

# Yield Outlook

## The pendulum has swung too far

As we enter 2025, rate markets across Western economies remain in a challenging situation. Long-end rates have surged significantly since the beginning of December, with the US leading this global movement. Additionally, country-specific challenges are present, such as in the UK, where concerns about a potential new 'Liz Truss moment' have made investors cautious. Recently, the strong US jobs report for December has again tempered expectations for easing by the Fed. Currently, the market is pricing in only a single rate cut of 0.25 percentage points from the current level of 4.25-4.50% by the end of 2026. This would leave the endpoint, also known as the terminal rate, more than 1 percentage point higher than the Fed's own forecast from December. The terminal rate will remain a significant uncertainty factor for the rate markets for most of 2025, but we still assess that it is closer to 3% than 4%. This suggests substantial declines in USD (and EUR) rates ahead, although the timing remains very uncertain.

### Rising term premia reflect concerns about debt

Since early December, the rising doubt on Fed easing in 2025-26 has been coupled with market-specific dynamics, particularly affecting the long end of the yield curve. According to our preferred models, the so-called term premium in the bond market – the value of holding a long-term versus a short-term government bond – has increased by 0.6 percentage points on a 10Y US Treasury bond since the beginning of December (see the chart on page 2). This is a significant rise, building on the generally upward trend observed since Trump and the Republicans gained momentum in the polls in early October. In our view, the sharp increase in the term premium is related to renewed focus on the US debt outlook and, to some extent, the rest of the West.

### *But why did the rapid rise in the term premium occur in December, rather than as an immediate reaction to the election results in November?*

It is difficult to provide a definitive answer, but one possibility is that a combination of 1) a more hawkish Federal Reserve and 2) stronger growth and inflation figures during November and December has now begun to more directly affect the appetite for duration. This is backed by recent US government debt auctions, which indicate that investors are demanding higher rates to absorb the offered duration. In any case, it is hard to argue that Trump and the Republicans' fiscal plans were decisive for December's rate increase. If anything, the difficult budget negotiations during the month showed that the party's slim majority in the House of Representatives and questionable party discipline could make it more challenging for Trump to pass a significant fiscal package. This should, in isolation, point to lower rates.

The recent months' combination of 1) a stronger dollar, 2) higher (real) interest rates, and 3) declining stock prices has contributed to a noticeable tightening of financial conditions in the US. So far, however, there is little indication that the Fed intends to intervene and counter this movement. In the central bank's view, inflationary risks are increasing, and the prospects of higher tariffs on trading partners, easier fiscal policy, and declining growth in the labour force due to reduced immigration are all factors that could further fuel price pressures in the economy. In this environment, it is natural for the Fed to remain cautious – as long as the tightening

### Shortcuts

*Forecast eurozone*

*Forecast US*

*Forecast UK*

*Forecast Denmark*

*Forecast Sweden*

*Forecast Norway*

### Central bank policy rates

Country	Spot	+3M	+6M	+12M
USD	4.50	4.25	4.00	3.50
EUR	3.00	2.50	2.00	1.50
GBP	4.75	4.50	4.25	3.75
DKK	2.60	2.10	1.60	1.10
SEK	2.50	2.25	2.00	2.00
NOK	4.50	4.25	4.00	3.50

### 10Y government bond yields

Country	Spot	+3M	+6M	+12M
USD	4.78	4.60	4.45	4.20
EUR	2.61	2.50	2.35	2.25
GBP	4.86	4.70	4.50	4.30
DKK	2.30	2.25	2.10	2.00
SEK	2.49	2.50	2.50	2.65
NOK	4.00	3.80	3.70	3.50

*Note: EUR = Germany*

### 10Y swap rates

Country	Spot	+3M	+6M	+12M
USD	4.26	4.10	3.95	3.70
EUR	2.56	2.45	2.30	2.15
GBP	4.29	4.20	4.00	3.80
DKK	2.69	2.55	2.40	2.25
SEK	2.73	2.65	2.65	2.75
NOK	4.09	3.95	3.85	3.65

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

*Source: Danske Bank (all three tables)*

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of financial conditions does not escalate. Therefore, we expect the shift in rate expectations to come from data rather than central bank rhetoric.

### Europe remains poised for further rate cuts

In Europe, the significant rise in yields since December is difficult to justify based solely on the economic developments. Growth indicators, such as PMI figures, have indeed improved compared to previous months, but broader signals from the consumer and particularly industrial sectors of the economy remain relatively weak. We expect stronger private consumption throughout 2025 as purchasing power is restored by the solid real wage increases. However, the first half of the year will not be exuberant, keeping the European Central Bank (ECB) focused on easing measures. We expected continued rate cuts of 0.25 percentage points at each meeting until September, which would bring the terminal rate down to 1.5%. However, this level is by no means set in stone, and as rates are lowered, protests against further easing are likely to grow among the central bank's hawks. The upcoming cuts at the late January and early March meetings will, though, be relatively straightforward, given the economic backdrop, which remains characterised by weak growth and an ongoing softening of inflationary pressures.

#### Forecast\*

	Horizon	Policy rate	3M xlbbr	6m xlbbr	2y gov	5y gov	10y gov	2y swap	5y swap	10y swap
USD**	Spot	4.50			4.41	4.61	4.78	4.21	4.23	4.26
	+3M	4.25			4.20	4.40	4.60	3.95	4.10	4.10
	+6M	4.00			4.00	4.20	4.45	3.75	3.90	3.95
	+12M	3.50			3.75	3.95	4.20	3.50	3.65	3.70
EUR*	Spot	3.00	2.79	2.66	2.29	2.40	2.61	2.40	2.47	2.56
	+3M	2.50	2.15	2.00	2.10	2.25	2.50	2.25	2.35	2.45
	+6M	2.00	1.70	1.70	1.80	2.10	2.35	1.95	2.20	2.30
	+12M	1.50	1.55	1.60	1.50	1.90	2.25	1.65	2.00	2.15
GBP**	Spot	4.75			4.58	4.59	4.86	4.38	4.24	4.29
	+3M	4.50			4.35	4.25	4.70	4.25	4.00	4.20
	+6M	4.25			4.15	4.10	4.50	4.05	3.85	4.00
	+12M	3.75			3.75	3.85	4.30	3.65	3.60	3.80
DKK	Spot	2.60	2.67	2.71	1.99	2.31	2.30	2.46	2.59	2.69
	+3M	2.10	2.05	1.95	1.85	2.20	2.25	2.30	2.45	2.55
	+6M	1.60	1.60	1.65	1.55	2.05	2.10	2.00	2.30	2.40
	+12M	1.10	1.45	1.55	1.25	1.85	2.00	1.70	2.10	2.25
SEK	Spot	2.50	2.46		2.04	2.22	2.49	2.33	2.49	2.73
	+3M	2.25	2.28		2.00	2.25	2.50	2.20	2.45	2.65
	+6M	2.00	2.08		2.00	2.25	2.50	2.15	2.40	2.65
	+12M	2.00	2.10		2.10	2.40	2.65	2.15	2.50	2.75
NOK	Spot	4.50	4.62	4.62	4.12	3.98	4.0	4.33	4.13	4.09
	+3M	4.25	4.45	4.40	3.90	3.75	3.8	4.20	3.95	3.95
	+6M	4.00	4.20	4.15	3.65	3.60	3.7	3.95	3.80	3.85
	+12M	3.50	3.70	3.65	3.25	3.25	3.5	3.55	3.45	3.65

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

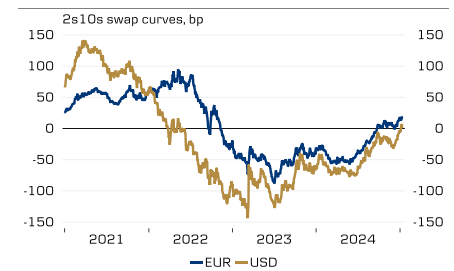
Note: Past performance is not a reliable guide to future returns

Source: Danske Bank

### The move in long-end rates has gone too far

It is tempting to raise the forecast for long-end rates in light of recent movements. For quite some time, we have argued that the long end of the yield curve should more accurately reflect the uncontrolled outlook for the US budget deficit. We have seen this happen, but we remain sceptical about whether such a rapid increase in the term premium will prove sustainable. In our view, the new US administration has strong incentives to try to ease market concerns that their fiscal plans will lead to a significant increase in the issuance of long-term bonds. This could be achieved through financing strategies designed to limit the amount of duration that the bond market needs to absorb. For the market, the quarterly refunding announcement (QRA), which is next due at the end of January, will be an important factor in assessing whether Trump, like his

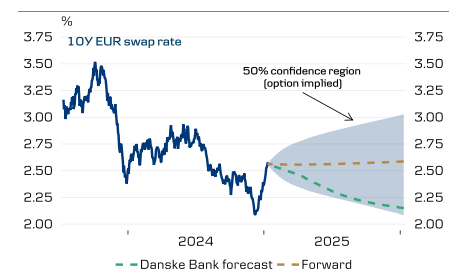
### Curves have steepened since 2023



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

Source: Macrobond Financial, Danske Bank

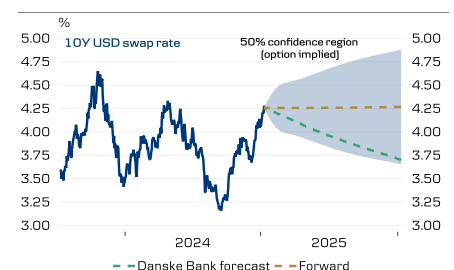
### Forecast: 10Y EUR swap rates



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

Source: Macrobond Financial, Danske Bank

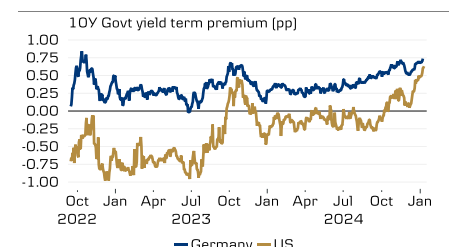
### Forecast: 10Y USD swap rates



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

Source: Danske Bank

### Term premia are drifting higher




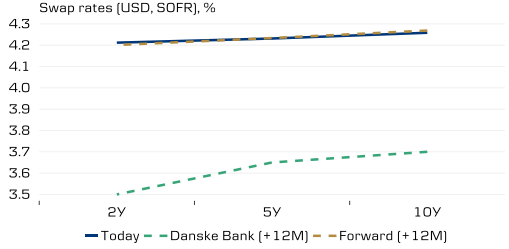

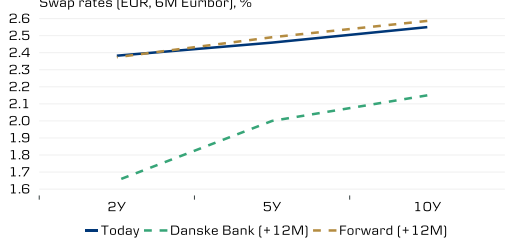

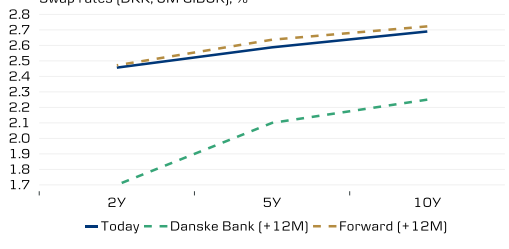

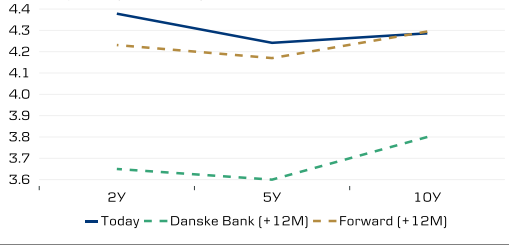

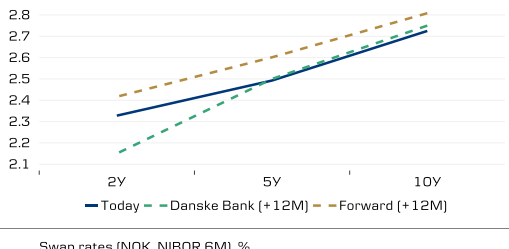

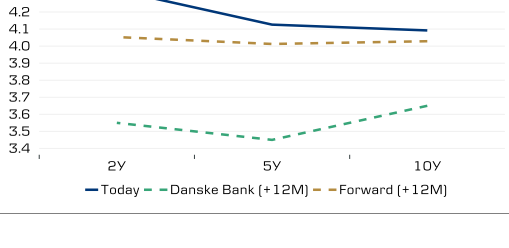
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Source: Danske Bank

predecessor, will continue to finance a significant portion of the deficit at the short end of the yield curve (T-Bills). In autumn 2023, signals pointing towards this strategy helped push interest rates downward after several months of significant increases.

In addition to the fiscal factor, the current market pricing appears sensitive to any new weakening of US growth and inflation data. It is worth remembering that just a few months ago, the focus was on the ongoing weakening of the labour market and the risk that the Fed's easing measures might ultimately prove too late. Although there is little indication of this at present, it may only take a couple of weak job reports to shift the spotlight back in that direction. We maintain our 12M forecast for the 10-year US Treasury yield at 4.20% (compared to 4.75% today), while we have raised our forecast for the 10-year German Bund yield from 2.00% to 2.25%. This adjustment reflects our expectation that the Bund asset swap (ASW) spread will approach -0.1 percentage points during 2025.

## Overview

	<ul style="list-style-type: none"> <li>The labour market has become better balanced, but inflationary pressure has recently increased slightly. The focus in the Fed – also as a result of Trump's election victory – has shifted towards the upside risks related to inflation in 2025-26.</li> <li>We expect quarterly rate cuts of 25bp from the meeting in March 2025 and onwards, while the market (and the Fed) expects a total of 1 cut. Our baseline is that inflationary pressures will continue to ease. We foresee rate declines across the curve over the next year.</li> </ul>	<p>Swap rates (USD, SOFR), %</p> 
	<ul style="list-style-type: none"> <li>In December, the ECB delivered its fourth interest rate cut of 25bp this year, and we expect the next cut to be delivered at the end of January. Economic indicators in the eurozone have weakened noticeably since the spring, and inflation figures have also softened.</li> <li>We expect the ECB to cut rates by 150bp by September 2025, which will leave the deposit rate at 1.5%. The market today prices in an endpoint of 2.1%. We expect long swap rates to decline significantly over the next 12 months.</li> </ul>	<p>Swap rates (EUR, 6M Euribor), %</p> 
	<ul style="list-style-type: none"> <li>Since the beginning of 2023, the Danish central bank has maintained the monetary policy spread to the ECB at 40bp, and we see it remaining there for the foreseeable future. Thus, the Danish central bank will continue to match the ECB's moves 1:1. The EUR/DKK has risen to 7.4603 recently, but we are still far from intervention levels.</li> <li>The Danish swap curve (10Y – 2Y) is no longer inverted, and we expect to see further steepening over the coming year. Long-term rates are expected to move lower the next year.</li> </ul>	<p>Swap rates (DKK, 6M CIBOR), %</p> 
	<ul style="list-style-type: none"> <li>The Bank of England (BOE) chose, as expected, to keep the rate unchanged at 4.5% in December, but as many as 3 out of 9 committee members wanted a new rate cut. Wage growth in the economy remains too high, while growth signals have improved towards the end of the year. The government's fiscal easing could influence how quickly the BOE proceeds.</li> <li>We expect the BOE to cut rates by a total of 100bp by the end of 2025, bringing the level to 3.75% by then. We anticipate the next rate cut of 25bp to occur in February 2025.</li> </ul>	<p>Swap rates (GBP, SONIA), %</p> 
	<ul style="list-style-type: none"> <li>As expected, the Riksbank cut the repo rate by 25bp to 2.5% at the December meeting but signalled only a single cut in 2025. Following the hawkish signals, we have revised our expected endpoint for the rate from 1.75% to 2.00%.</li> <li>We expect higher long-term rates over the next 12 months and an increased interest rate spread to EUR rates—partly due to an increase in the issuance of long SEK government bonds and the Riksbank's balance sheet reduction.</li> </ul>	<p>Swap rates (SEK, STIBOR 3M), %</p> 
	<ul style="list-style-type: none"> <li>Growth is improving, while inflation in the critical components is declining. Norges Bank signalled at its December meeting that the first rate cut of 25bp will occur in March 2025. The uncertainty is partly related to the risk that the NOK may face appreciation pressure as the ECB and Fed ease policy.</li> <li>Our profile for Norwegian rates is below market pricing following the corrections in recent months. The forward curve remains remarkably flat in the 5-10 year term.</li> </ul>	<p>Swap rates (NOK, NIBOR 6M), %</p> 

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

Source: Macrobond Financial, Bloomberg, Danske Bank

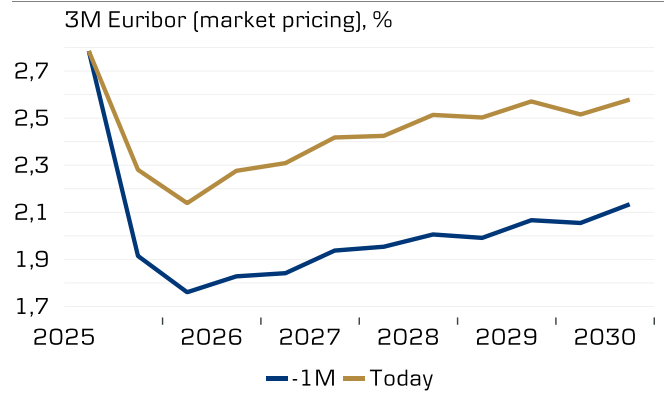
# EUR forecast

EUR forecast table

		--Forecast--				-- Fcst vs Fwd in bp--		
EUR	Spot	+3M	+6M	+12M		+3M	+6M	+12M
Money market								
Deposit	3.00	2.50	2.00	1.50				
Euribor (3M)	2.79	2.15	1.70	1.55		-26	-58	-59
Euribor (6M)	2.66	2.00	1.70	1.60		-41	-60	-63
Government bonds								
2Y	2.29	2.10	1.80	1.50				
5Y	2.40	2.25	2.10	1.90				
10Y	2.61	2.50	2.35	2.25				
Swap rates								
2Y	2.40	2.25	1.95	1.65		-9	-38	-72
5Y	2.47	2.35	2.20	2.00		-11	-26	-49
10Y	2.56	2.45	2.30	2.15		-11	-26	-44

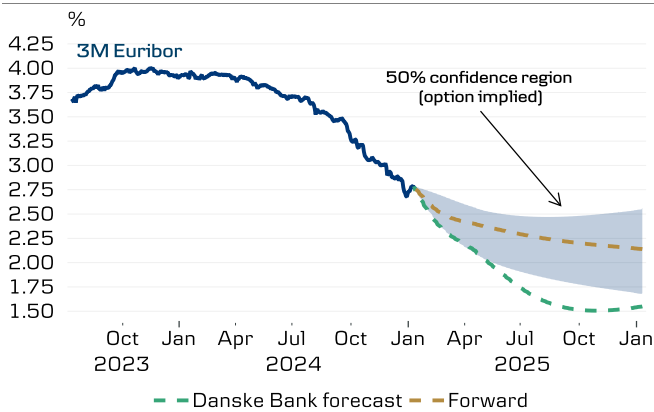
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Source: Danske Bank

1M change in Euribor 3M forward curve



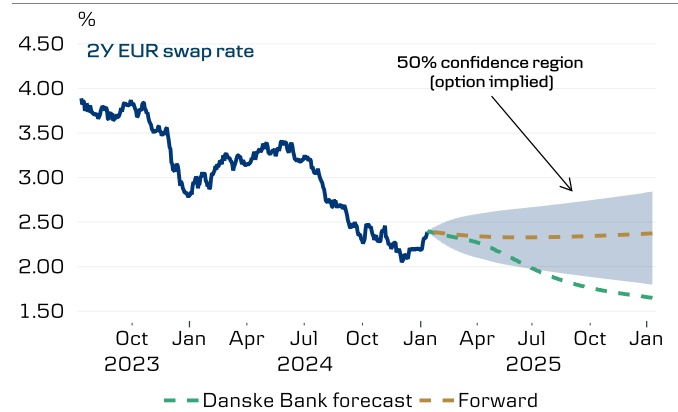
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3M Euribor



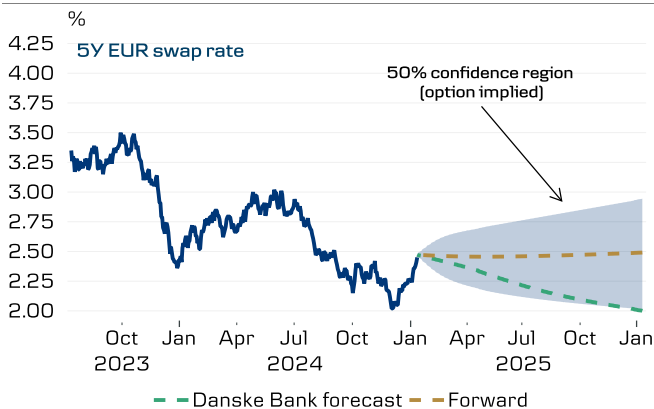
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Source: Danske Bank

2Y EUR swap rates



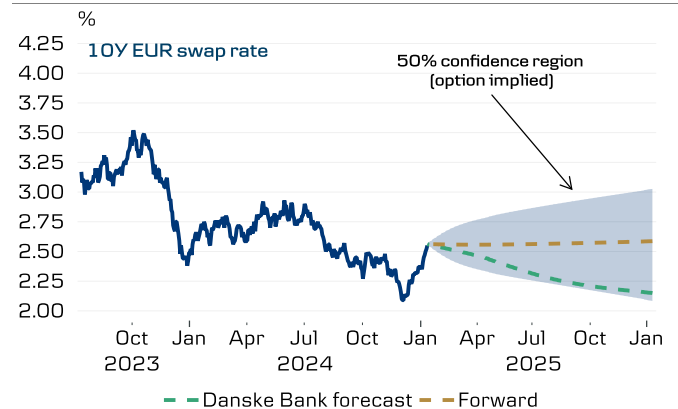
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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

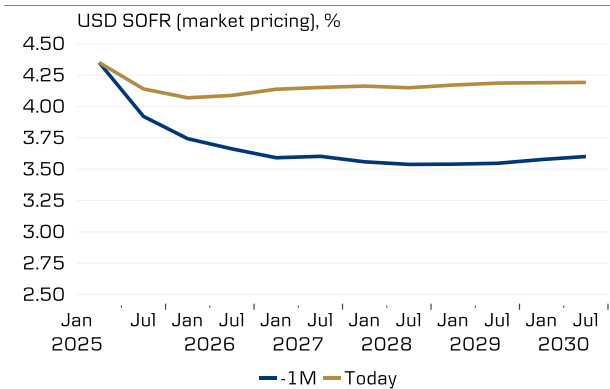
# USD forecast

USD forecast table

USD	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Fed Funds	4.50	4.25	4.00	3.50			
SOFR	4.35	4.05	3.80	3.30	-19	-34	-76
Government bonds							
2Y	4.41	4.20	4.00	3.75			
5Y	4.61	4.40	4.20	3.95			
10Y	4.78	4.60	4.45	4.20			
Swap rates							
2Y	4.21	3.95	3.75	3.50	-24	-43	-70
5Y	4.23	4.10	3.90	3.65	-13	-32	-58
10Y	4.26	4.10	3.95	3.70	-16	-31	-57

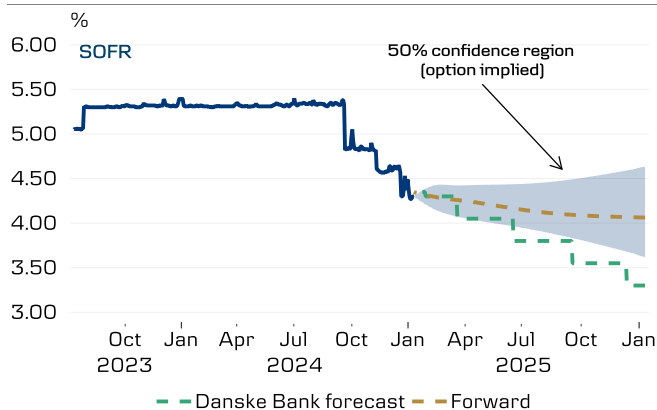
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Source: Danske Bank

1M change in USD SOFR forward curve



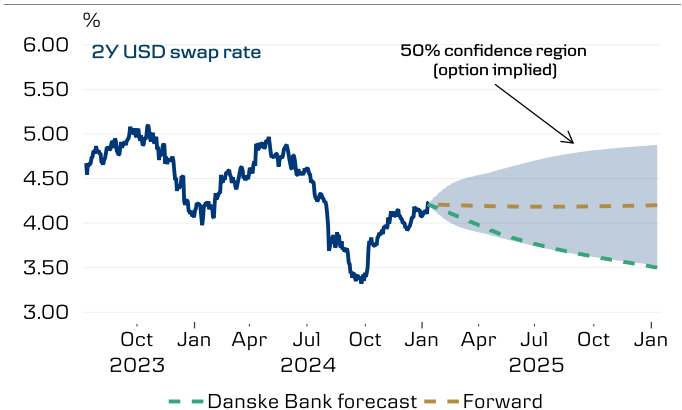
Note: Past performance is not a reliable guide to future returns Source: Danske Bank

SOFR rates



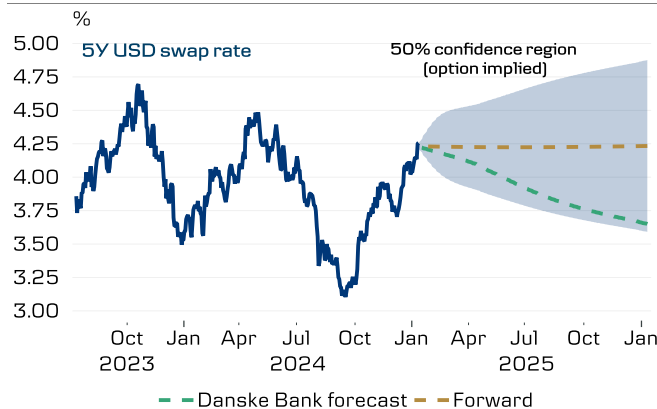
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y USD swap rates



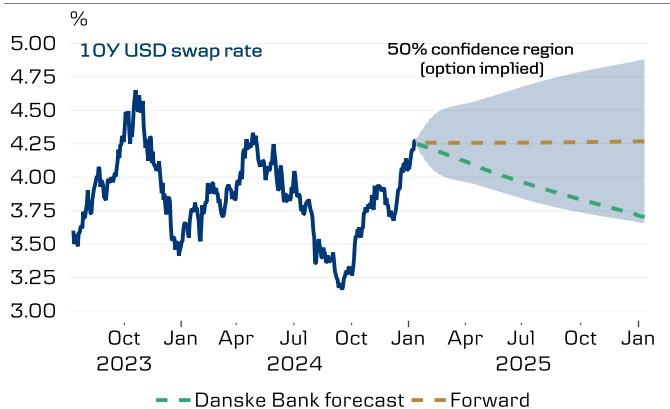
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

5Y USD swap rates



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

10Y USD swap rates



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

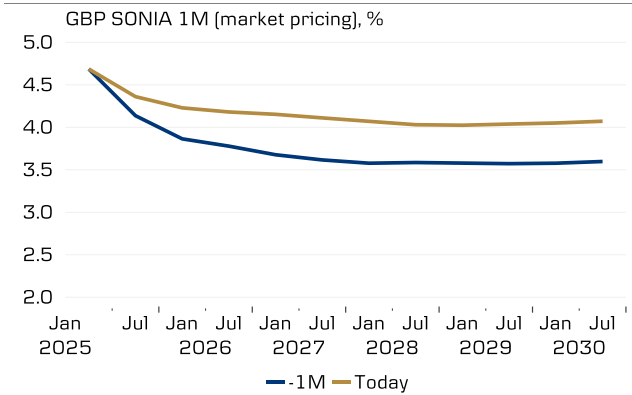
# GBP forecast

GBP forecast table

GBP	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Bank rate	4.75	4.50	4.25	3.75			
SONIA (1M)	4.69	4.34	4.09	3.57	-13	-27	-66
Government bonds							
2Y	4.58	4.35	4.15	3.75			
5Y	4.59	4.25	4.10	3.85			
10Y	4.86	4.70	4.50	4.30			
Swap rates							
2Y	4.38	4.25	4.05	3.65	-7	-24	-58
5Y	4.24	4.00	3.85	3.60	-21	-34	-57
10Y	4.29	4.20	4.00	3.80	-8	-28	-49

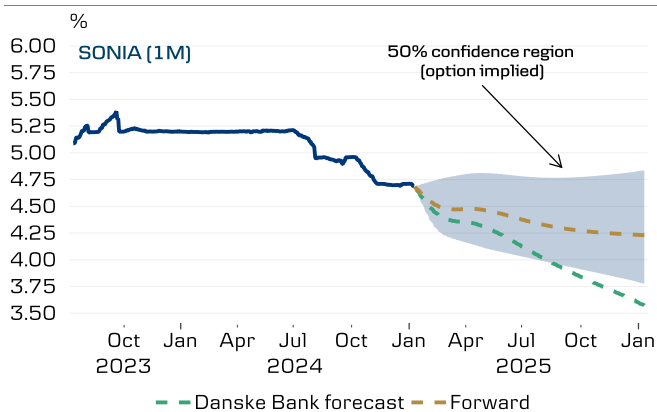
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Source: Danske Bank

1M change in SONIA1M forward curve



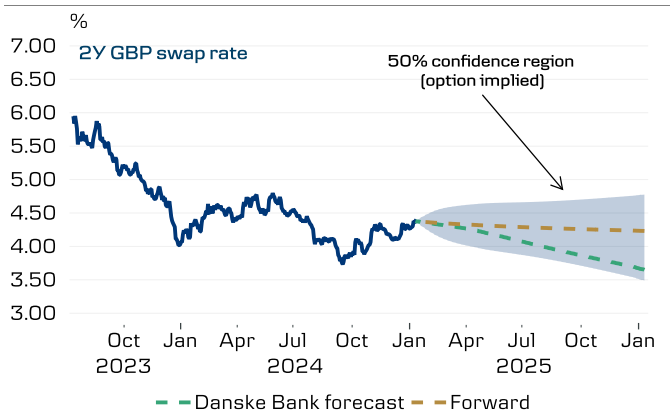
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Source: Danske Bank

SONIA (1M)



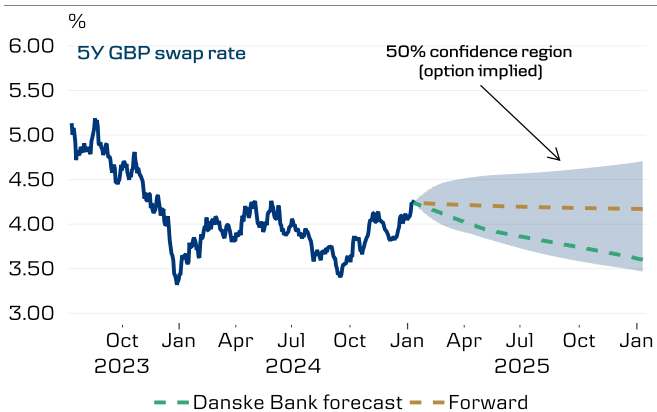
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y UK swap rates



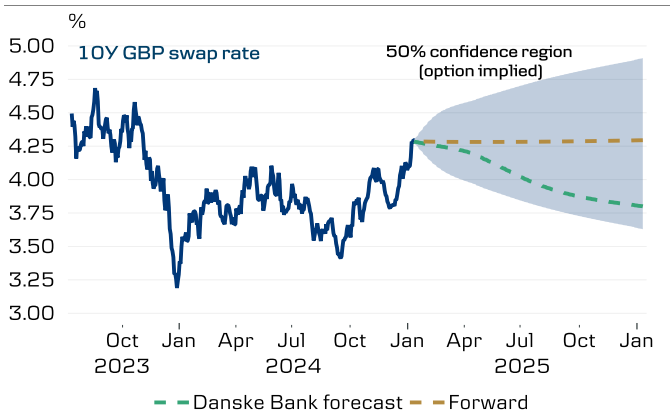
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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

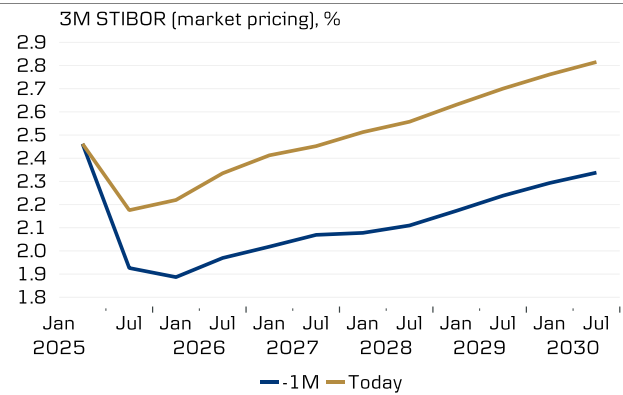
# SEK forecast

SEK forecast table

SEK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	2.50	2.25	2.00	2.00			
STIBOR (3M)	2.46	2.28	2.08	2.10	4	-10	-12
Government bonds							
2Y	2.04	2.00	2.00	2.10			
5Y	2.22	2.25	2.25	2.40			
10Y	2.49	2.50	2.50	2.65			
Swap rates							
2Y	2.33	2.20	2.15	2.15	-12	-19	-27
5Y	2.49	2.45	2.40	2.50	-6	-13	-10
10Y	2.73	2.65	2.65	2.75	-9	-11	-6

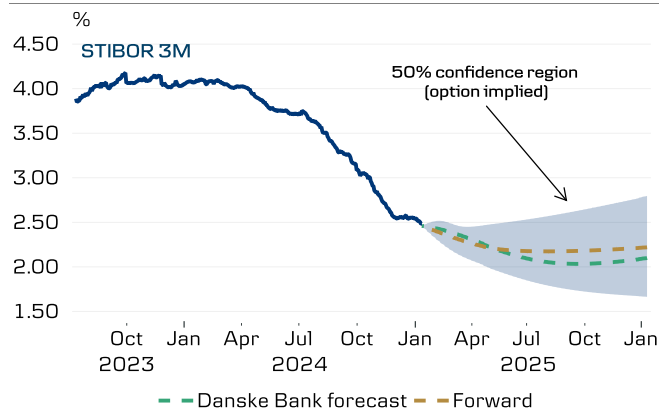
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Source: Danske Bank

1M change in STIBOR3M forward curve



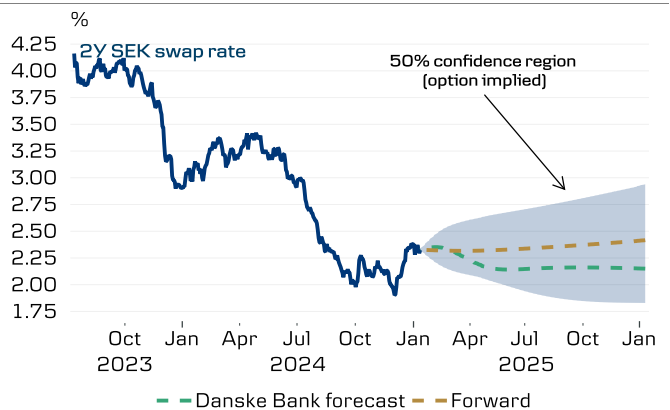
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

3M Stibor rates



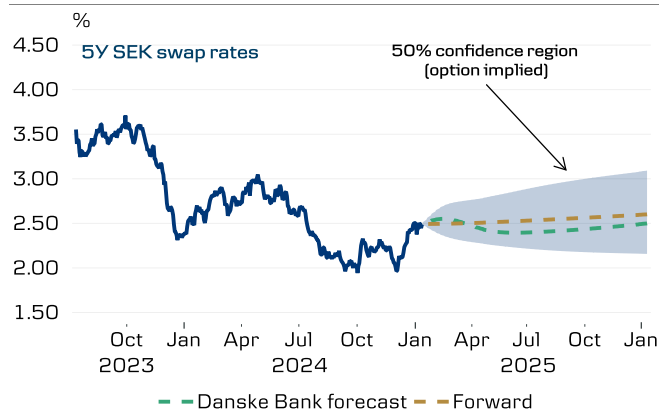
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y SEK swap rates



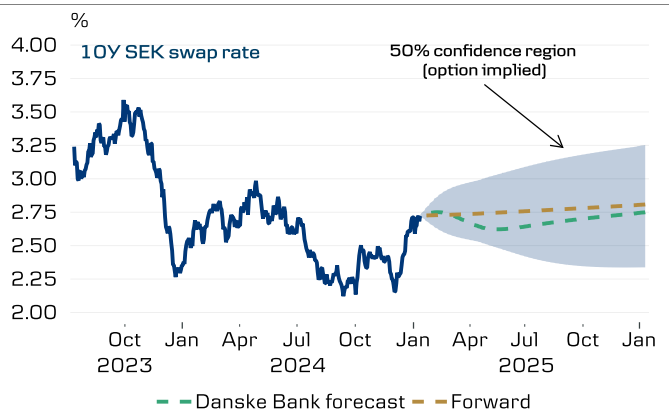
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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



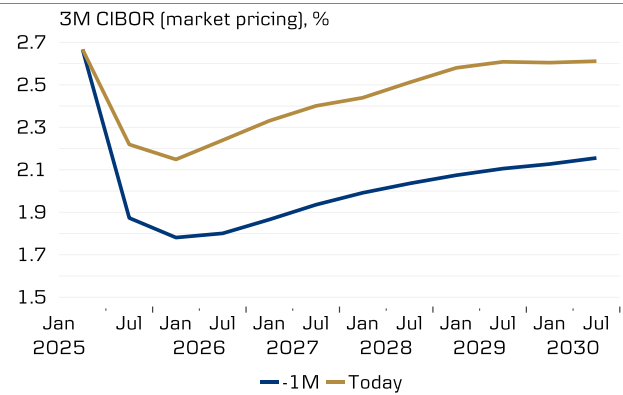
# DKK forecast

DKK forecast table

DKK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	2.75	2.25	1.75	1.25			
Deposit	2.60	2.10	1.60	1.10			
CIBOR (3M)	2.67	2.05	1.60	1.45	-31	-62	-70
CIBOR (6M)	2.71	1.95	1.65	1.55	-46	-62	-74
Government bonds							
2Y	1.99	1.85	1.55	1.25			
5Y	2.31	2.20	2.05	1.85			
10Y	2.30	2.25	2.10	2.00			
Swap rates							
2Y	2.46	2.30	2.00	1.70	-10	-40	-77
5Y	2.59	2.45	2.30	2.10	-13	-29	-54
10Y	2.69	2.55	2.40	2.25	-14	-29	-47

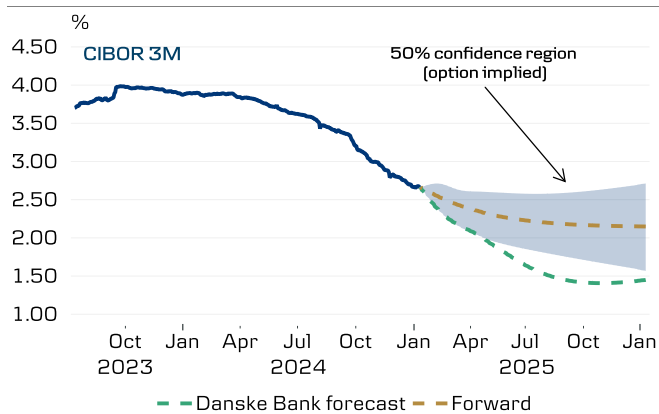
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

1M change in DKK swap (3M)



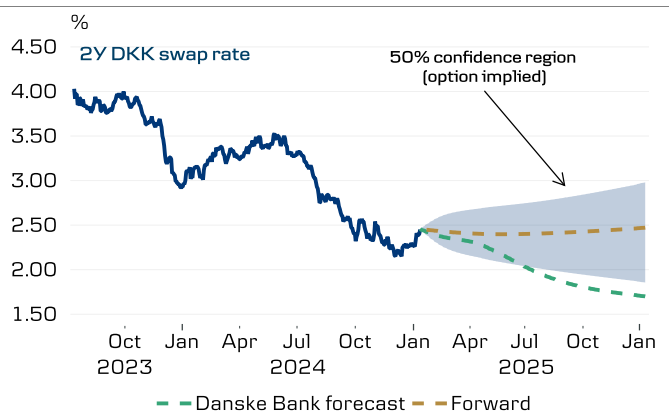
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

3M Cibor



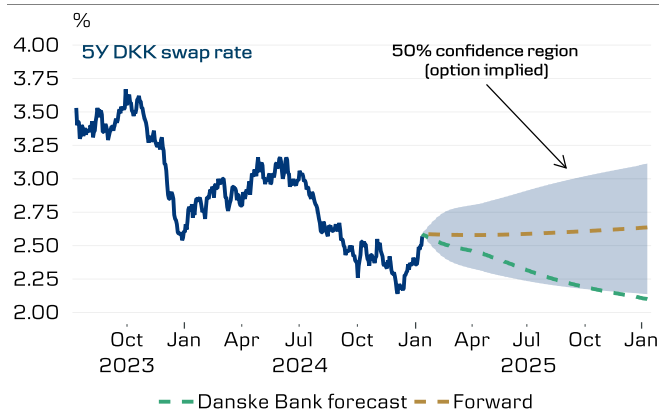
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y DKK swap rates



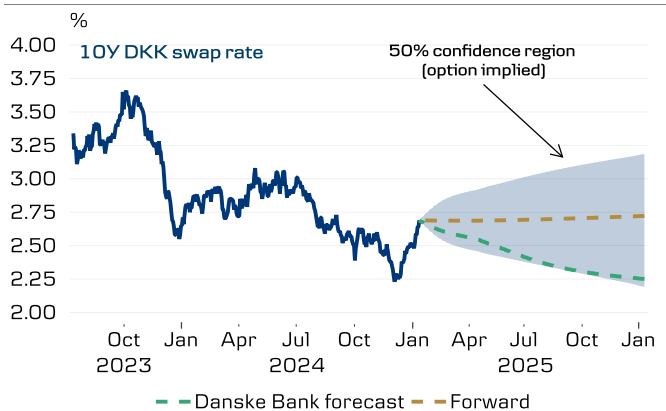
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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

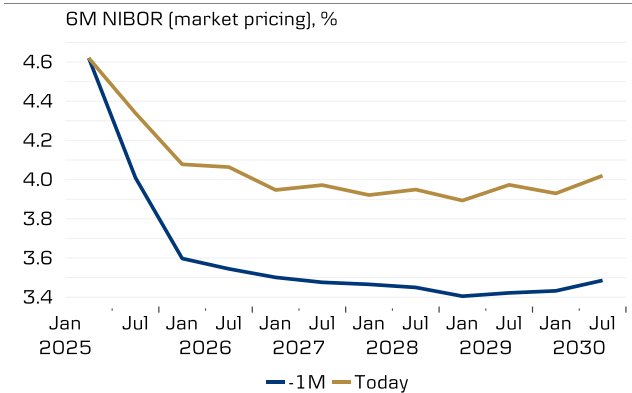
# NOK forecast

NOK forecast table

NOK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Deposit	4.50	4.25	4.00	3.50			
NIBOR (3M)	4.62	4.45	4.20	3.70	3	-8	-26
NIBOR (6M)	4.62	4.40	4.15	3.65	-8	-19	-43
Government bonds							
2Y	4.12	3.90	3.65	3.25			
5Y	3.98	3.75	3.60	3.25			
10Y	4.00	3.80	3.70	3.50			
Swap rates							
2Y	4.33	4.20	3.95	3.55	-2	-20	-50
5Y	4.13	3.95	3.80	3.45	-13	-25	-56
10Y	4.09	3.95	3.85	3.65	-12	-20	-38

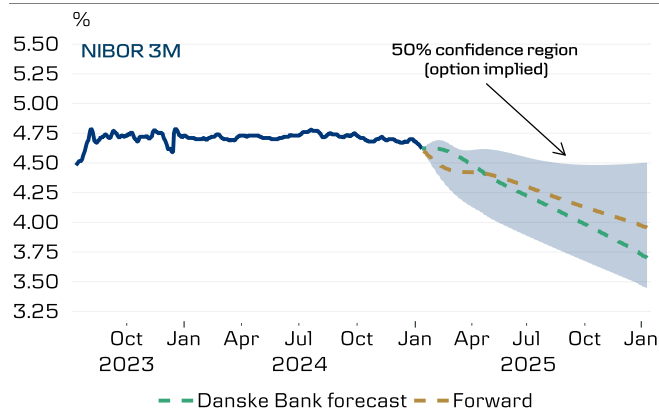
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

1M change in NOK swap (6M)



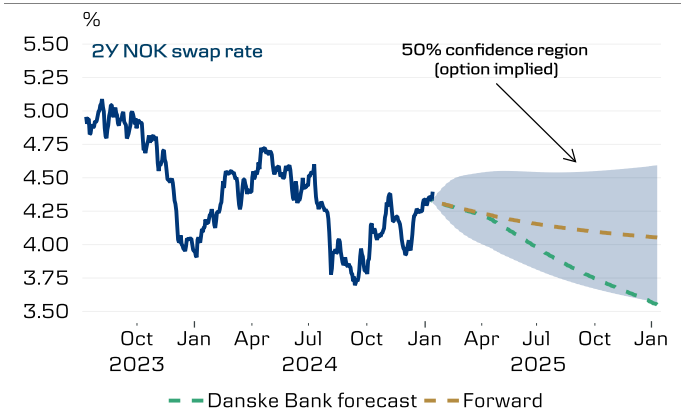
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

3M Nibor



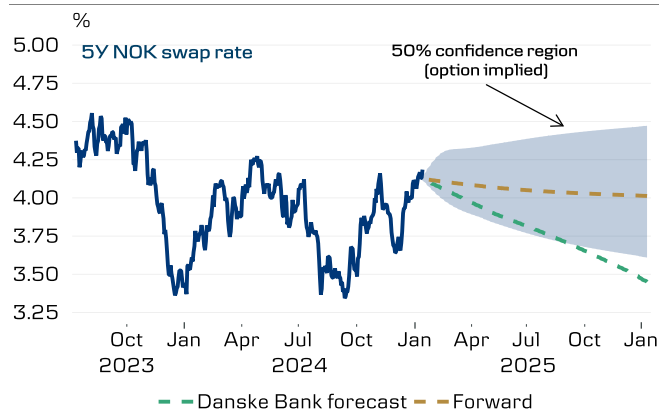
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

2Y NOK swap rate



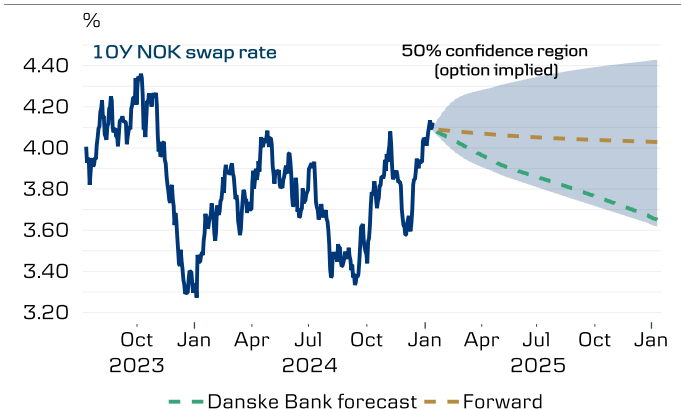
Note: Past performance is not a reliable guide to future returns  
Source: Danske Bank

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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