK exchange rate has declined (currently at 7.456), but it remains significantly above historical intervention levels.</li> <li>The DKK swap curve (10Y – 2Y) is no longer inverted, and we pencil in further steepening from here. We expect long-term interest rates to increase by 20-30bp over the next 12 months.</li> </ul>	<p>Swap rates (DKK, 6M CIBOR), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.45</td> <td>2.15</td> <td>2.10</td> </tr> <tr> <td>5Y</td> <td>2.40</td> <td>2.30</td> <td>2.25</td> </tr> <tr> <td>10Y</td> <td>2.55</td> <td>2.75</td> <td>2.55</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.45	2.15	2.10	5Y	2.40	2.30	2.25	10Y	2.55	2.75	2.55
Maturity	Today	Danske Bank (+12M)	Forward (+12M)															
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5Y	2.40	2.30	2.25															
10Y	2.55	2.75	2.55															
	<ul style="list-style-type: none"> <li>In August, the Bank of England (BOE) implemented its first rate cut, yet the central bank continues to caution against a potential resurgence in inflation. Wage growth within the UK economy remains excessively high, and activity data, including PMI indices, still indicate robust economic growth.</li> <li>We expect the BOE to cut the policy rate by a total of 150bp by the end of 2025, bringing the rate to an expected level of 3.25%. The next rate cut of 25bp is expected to occur in November.</li> </ul>	<p>Swap rates (GBP, SONIA), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>3.90</td> <td>3.25</td> <td>3.45</td> </tr> <tr> <td>5Y</td> <td>3.65</td> <td>3.35</td> <td>3.45</td> </tr> <tr> <td>10Y</td> <td>3.65</td> <td>3.60</td> <td>3.60</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	3.90	3.25	3.45	5Y	3.65	3.35	3.45	10Y	3.65	3.60	3.60
Maturity	Today	Danske Bank (+12M)	Forward (+12M)															
2Y	3.90	3.25	3.45															
5Y	3.65	3.35	3.45															
10Y	3.65	3.60	3.60															
	<ul style="list-style-type: none"> <li>The easing of monetary policy has commenced swiftly, and we expect two rate cuts for the remainder of 2024, with the next one scheduled for November. Next year, we expect two further cuts, with which the policy rate will reach 2% by summer.</li> <li>We expect higher long-term rates over the next 12M and an increased rate spread to EUR rates – partly due to an increase in the issuance of long-term SEK government bonds and the Riksbank's balance sheet reduction.</li> </ul>	<p>Swap rates (SEK, STIBOR 3M), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.10</td> <td>2.40</td> <td>1.90</td> </tr> <tr> <td>5Y</td> <td>2.10</td> <td>2.60</td> <td>2.10</td> </tr> <tr> <td>10Y</td> <td>2.30</td> <td>2.80</td> <td>2.35</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.10	2.40	1.90	5Y	2.10	2.60	2.10	10Y	2.30	2.80	2.35
Maturity	Today	Danske Bank (+12M)	Forward (+12M)															
2Y	2.10	2.40	1.90															
5Y	2.10	2.60	2.10															
10Y	2.30	2.80	2.35															
	<ul style="list-style-type: none"> <li>Growth remains on the soft side while inflation in key components is decreasing. During its September meeting, Norges Bank indicated that the first rate cut of 25bp is likely to be in March 2025. However, the risk appears skewed towards an earlier start. This is particularly linked to the possibility that NOK could face appreciation pressures as both the ECB and the Fed ease their policies.</li> <li>Our outlook for NOK rates is above market expectations across maturities, as we expect a much more cautious easing trajectory than is currently priced in by the market.</li> </ul>	<p>Swap rates (NOK, NIBOR 6M), %</p> <table border="1"> <thead> <tr> <th>Maturity</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>3.80</td> <td>3.55</td> <td>3.25</td> </tr> <tr> <td>5Y</td> <td>3.55</td> <td>3.50</td> <td>3.35</td> </tr> <tr> <td>10Y</td> <td>3.55</td> <td>3.65</td> <td>3.45</td> </tr> </tbody> </table>	Maturity	Today	Danske Bank (+12M)	Forward (+12M)	2Y	3.80	3.55	3.25	5Y	3.55	3.50	3.35	10Y	3.55	3.65	3.45
Maturity	Today	Danske Bank (+12M)	Forward (+12M)															
2Y	3.80	3.55	3.25															
5Y	3.55	3.50	3.35															
10Y	3.55	3.65	3.45															

Note: Past performance is not a reliable guide to future returns  
 Source: Macrobond Financial, Bloomberg, Danske Bank

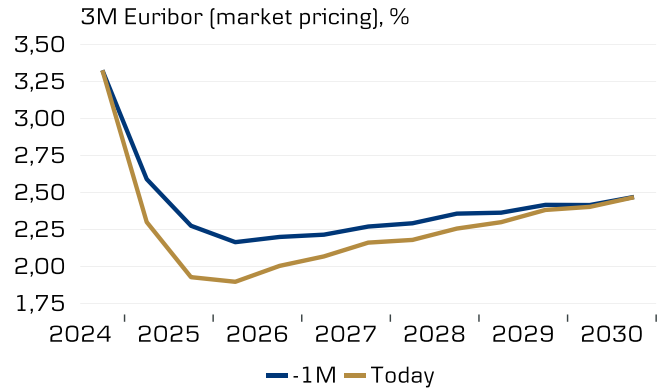
# EUR forecast

## EUR forecast table

EUR	Spot	--Forecast--				-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M	
<b>Money market</b>								
Deposit	3.50	3.00	3.00	2.25				
Euribor (3M)	3.33	2.95	2.95	2.20	15	64	27	
Euribor (6M)	3.15	2.85	2.85	2.20	24	61	25	
<b>Government bonds</b>								
2Y	2.06	1.90	1.90	1.80				
5Y	1.95	1.90	1.90	1.90				
10Y	2.13	2.15	2.15	2.35				
<b>Swap rates</b>								
2Y	2.35	2.20	2.20	2.10	3	13	6	
5Y	2.28	2.20	2.20	2.20	-2	1	-1	
10Y	2.41	2.40	2.40	2.60	1	2	19	

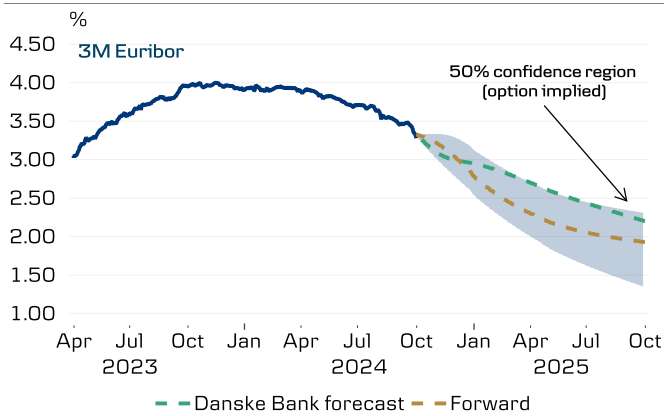
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Source: Danske Bank

## 1M change in Euribor 3M forward curve



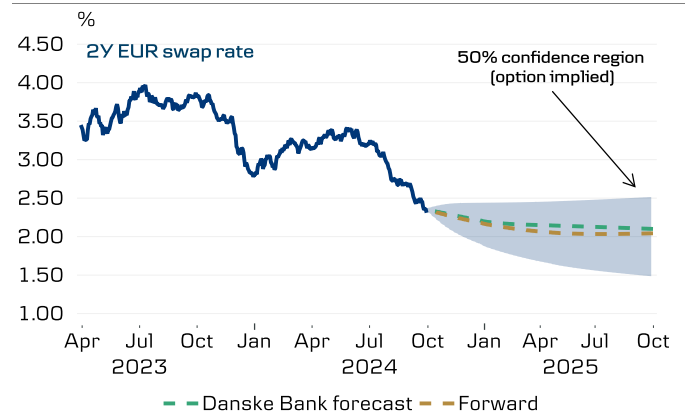
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## 3M Euribor



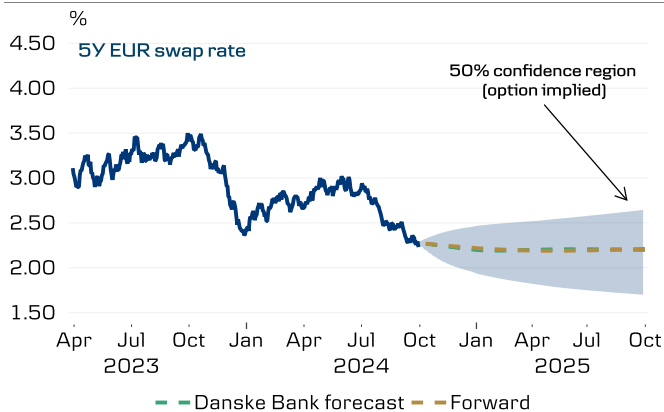
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## 2Y EUR swap rates



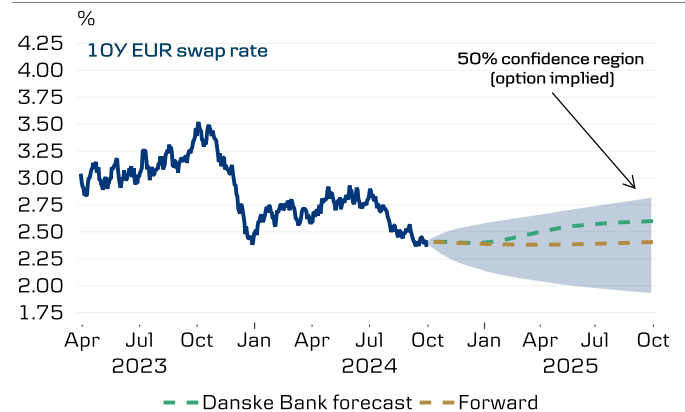
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## 5Y EUR swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 10Y EUR swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

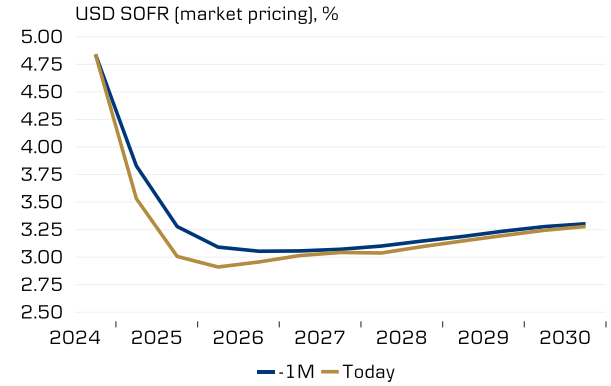
# USD forecast

## USD forecast table

USD	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
<b>Money market</b>							
Fed Funds	5.00	4.50	4.50	3.25			
SOFR	4.83	4.30	4.30	3.05	15	76	3
<b>Government bonds</b>							
2Y	3.56	3.55	3.55	3.40			
5Y	3.51	3.60	3.60	3.60			
10Y	3.75	3.95	3.95	4.00			
<b>Swap rates</b>							
2Y	3.40	3.30	3.30	3.15	12	18	13
5Y	3.23	3.30	3.30	3.30	15	18	18
10Y	3.32	3.45	3.45	3.50	17	18	21

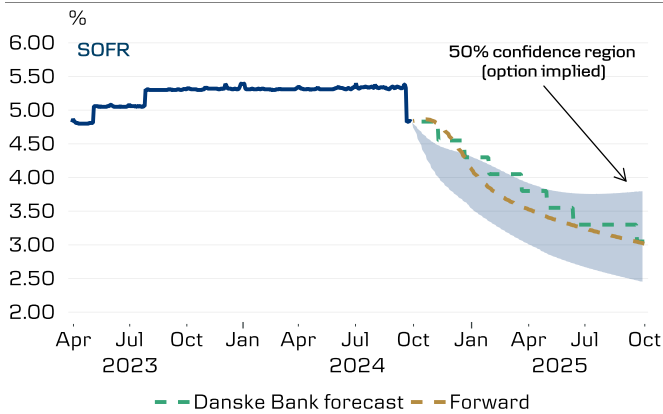
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Source: Danske Bank

## 1M change in USD SOFR forward curve



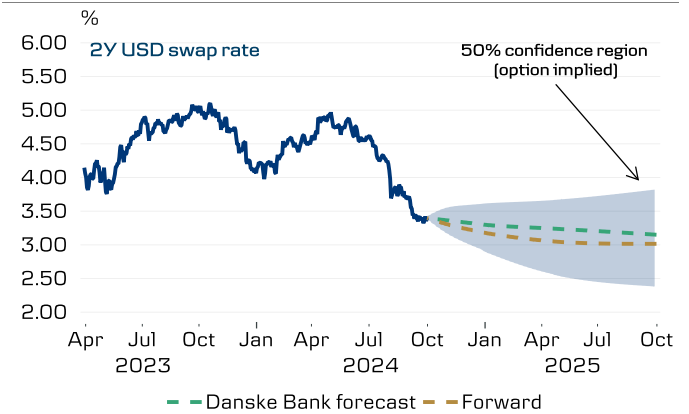
Note: Past performance is not a reliable guide to future returns Source: Danske Bank

## SOFR rates



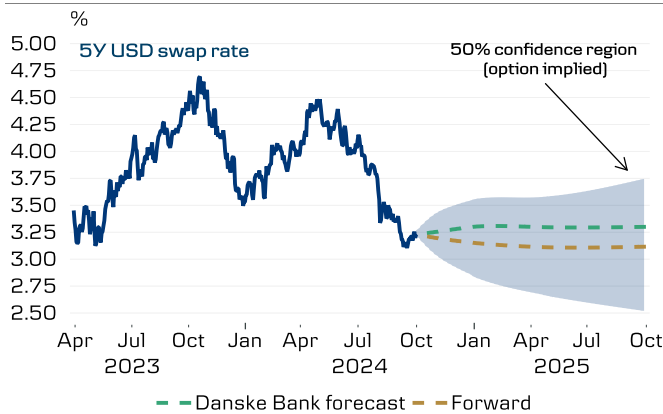
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## 2Y USD swap rates



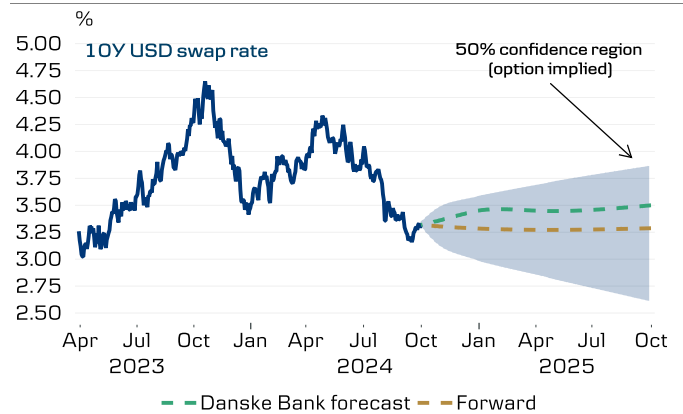
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## 5Y USD swap rates



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## 10Y USD swap rates



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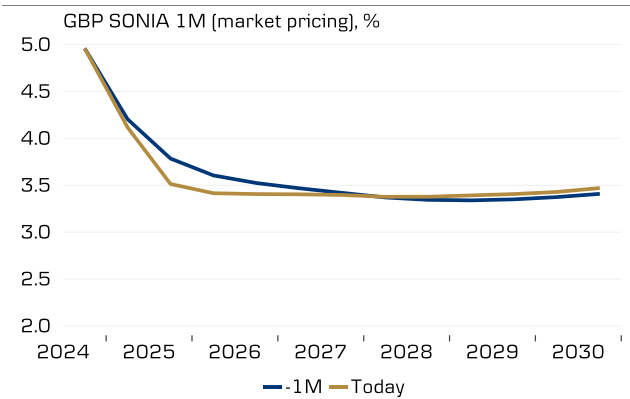
# GBP forecast

## GBP forecast table

GBP	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
<b>Money market</b>							
Bank rate	5.00	4.75	4.75	3.50			
SONIA (1M)	4.96	4.64	4.64	3.39	7	51	-12
<b>Government bonds</b>							
2Y	3.94	3.85	3.85	3.30			
5Y	3.82	3.80	3.80	3.55			
10Y	3.98	4.00	4.00	4.00			
<b>Swap rates</b>							
2Y	3.89	3.80	3.80	3.25	9	3	-22
5Y	3.63	3.60	3.60	3.35	4	0	-11
10Y	3.65	3.65	3.65	3.60	3	4	-1

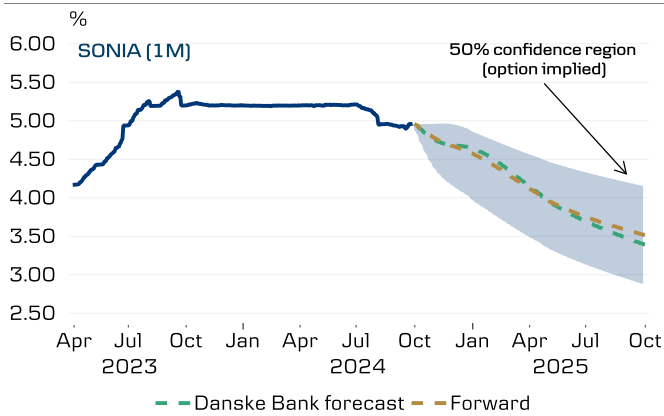
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## 1M change in SONIA 1M forward curve



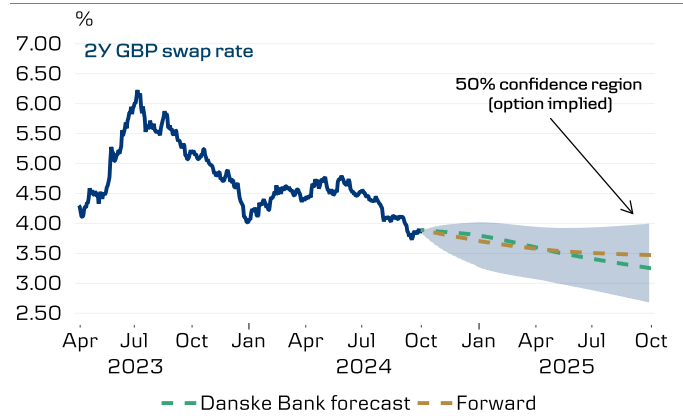
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## SONIA (1M)



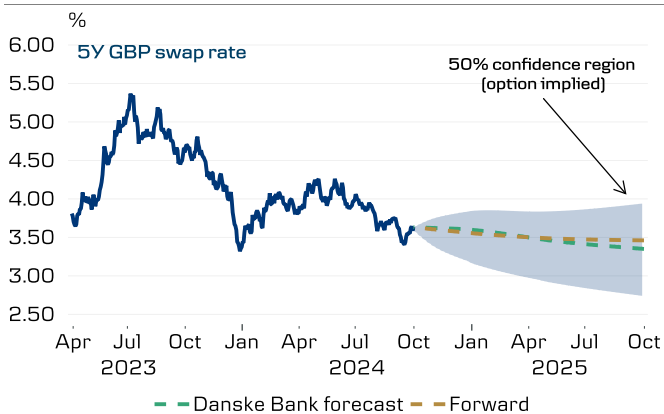
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## 2Y UK swap rates



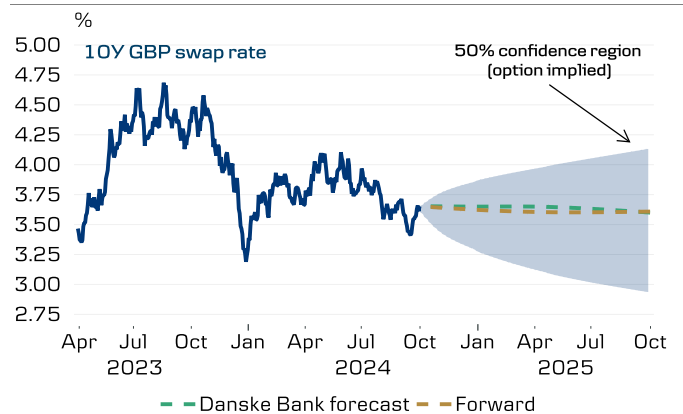
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 5Y UK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 10Y UK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

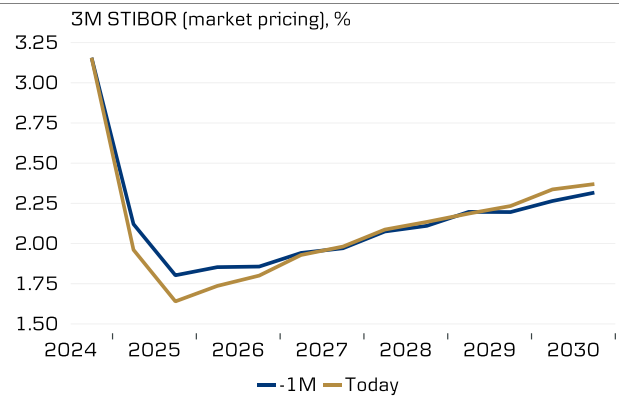
# SEK forecast

## SEK forecast table

SEK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
<b>Money market</b>							
Repo	3.25	3.00	3.00	2.00			
STIBOR (3M)	3.16	2.75	2.75	2.10	36	78	46
<b>Government bonds</b>							
2Y	1.67	1.90	1.90	2.10			
5Y	1.71	2.10	2.10	2.40			
10Y	2.00	2.40	2.40	2.60			
<b>Swap rates</b>							
2Y	2.05	2.10	2.10	2.35	22	48	51
5Y	2.07	2.35	2.35	2.60	33	49	54
10Y	2.28	2.60	2.60	2.80	33	42	48

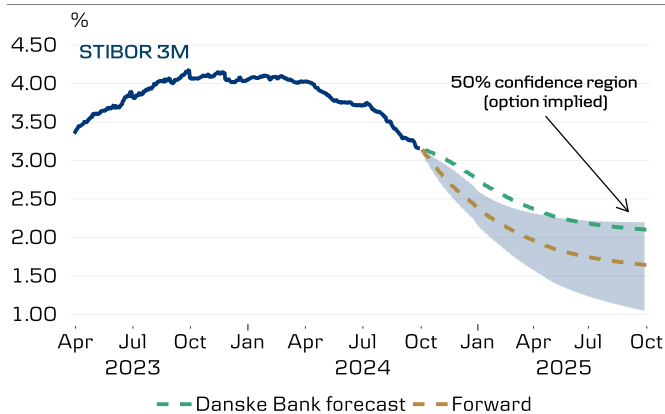
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 1M change in STIBOR3M forward curve



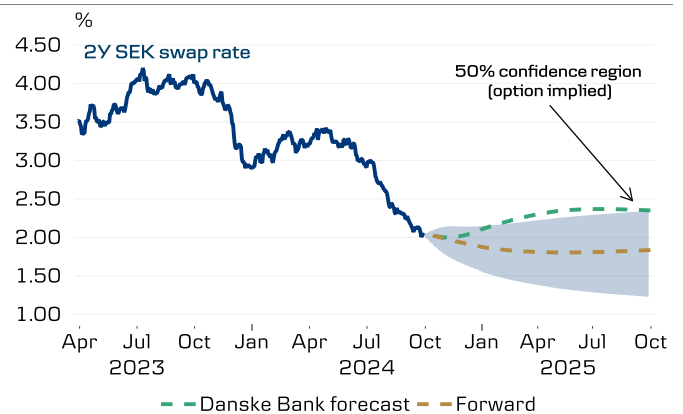
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 3M Stibor rates



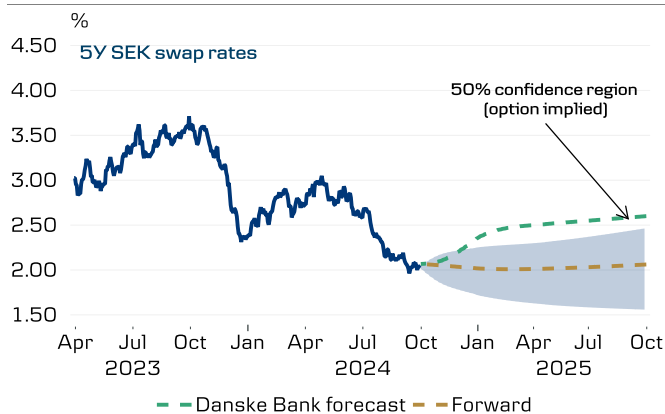
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 2Y SEK swap rates



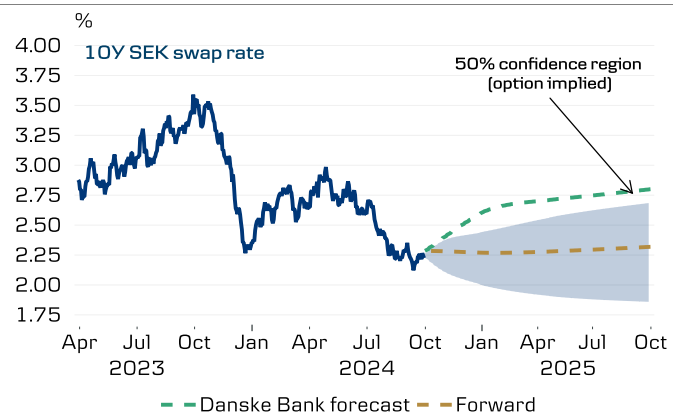
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 5Y SEK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 10Y SEK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

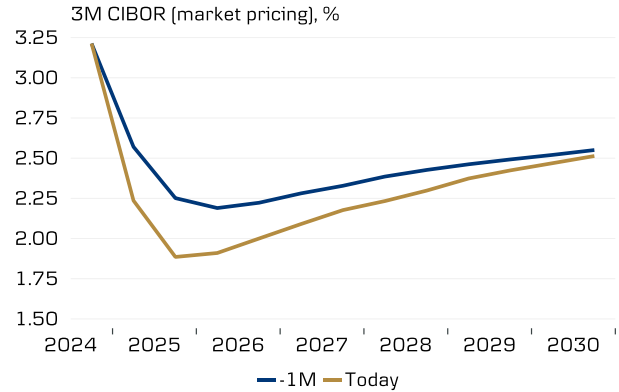
# DKK forecast

## DKK forecast table

DKK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
<b>Money market</b>							
Repo	3.25	2.40	2.40	1.65			
Deposit	3.10	2.60	2.60	1.85			
CIBOR (3M)	3.21	2.85	2.85	2.10	11	36	21
CIBOR (6M)	3.19	2.90	2.90	2.10	28	39	9
<b>Government bonds</b>							
2Y	1.85	1.65	1.65	1.55			
5Y	2.04	1.95	1.95	1.95			
10Y	2.03	2.05	2.05	2.25			
<b>Swap rates</b>							
2Y	2.42	2.25	2.25	2.15	0	4	-2
5Y	2.40	2.30	2.30	2.30	-5	-3	-7
10Y	2.54	2.55	2.55	2.75	3	13	20

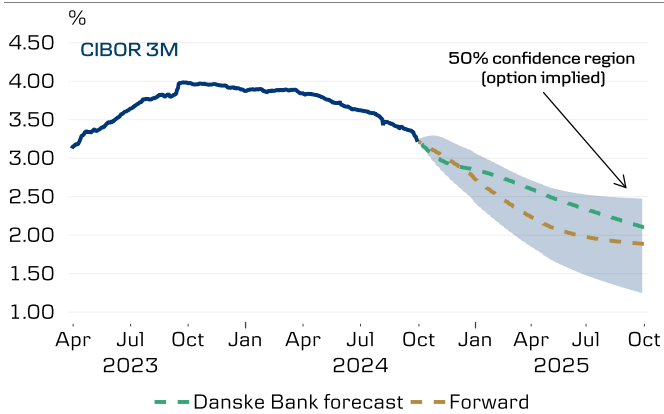
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 1M change in DKK swap (3M)



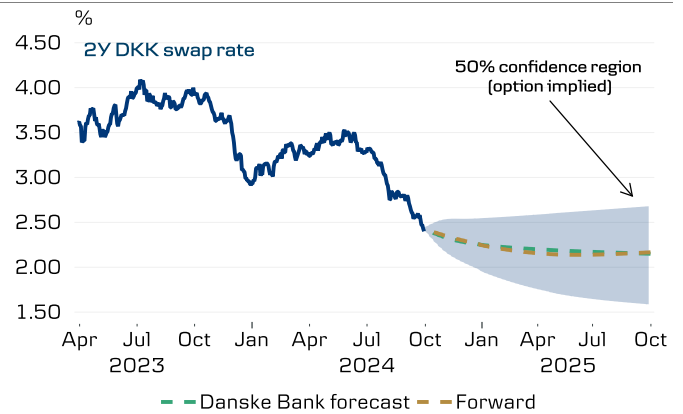
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 3M Cibur



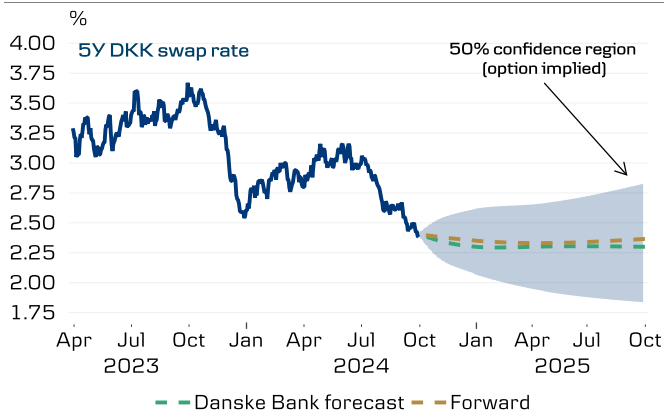
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 2Y DKK swap rates



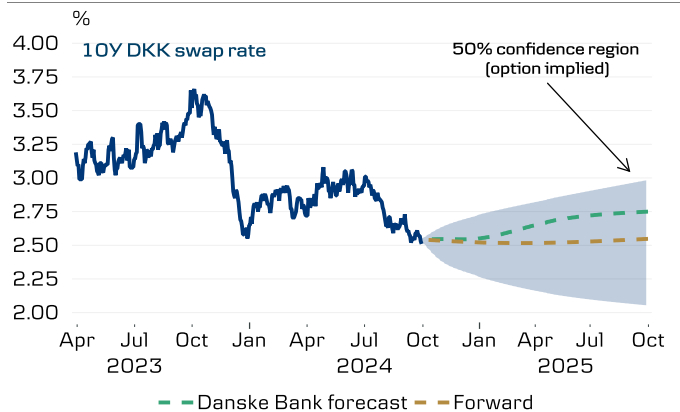
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 5Y DKK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

## 10Y DKK swap rates



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank



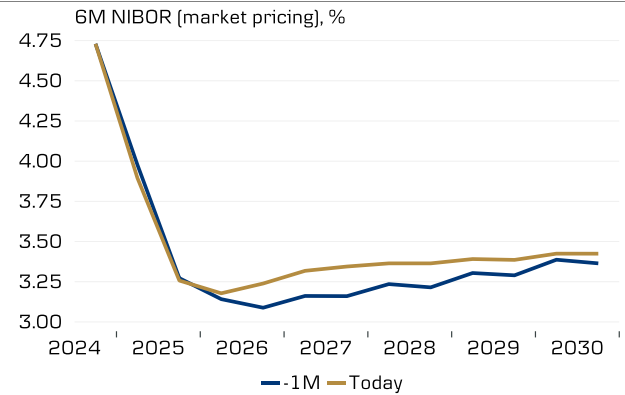
# NOK forecast

NOK forecast table

NOK	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
<b>Money market</b>							
Deposit	4.50	4.50	4.50	3.75			
NIBOR (3M)	4.74	4.70	4.70	3.95	24	66	66
NIBOR (6M)	4.73	4.70	4.70	3.90	37	79	64
<b>Government bonds</b>							
2Y	3.60	3.45	3.45	3.25			
5Y	3.26	3.25	3.25	3.25			
10Y	3.33	3.40	3.40	3.50			
<b>Swap rates</b>							
2Y	3.82	3.75	3.75	3.55	16	23	28
5Y	3.55	3.50	3.50	3.50	3	10	15
10Y	3.53	3.50	3.50	3.60	2	10	17

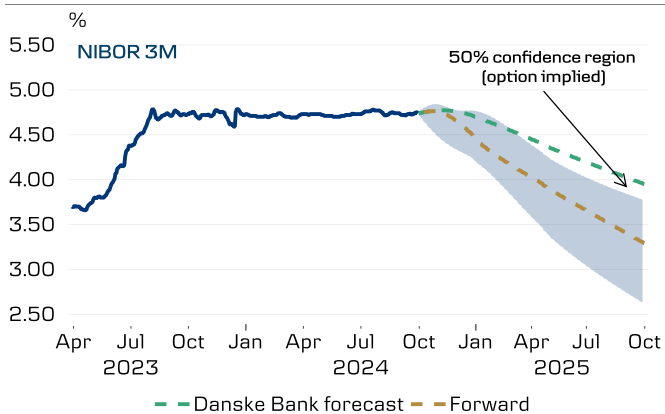
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

1M change in NOK swap (6M)



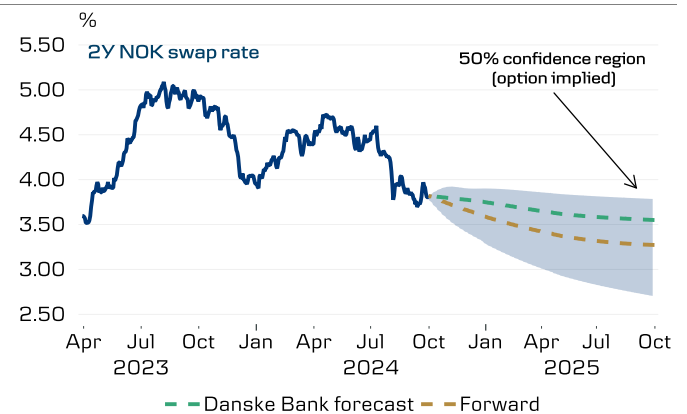
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

3M Nibor



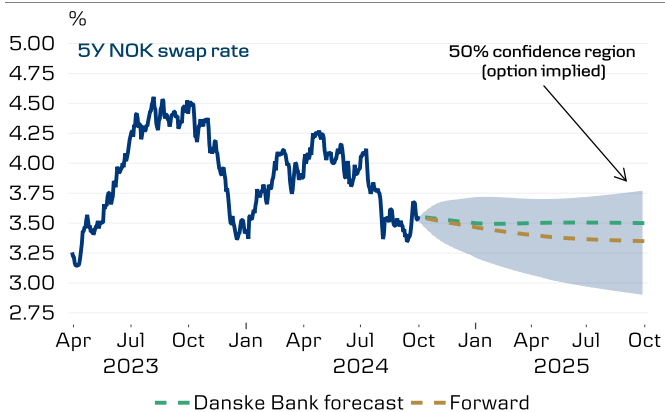
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y NOK swap rate



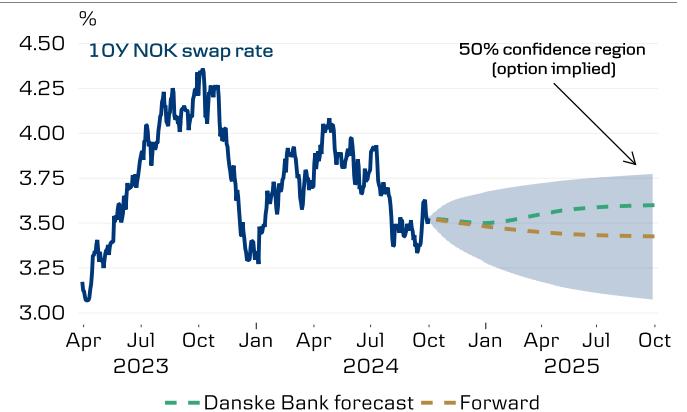
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

5Y NOK swap rate



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

10Y NOK swap rate



Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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