

Yield Outlook

Transatlantic decoupling but not for much longer

Fixed income markets continue to be characterised by large daily fluctuations, and the past month has been no exception. US rates rose noticeably in the wake of the elections in early November, but the reaction has gradually faded since then. At the time of writing, the 10-year US Treasury yield is trading very close to 4.25% - roughly the same level as before Election Day on 5 November. In contrast to the US, European rates have declined due to weak growth indicators, political uncertainty, and the threat of an imminent trade dispute with the US.

No market panic following the US election result

We had anticipated a greater impact in the wake of a 'Republican Sweep', but several factors have allowed for cautious optimism in the bond market. First and foremost, the Republicans' majority in the House of Representatives, one of the two chambers of Congress, appears to be razor-thin (220 against 214), which could hinder at least the most far-reaching fiscal proposals. Another factor is Trump's cabinet appointments, where, among others, the nomination of long-time Wall Street veteran and economist Scott Bessent as Treasury Secretary indicates that Trump is mindful of the financial side effects of his policies. However, many questions about next year's policies remain open, especially regarding trade policy, which is among the first areas where Republicans can deliver on election promises. Trump has already before his inauguration promised to raise tariffs on Canada, Mexico, and China, under the pretext of the US's problems with illegal imports of the opioid substance fentanyl. Rates markets seem prepared for such announcements, and the reaction has been subdued.

Until we have greater clarity on the political outlook, all focus in relation to US rates will be on the economic data, which since the beginning of October has consistently surprised to the upside. Concerns about the labour market's condition have moderated, clearly steering signals from the central bank's members towards a more patient approach to easing monetary policy. However, it is important to keep in mind that uncertainty about the US labour market has not disappeared, and in our view, it will keep the Fed on the easing track. We foresee the Fed delivering another rate cut of 0.25pp at the December meeting and five additional cuts of the same magnitude next year. Thus, by the end of 2025, the policy rate—the Fed Funds Rate—will be approximately 1.50pp lower than today. The market is expecting just 0.6pp over the same period.

The decline in European rates driven by several factors

In the Eurozone, rate developments during October have been the exact opposite of the US trend. Weak growth indicators in November and the threat from Trump's protectionist stance have intensified expectations that the ECB could shift to a higher gear in the normalisation of monetary policy at the December meeting. Currently, there is a significant 20% probability priced in that the rate cut could be as large as 0.50pp. In our view, the risk of this outcome is real, but for now, we maintain our expectation for the smaller reduction of 0.25pp. Much will depend on how the governing council views the risk outlook for inflation and growth in 2025 and 2026. Here, we assess that the arrow still points towards weak growth and a now more limited upward risk to inflation.

Shortcuts

Forecast Eurozone

Forecast US

Forecast UK

Forecast Denmark

Forecast Sweden

Forecast Norway

Central bank policy rates

Country	Spot	+3M	+6M	+12M
USD	4.75	4.25	3.75	3.25
EUR	3.25	2.75	2.25	1.50
GBP	4.75	4.50	4.00	3.25
DKK	2.85	2.35	1.85	1.10
SEK	2.75	2.25	2.00	1.75
NOK	4.50	4.50	4.25	3.75

10Y government bond yields

Country	Spot	+3M	+6M	+12M
USD	4.25	4.15	4.05	4.00
EUR	2.17	2.10	2.05	2.00
GBP	4.30	4.25	4.15	4.00
DKK	1.94	1.90	1.85	1.80
SEK	1.97	2.30	2.40	2.50
NOK	3.56	3.55	3.50	3.40

Note: EUR = Germany

10Y swap rates

Country	Spot	+3M	+6M	+12M
USD	3.78	3.65	3.55	3.50
EUR	2.23	2.25	2.20	2.15
GBP	3.85	3.75	3.65	3.50
DKK	2.35	2.35	2.30	2.25
SEK	2.24	2.40	2.55	2.65
NOK	3.62	3.65	3.60	3.50

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

Source: Danske Bank (all three tables)

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This provides greater flexibility to increase support for the economy and thus managing the risk that inflation could eventually stabilise below the target. We continue to see rate cuts of 0.25pp at each ECB meeting until September 2025, which would bring the deposit rate down from 3.25% today to 1.50%.

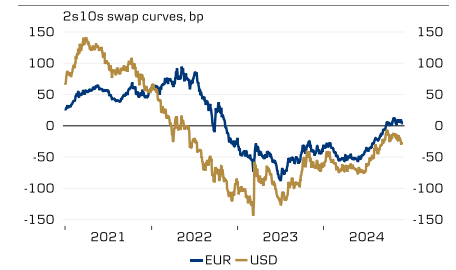
Political uncertainty in Europe is on the rise again.

The past month has seen increasing political uncertainty adding to the weak economic situation in Europe. The German government collapsed at the beginning of November due to escalating tensions between the Social Democrats (SPD) and the liberal FDP. The direction is pointing towards a new election at the beginning of 2025, which could very well leave Germany with another fragile government. In France, unrest concerning the country's government has also flared up again, and the newly appointed Prime Minister Barnier, who relies on fragile support in parliament, has yet to have his budget proposal for 2025 approved. Collectively, this leaves Europe's two largest economies with paralysed governments, which also contributes to reinforcing investors' sceptical view on the region.

No major changes in the forecast

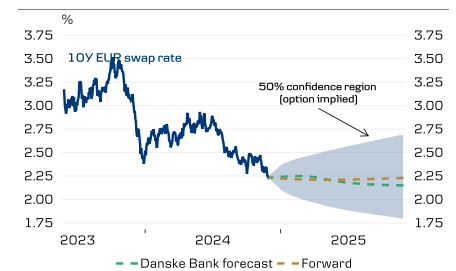
We maintain our expectation of lower rates across the curve over the next year. This is particularly true in the US, where, as mentioned, we see the market pricing in too few rate cuts in 2025. In the Eurozone, the significant decline in rates over the past month has brought the spot level for long swap rates close to our 12-month forecast, thus offering a very limited declining profile from here. From a hedging perspective, a surprising 0.5pp rate cut from the ECB in December could open up interesting opportunities, as the market is likely to increase the probability of more rate cuts of that size next year.

Curves have steepened since 2023



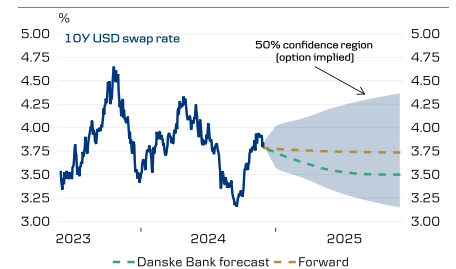
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Source: Macrobond Financial, Danske Bank

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



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Source: Danske Bank

Forecast*







	Horizon	Policy rate	3M xlbbr	6m xlbbr	2y gov	5y gov	10y gov	2y swap	5y swap	10y swap
USD**	Spot	4.75			4.2	4.12	4.25	4.03	3.81	3.78
	+3M	4.25			4.0	4.00	4.15	3.75	3.70	3.65
	+6M	3.75			3.7	3.80	4.05	3.45	3.50	3.55
	+12M	3.25			3.5	3.70	4.00	3.25	3.40	3.50
EUR*	Spot	3.25	2.91	2.69	2.03	2.02	2.17	2.19	2.16	2.23
	+3M	2.75	2.35	2.15	1.90	1.95	2.10	2.10	2.15	2.25
	+6M	2.25	1.90	1.80	1.70	1.85	2.05	1.90	2.05	2.20
	+12M	1.50	1.55	1.60	1.50	1.75	2.00	1.70	1.95	2.15
GBP**	Spot	4.75			4.31	4.18	4.30	4.17	3.90	3.85
	+3M	4.50			4.10	4.05	4.25	4.00	3.80	3.75
	+6M	4.00			3.90	3.95	4.15	3.85	3.70	3.65
	+12M	3.25			3.50	3.70	4.00	3.45	3.45	3.50
DKK	Spot	2.85	2.83	2.73	1.75	1.97	1.94	2.25	2.28	2.35
	+3M	2.35	2.25	2.15	1.65	1.90	1.90	2.15	2.25	2.35
	+6M	1.85	1.80	1.75	1.45	1.80	1.85	1.95	2.15	2.30
	+12M	1.10	1.45	1.55	1.25	1.70	1.80	1.75	2.05	2.25
SEK	Spot	2.75	2.56		1.65	1.75	1.97	1.98	2.05	2.24
	+3M	2.25	2.17		1.85	2.00	2.30	1.95	2.10	2.40
	+6M	2.00	1.92		1.90	2.20	2.40	2.00	2.30	2.55
	+12M	1.75	1.85		2.00	2.30	2.50	2.05	2.40	2.65
NOK	Spot	4.50	4.70	4.69	3.90	3.5	3.56	3.96	3.69	3.62
	+3M	4.50	4.55	4.50	3.85	3.5	3.55	3.95	3.70	3.65
	+6M	4.25	4.30	4.30	3.60	3.4	3.50	3.75	3.60	3.60
	+12M	3.75	3.80	3.80	3.20	3.2	3.40	3.35	3.40	3.50

* 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"> The labour market has reached a better balance, and inflation figures have been softer in recent months. The Fed's focus has shifted towards the risk of being too slow to ease. This strengthens the arguments for getting back to neutral. We expect rate cuts of 25bp at the upcoming meetings, but the probability of a more cautious easing has increased with the recent strengthening of data. We expect rates to decline across the curve over the next 12 months. 	<p>Swap rates (USD, SOFR), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>4.05</td> <td>3.25</td> <td>3.75</td> </tr> <tr> <td>5Y</td> <td>3.85</td> <td>3.40</td> <td>3.70</td> </tr> <tr> <td>10Y</td> <td>3.80</td> <td>3.45</td> <td>3.75</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	4.05	3.25	3.75	5Y	3.85	3.40	3.70	10Y	3.80	3.45	3.75
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5Y	3.85	3.40	3.70															
10Y	3.80	3.45	3.75															
	<ul style="list-style-type: none"> ECB delivered its third rate cut of 25bp in October, and we anticipate the next cut in December. Economic indicators in the Eurozone have noticeably weakened since spring, and inflation figures have also softened recently. We expect the ECB to cut by 175bp until September 2025, which will leave the depo rate at 1.5%. The market currently prices in an endpoint of 1.75%. We see long swap rates declining slightly over the next 12 months, but much has already materialized. 	<p>Swap rates (EUR, 6M Euribor), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.18</td> <td>1.75</td> <td>2.05</td> </tr> <tr> <td>5Y</td> <td>2.15</td> <td>1.95</td> <td>2.15</td> </tr> <tr> <td>10Y</td> <td>2.20</td> <td>2.15</td> <td>2.25</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.18	1.75	2.05	5Y	2.15	1.95	2.15	10Y	2.20	2.15	2.25
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5Y	2.15	1.95	2.15															
10Y	2.20	2.15	2.25															
	<ul style="list-style-type: none"> 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 near future. Thus, the Danish central bank will continue to match the ECB's moves 1:1. The EUR/DKK has fallen since the summer (currently at 7.4583), but we are still far from previous intervention levels. The Danish swap curve (10Y – 2Y) is no longer inverted, and we expect to see further steepening over the coming year. Long-term interest rates are expected to move slightly lower the next year. 	<p>Swap rates (DKK, 6M CIBOR), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.25</td> <td>1.75</td> <td>2.15</td> </tr> <tr> <td>5Y</td> <td>2.28</td> <td>2.00</td> <td>2.25</td> </tr> <tr> <td>10Y</td> <td>2.35</td> <td>2.25</td> <td>2.35</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.25	1.75	2.15	5Y	2.28	2.00	2.25	10Y	2.35	2.25	2.35
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5Y	2.28	2.00	2.25															
10Y	2.35	2.25	2.35															
	<ul style="list-style-type: none"> In November, the Bank of England (BOE) delivered its second rate cut, but the central bank still emphasises the risk of potential increases in inflation. Wage growth remains too high, while recent growth signals have softened. The Labour government's plans to ease fiscal policy could also influence the pace of cuts. We expect the BOE to cut by a total of 150bp by the end of 2025 relative to today, bringing the rate to 3.25% at that time. We expect the next rate cut of 25bp to be in February 2025. 	<p>Swap rates (GBP, SONIA), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>4.15</td> <td>3.45</td> <td>3.85</td> </tr> <tr> <td>5Y</td> <td>3.90</td> <td>3.50</td> <td>3.75</td> </tr> <tr> <td>10Y</td> <td>3.85</td> <td>3.55</td> <td>3.80</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	4.15	3.45	3.85	5Y	3.90	3.50	3.75	10Y	3.85	3.55	3.80
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5Y	3.90	3.50	3.75															
10Y	3.85	3.55	3.80															
	<ul style="list-style-type: none"> Recent growth indicators from Sweden have been weak, and in line with expectations, the Riksbank implemented a substantial rate cut of 50bp at the November meeting. We forecast that the repo rate, presently at 2.75%, will be lowered by an additional 100bp next year, settling at 1.75% by June 2025. Over the next year, we expect long-term rates and a widening of spreads relative to EUR rates. This is partially due to an increased issuance of long SEK government bonds and the Riksbank's reduction of its balance sheet. 	<p>Swap rates (SEK, STIBOR 3M), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>2.00</td> <td>1.95</td> <td>1.95</td> </tr> <tr> <td>5Y</td> <td>2.05</td> <td>2.35</td> <td>2.15</td> </tr> <tr> <td>10Y</td> <td>2.20</td> <td>2.65</td> <td>2.25</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	2.00	1.95	1.95	5Y	2.05	2.35	2.15	10Y	2.20	2.65	2.25
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2Y	2.00	1.95	1.95															
5Y	2.05	2.35	2.15															
10Y	2.20	2.65	2.25															
	<ul style="list-style-type: none"> Growth signals are improving while inflation in key components is softening. At its November meeting, Norges Bank indicated that the first rate cut of 25 basis points is expected in March 2025. However, there appears to be a risk of an earlier start, particularly related to the potential for NOK to experience appreciation pressure as the ECB/Fed ease policy. Our projection for Norwegian interest rates is below market pricing following corrections in recent months. The forward curve remains notably flat on a 5- to 10-year horizon. 	<p>Swap rates (NOK, NIBOR 6M), %</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Today</th> <th>Danske Bank (+12M)</th> <th>Forward (+12M)</th> </tr> </thead> <tbody> <tr> <td>2Y</td> <td>3.95</td> <td>3.35</td> <td>3.55</td> </tr> <tr> <td>5Y</td> <td>3.70</td> <td>3.40</td> <td>3.50</td> </tr> <tr> <td>10Y</td> <td>3.65</td> <td>3.45</td> <td>3.55</td> </tr> </tbody> </table>	Term	Today	Danske Bank (+12M)	Forward (+12M)	2Y	3.95	3.35	3.55	5Y	3.70	3.40	3.50	10Y	3.65	3.45	3.55
Term	Today	Danske Bank (+12M)	Forward (+12M)															
2Y	3.95	3.35	3.55															
5Y	3.70	3.40	3.50															
10Y	3.65	3.45	3.55															

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

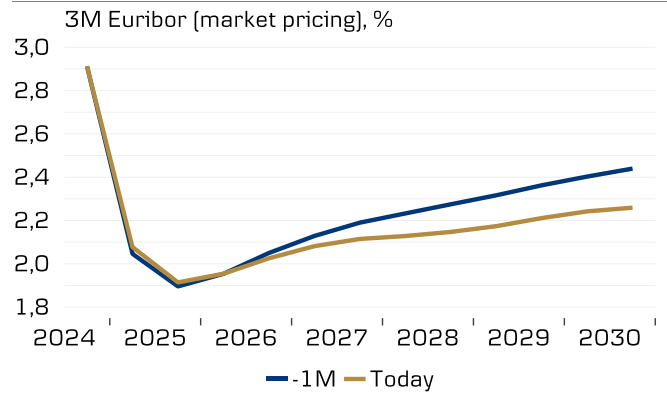
EUR forecast

EUR forecast table

EUR	Spot	--Forecast--			--Fcast vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Deposit	3.25	2.75	2.25	1.50			
Euribor (3M)	2.91	2.35	1.90	1.55	5	-17	-35
Euribor (6M)	2.69	2.15	1.80	1.60	-10	-27	-33
Government bonds							
2Y	2.03	1.90	1.70	1.50			
5Y	2.02	1.95	1.85	1.75			
10Y	2.17	2.10	2.05	2.00			
Swap rates							
2Y	2.19	2.10	1.90	1.70	3	-12	-34
5Y	2.16	2.15	2.05	1.95	3	-6	-18
10Y	2.23	2.25	2.20	2.15	4	-1	-8

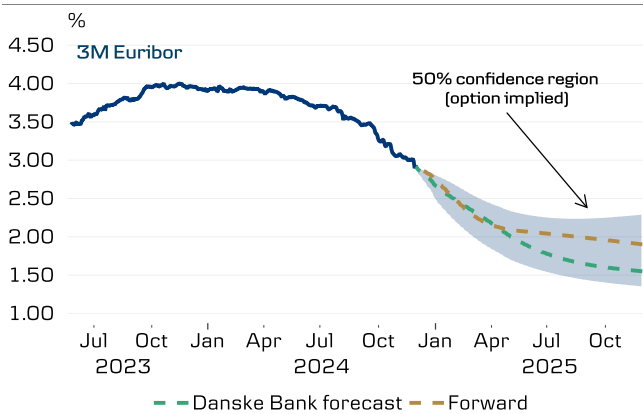
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Source: Danske Bank

1M change in Euribor 3M forward curve



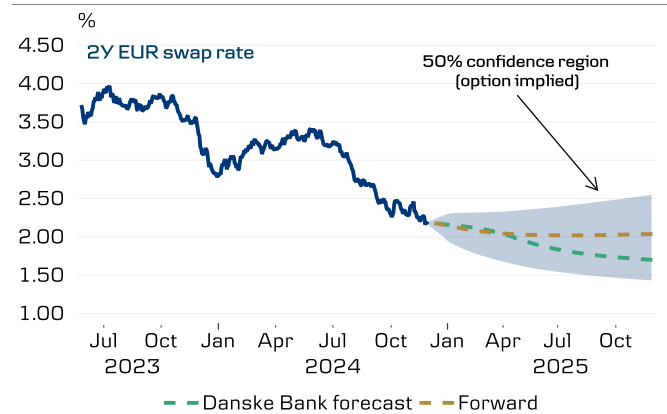
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3M Euribor



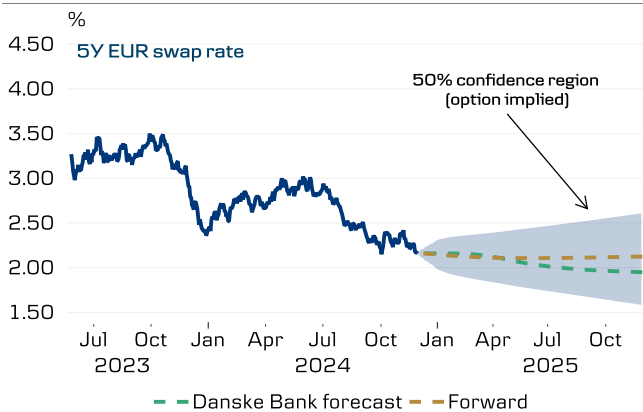
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2Y EUR swap rates



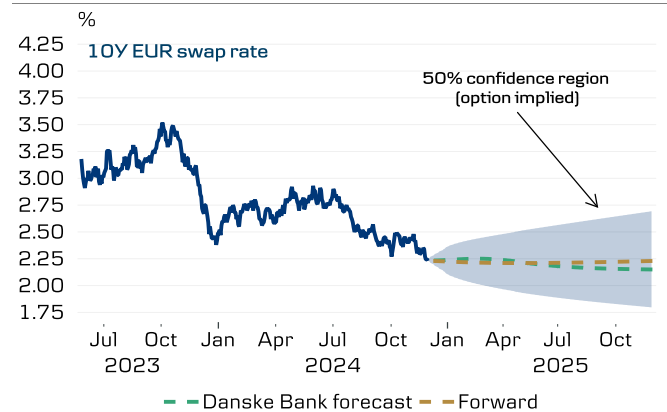
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Source: Danske Bank

5Y EUR swap rates



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

10Y EUR swap rates



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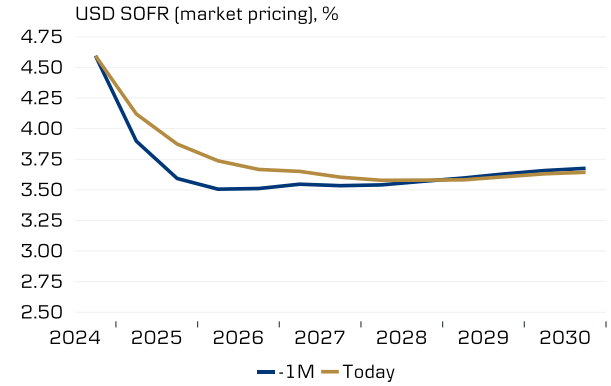
USD forecast

USD forecast table

USD	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Fed Funds	4.75	4.25	3.75	3.25			
SOFR	4.58	4.05	3.55	3.05	-32	-59	-82
Government bonds							
2Y	4.20	4.00	3.70	3.50			
5Y	4.12	4.00	3.80	3.70			
10Y	4.25	4.15	4.05	4.00			
Swap rates							
2Y	4.03	3.75	3.45	3.25	-18	-40	-50
5Y	3.81	3.70	3.50	3.40	-6	-23	-29
10Y	3.78	3.65	3.55	3.50	-11	-20	-23

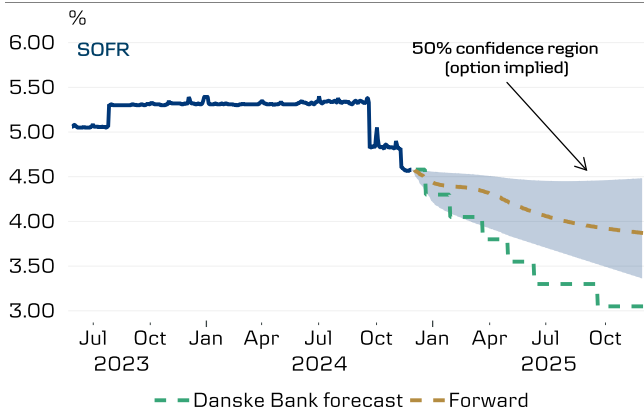
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Source: Danske Bank

1M change in USD SOFR forward curve



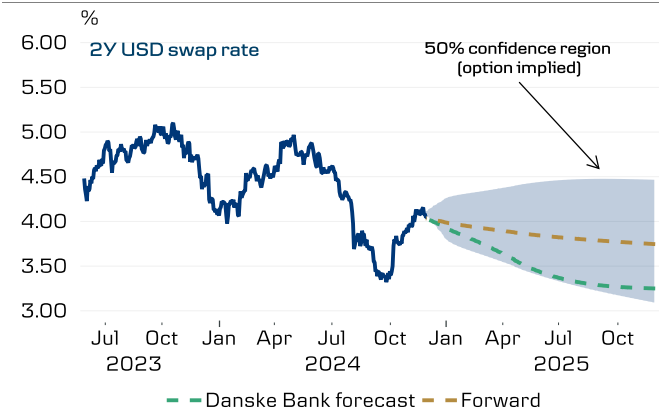
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SOFR rates



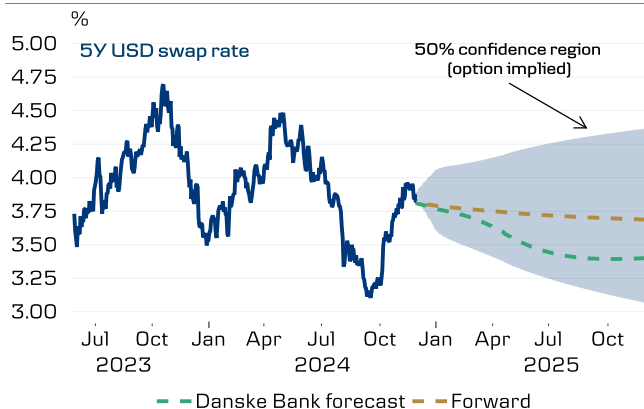
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2Y USD swap rates



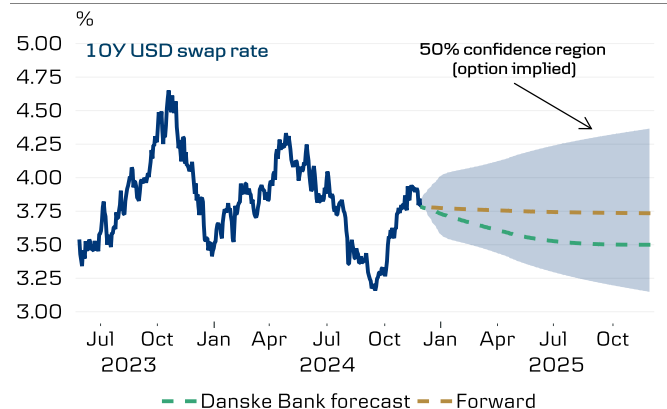
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5Y USD swap rates



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10Y USD swap rates



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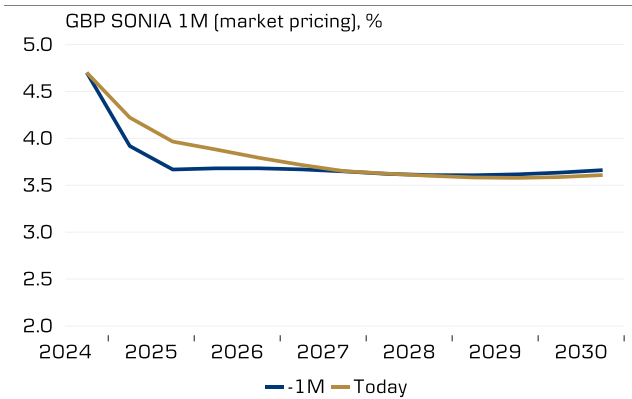
GBP forecast

GBP forecast table

GBP	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Bank rate	4.75	4.50	4.00	3.25			
SONIA (1M)	4.70	4.33	3.84	3.20	-13	-38	-75
Government bonds							
2Y	4.31	4.10	3.90	3.50			
5Y	4.18	4.05	3.95	3.70			
10Y	4.30	4.25	4.15	4.00			
Swap rates							
2Y	4.17	4.00	3.85	3.45	-5	-12	-41
5Y	3.90	3.80	3.70	3.45	-4	-10	-29
10Y	3.85	3.75	3.65	3.50	-7	-16	-30

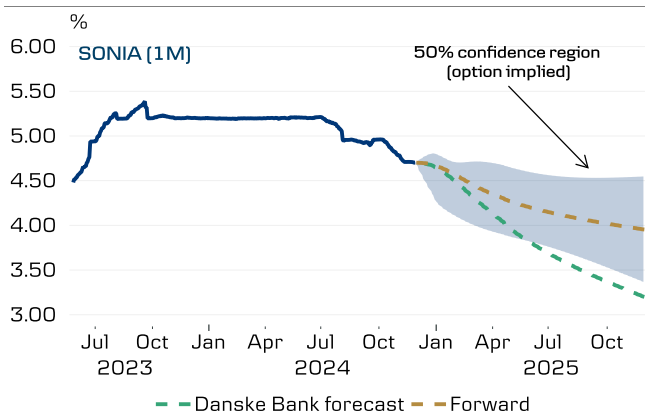
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Source: Danske Bank

1M change in SONIA 1M forward curve



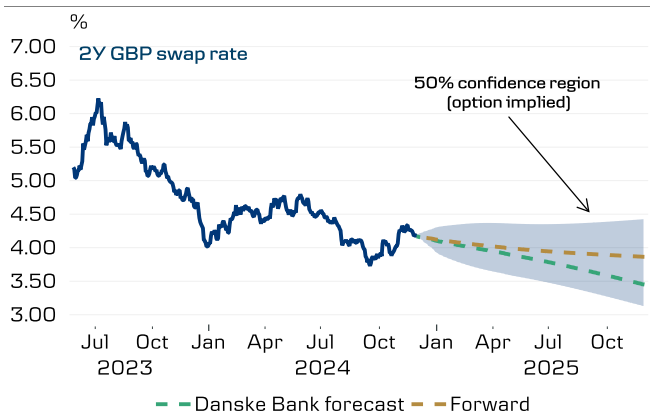
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

SONIA (1M)



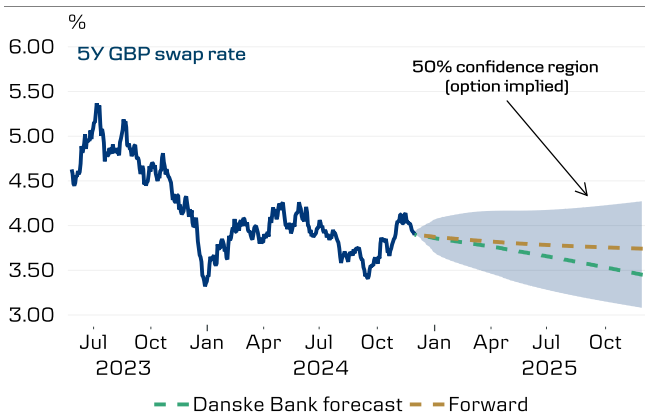
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y UK swap rates



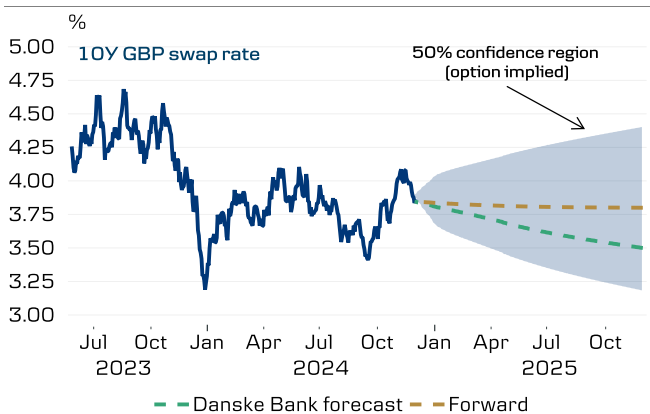
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

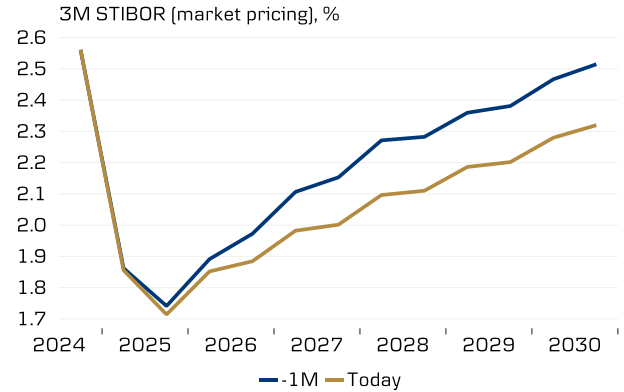
SEK forecast

SEK forecast table

SEK	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	2.75	2.25	2.00	1.75			
STIBOR (3M)	2.56	2.17	1.92	1.85	8	7	14
Government bonds							
2Y	1.65	1.85	1.90	2.00			
5Y	1.75	2.00	2.20	2.30			
10Y	1.97	2.30	2.40	2.50			
Swap rates							
2Y	1.98	1.95	2.00	2.05	6	13	13
5Y	2.05	2.10	2.30	2.40	7	26	31
10Y	2.24	2.40	2.55	2.65	16	30	36

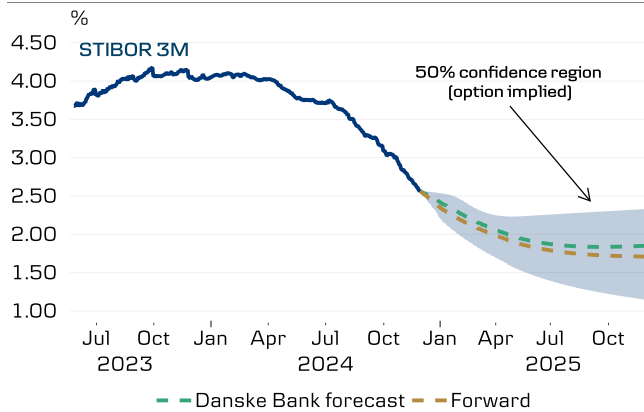
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in STIBOR3M forward curve



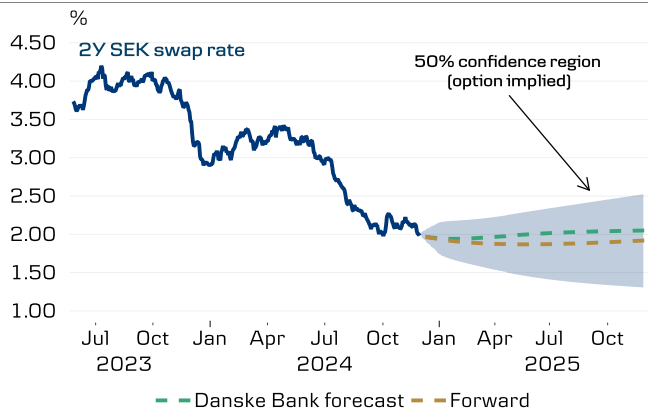
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Stibor rates



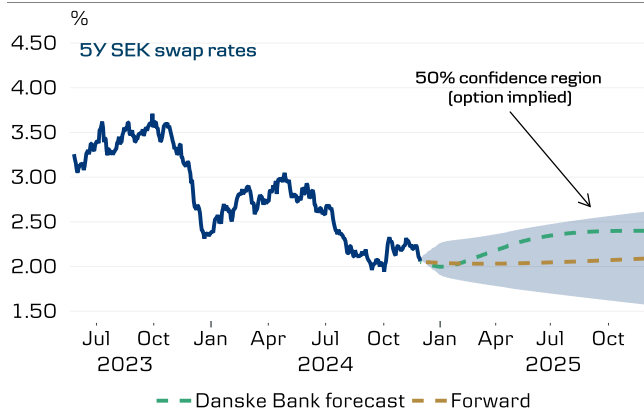
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y SEK swap rates



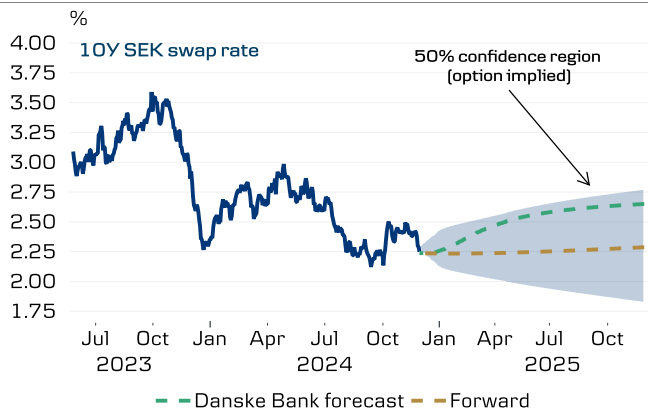
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

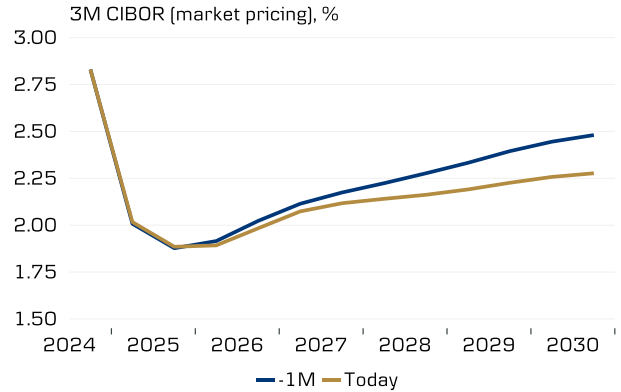
DKK forecast

DKK forecast table

DKK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	3.00	2.50	2.00	1.25			
Deposit	2.85	2.35	1.85	1.10			
CIBOR (3M)	2.83	2.25	1.80	1.45	-2	-21	-42
CIBOR (6M)	2.73	2.15	1.75	1.55	-9	-31	-44
Government bonds							
2Y	1.75	1.65	1.45	1.25			
5Y	1.97	1.90	1.80	1.70			
10Y	1.94	1.90	1.85	1.80			
Swap rates							
2Y	2.25	2.15	1.95	1.75	2	-15	-39
5Y	2.28	2.25	2.15	2.05	1	-9	-22
10Y	2.35	2.35	2.30	2.25	1	-4	-11

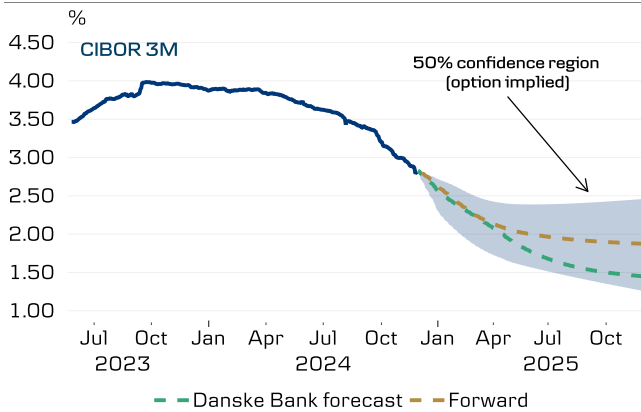
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in DKK swap (3M)



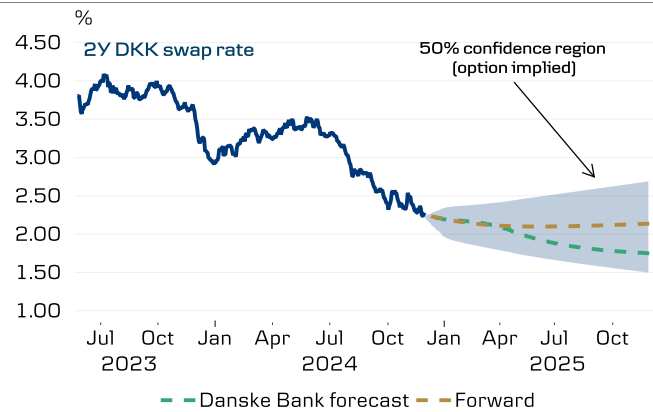
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M CIBOR



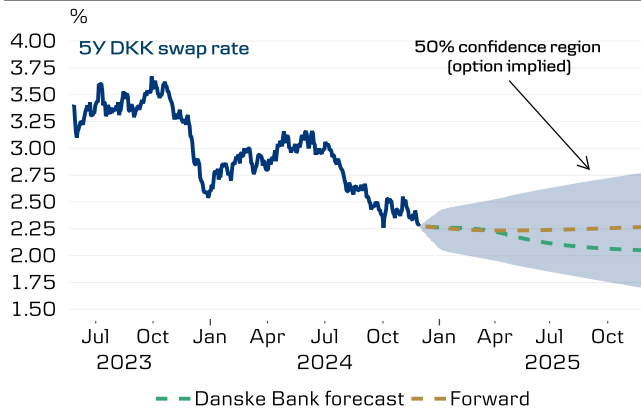
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y DKK swap rates



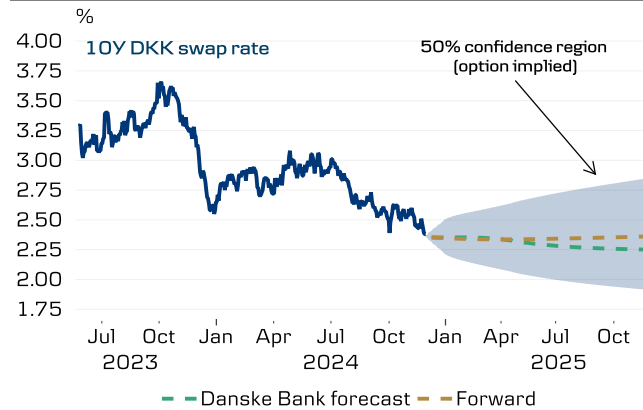
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

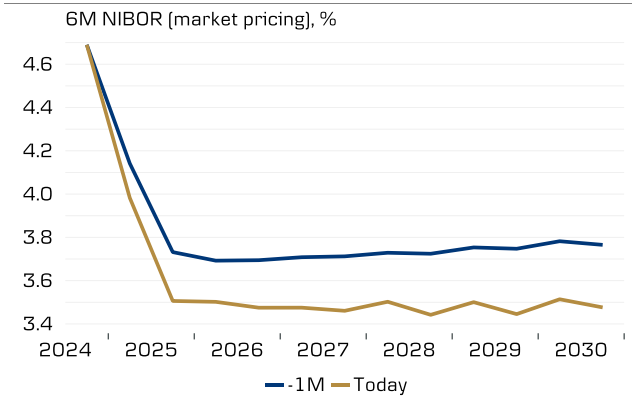
NOK forecast

NOK forecast table

NOK	Spot	--Forecast--			--Fcast vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Deposit	4.50	4.50	4.25	3.75			
NIBOR (3M)	4.70	4.55	4.30	3.80	23	27	33
NIBOR (6M)	4.69	4.50	4.30	3.80	19	32	30
Government bonds							
2Y	3.90	3.85	3.60	3.20			
5Y	3.50	3.50	3.40	3.20			
10Y	3.56	3.55	3.50	3.40			
Swap rates							
2Y	3.96	3.95	3.75	3.35	17	11	-16
5Y	3.69	3.70	3.60	3.40	9	5	-10
10Y	3.62	3.65	3.60	3.50	7	5	-2

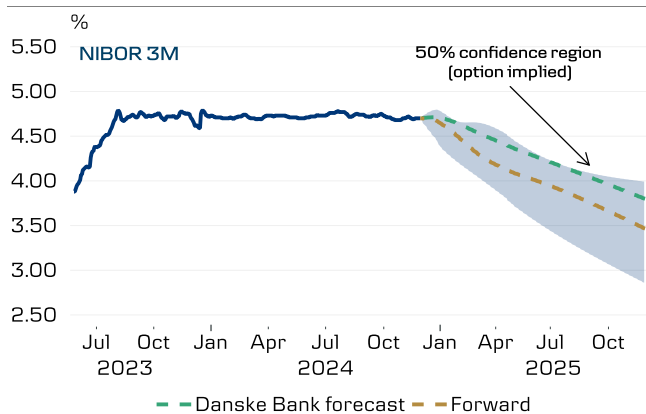
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in NOK swap (6M)



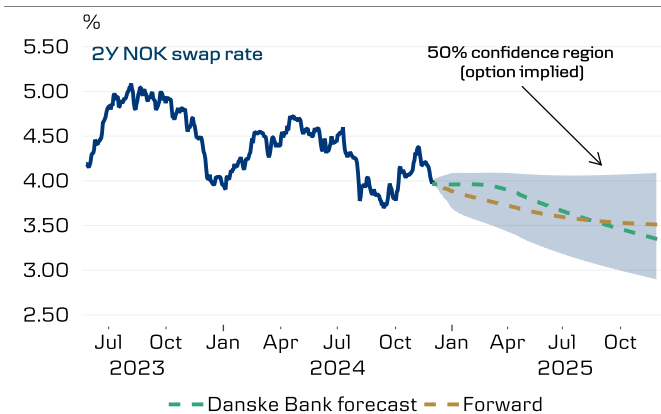
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Nibor



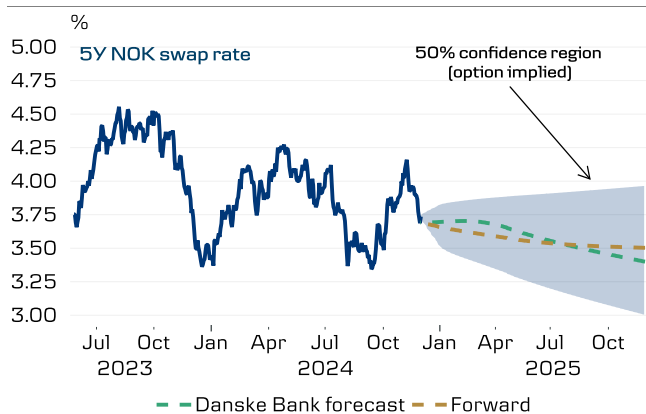
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y NOK swap rate



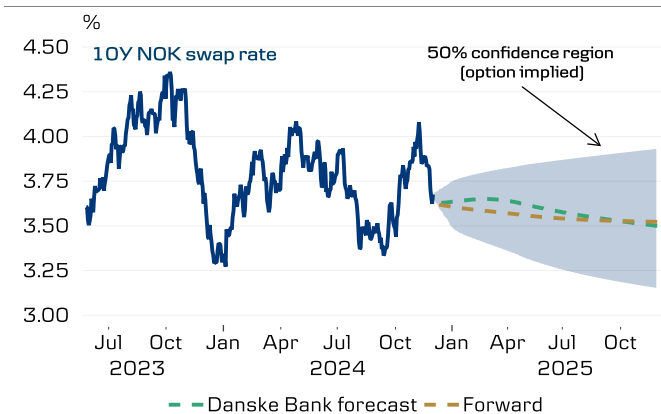
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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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