

Yield Outlook

A new phase for monetary policy – but only in the US

The direction of global yields has shifted in recent weeks following significant declines towards the end of November. Improvement in key data across the US and the Eurozone has been crucial, while signals from the Federal Reserve indicate that monetary policy normalization is set to slow. Our view remains that the path to 'normal' rate levels will be shorter than the market anticipates, but many uncertainties—partly related to the political shift in the US—contribute to a wide range of outcomes. As for the Eurozone, we still assess that the economic weakness will trigger additional cuts from the ECB worth 25bp at every meeting until Q3 25. The hawkish shift from the Fed in December will not change this.

This is the last edition of Yield Outlook in 2024. The editorial team wishes our readers a Merry Christmas and a happy and prosperous New Year.

Federal Reserve has entered a 'new phase for monetary policy'

The December Federal Reserve (Fed) meeting resulted, as expected, in a rate cut of 25bp. However, the signals clearly indicated that the normalization of monetary policy from here will proceed more gradually: 'A new phase for monetary policy'. The shift was motivated by a higher estimate for core inflation in 2025-26, while the majority now see the inflation risk—partly due to Trump's political plans—as being on the upside. This assessment stands in stark contrast to the latest forecast from September, when the main concern in the monetary policy committee (FOMC) was the rapid softening of the US labour market. In our view, that uncertainty has not disappeared, even though data towards the end of the year have clearly improved. Following the hawkish signals from the Fed, we have adjusted our forecast towards a more gradual rate cutting profile, albeit with the same endpoint. Thus, we now expect quarterly cuts of 25bp until March 2026, when the Fed Funds rate will reach its terminal level of 3-3.25%. Previously, we expected this level to be reached in September 2025. Our rate forecast, however, remains significantly below the market's, which today only discounts rate cuts worth 30bp in total towards the end of 2025. In our view, this leaves market rates highly sensitive to softer growth and inflation data.

The hawks' grip on ECB policy will loosen in 2025

At the ECB, the basis for economic thinking is somewhat different from that in the US. Growth in the Eurozone has been clearly weak in the second half of the year, and simultaneously, inflationary pressure across targets continues to fade. At the ECB meeting in December, this development was clearly reflected, in our view, in ECB President Lagarde's communication, which was softer on most points than before. Nonetheless, it is evident that parts of the governing council's optimism about the economic outlook and continued concern about inflation still have a significant voice in the ECB. The market had expected softer signals, and since the meeting, European and Danish interest rates across the curve have moved higher. Contributing to this movement have also been the slightly improved growth signals in the PMI figures for December, which do not change the fact that the European economy still appears very fragile after a long period of weak growth. This is evident in areas such as the labour market in larger economies like Germany, which in recent quarters has shown higher unemployment and fewer job postings.

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	2.50	2.00	2.00
NOK	4.50	4.25	4.00	3.50

10Y government bond yields

Country	Spot	+3M	+6M	+12M
USD	4.55	4.40	4.30	4.20
EUR	2.30	2.10	2.05	2.00
GBP	4.58	4.45	4.35	4.10
DKK	2.03	1.90	1.85	1.80
SEK	2.28	2.40	2.50	2.60
NOK	3.76	3.70	3.60	3.50

Note: EUR = Germany

10Y swap rates

Country	Spot	+3M	+6M	+12M
USD	4.06	3.90	3.80	3.70
EUR	2.31	2.25	2.20	2.15
GBP	4.09	3.95	3.85	3.60
DKK	2.44	2.35	2.30	2.25
SEK	2.56	2.50	2.60	2.75
NOK	3.92	3.80	3.70	3.60

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

Source: Danske Bank (all three tables)

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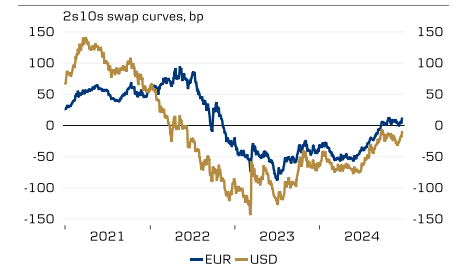
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We expect that the downside risk to growth will become more significant for the ECB's course in 2025, and therefore see the central bank continuing to cut rates by 25bp at each meeting until September 2025. A slower pace of the Fed's monetary policy adjustment will not change this, even though the recent strong strengthening of the dollar may lead to slightly higher European inflation next year.

Revising our USD rate forecasts higher, while leaving EUR unchanged

As a result of the changed Fed profile, we have adjusted our expectations for market interest rates in the US. Our 12M forecast for the 10Y US Treasury yield is thus raised from 4.00% to 4.20%, while the target for the equivalent 2Y yield is increased from 3.50% to 3.75%. Despite the upward revision, our new forecast still implies significant interest rate declines over the next year, as we, relative to the market, (1) continue to anticipate faster rate cuts and (2) foresee a significantly lower endpoint for the Fed Funds rate than the priced-in 3.75-4.00%. The change in the US rate profile results in a slightly higher profile for long Norwegian rates, where the connection to the US market is strongest, while we keep the target for the 10Y German yield unchanged at 2% compared to the current level of 2.30%.

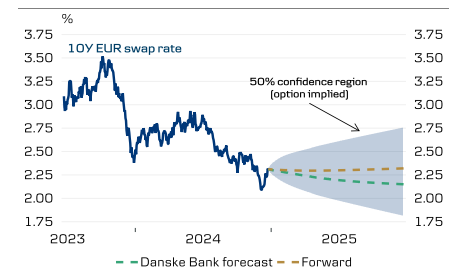
Curves have steepened since 2023



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

Source: Macrobond Financial, Danske Bank

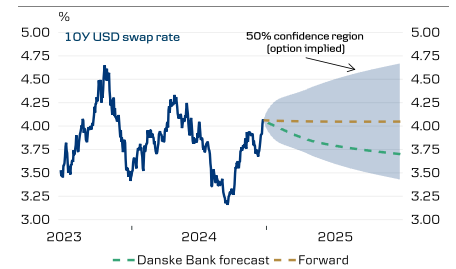
Forecast: 10Y EUR swap rates



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

Forecast*


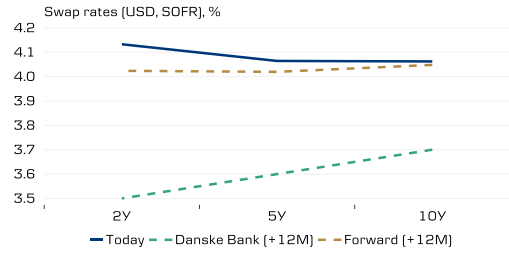

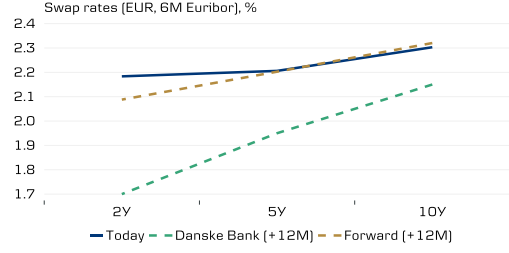

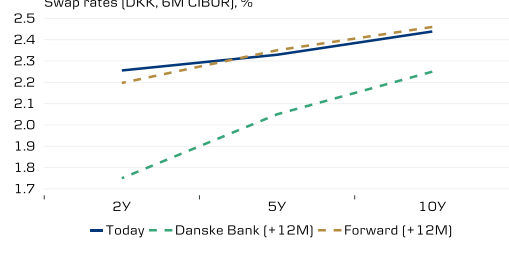

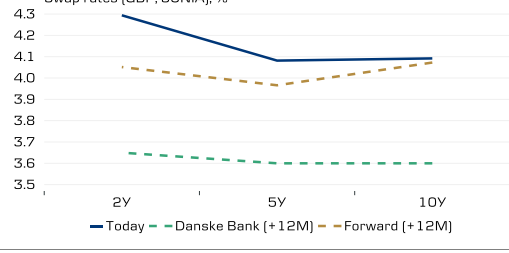

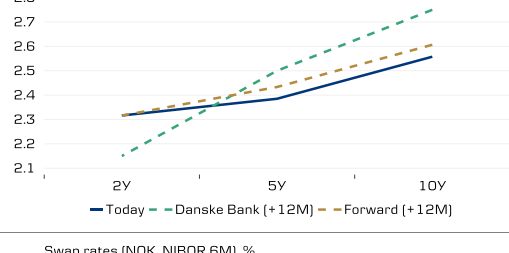

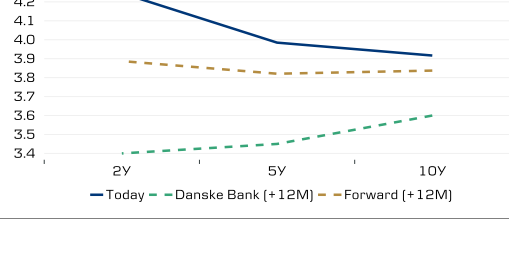
	Horizon	Policy rate	3M xlbbr	6m xlbbr	2y gov	5y gov	10y gov	2y swap	5y swap	10y swap
USD**	Spot	4.50			4.29	4.39	4.55	4.13	4.06	4.06
	+3M	4.25			4.15	4.25	4.40	3.90	3.95	3.90
	+6M	4.00			3.90	4.10	4.30	3.65	3.80	3.80
	+12M	3.50			3.75	3.90	4.20	3.50	3.60	3.70
EUR*	Spot	3.00	2.84	2.64	2.03	2.10	2.30	2.2	2.22	2.31
	+3M	2.50	2.24	2.05	1.90	1.95	2.10	2.1	2.15	2.25
	+6M	2.00	1.80	1.70	1.70	1.85	2.05	1.9	2.05	2.20
	+12M	1.50	1.55	1.60	1.50	1.75	2.00	1.7	1.95	2.15
GBP**	Spot	4.75			4.42	4.37	4.58	4.29	4.08	4.09
	+3M	4.50			4.25	4.25	4.45	4.15	4.00	3.95
	+6M	4.25			4.05	4.10	4.35	3.95	3.85	3.85
	+12M	3.75			3.75	3.85	4.10	3.65	3.60	3.60
DKK	Spot	2.60	2.72	2.67	1.70	2.02	2.03	2.26	2.33	2.44
	+3M	2.10	2.14	2.05	1.65	1.90	1.90	2.15	2.25	2.35
	+6M	1.60	1.70	1.70	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	2.50	2.54		2.0	2.07	2.28	2.32	2.38	2.56
	+3M	2.50	2.34		2.0	2.20	2.40	2.10	2.35	2.50
	+6M	2.00	2.09		2.0	2.30	2.50	2.10	2.40	2.60
	+12M	2.00	2.10		2.1	2.40	2.60	2.15	2.50	2.75
NOK	Spot	4.50	4.68	4.68	4.02	3.73	3.76	4.25	3.98	3.92
	+3M	4.25	4.45	4.45	3.90	3.60	3.70	4.00	3.80	3.80
	+6M	4.00	4.20	4.20	3.65	3.40	3.60	3.80	3.60	3.70
	+12M	3.50	3.70	3.70	3.25	3.25	3.50	3.40	3.45	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"> 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. 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 1-2 cuts. Our baseline is that inflationary pressures will continue to ease. We foresee rate declines across the curve over the next year. 	<p>Swap rates (USD, SOFR), %</p> 
	<ul style="list-style-type: none"> 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 recently. We expect the ECB to cut rates by 150bp until September 2025, which will leave the deposit rate at 1.5%. The market today prices in an endpoint of 1.75%. We expect long swap rates to fall slightly, but much has already materialised. 	<p>Swap rates (EUR, 6M Euribor), %</p> 
	<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 7.4593), 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 rates are expected to move slightly lower the next year. 	<p>Swap rates (DKK, 6M CIBOR), %</p> 
	<ul style="list-style-type: none"> The Bank of England (BOE) chose, as expected, to keep the rate unchanged at 4.5% in December, but as many as three out of nine 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. We expect the BOE to cut rates by a total of 100bp until 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. 	<p>Swap rates (GBP, SONIA), %</p> 
	<ul style="list-style-type: none"> 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%. 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. 	<p>Swap rates (SEK, STIBOR 3M), %</p> 
	<ul style="list-style-type: none"> 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. 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. 	<p>Swap rates (NOK, NIBOR 6M), %</p> 

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

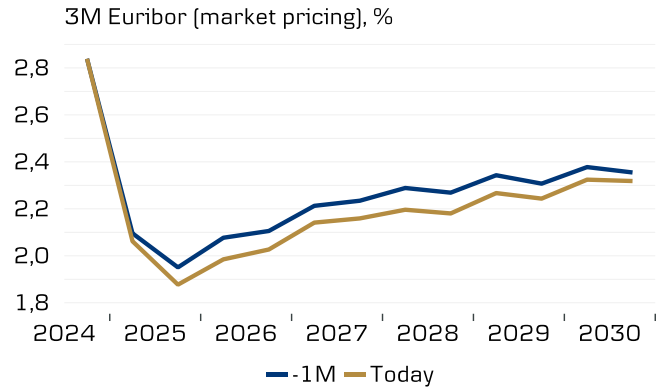
EUR forecast

EUR forecast table

EUR	Spot	--Forecast--			--Fest vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Deposit	3.00	2.50	2.00	1.50			
Euribor (3M)	2.84	2.24	1.80	1.55	-7	-26	-33
Euribor (6M)	2.64	2.05	1.70	1.60	-20	-36	-37
Government bonds							
2Y	2.03	1.90	1.70	1.50			
5Y	2.10	1.95	1.85	1.75			
10Y	2.30	2.10	2.05	2.00			
Swap rates							
2Y	2.20	2.10	1.90	1.70	1	-16	-39
5Y	2.22	2.15	2.05	1.95	-3	-12	-25
10Y	2.31	2.25	2.20	2.15	-5	-10	-17

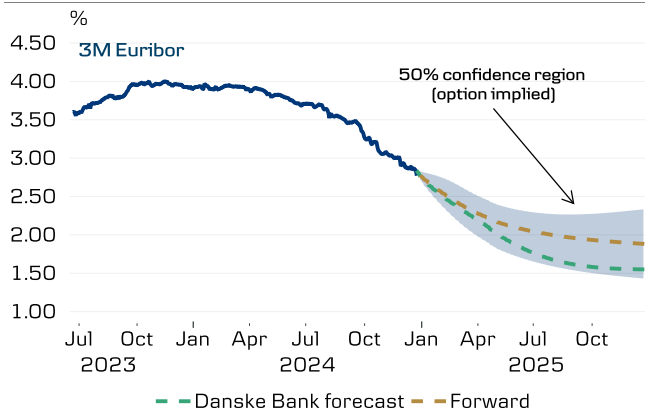
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Source: Danske Bank

1M change in Euribor 3M forward curve



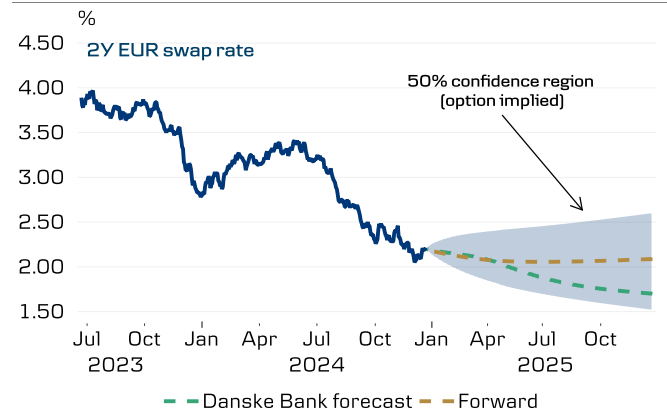
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Euribor



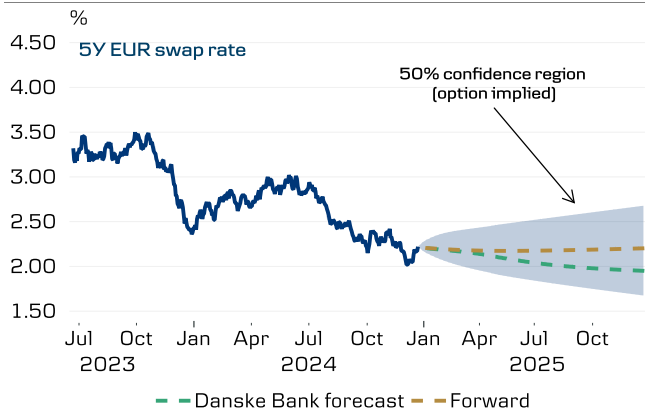
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Source: Danske Bank

2Y EUR swap rates



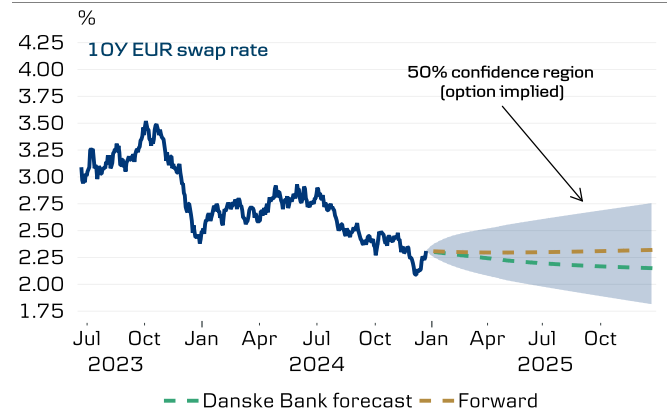
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

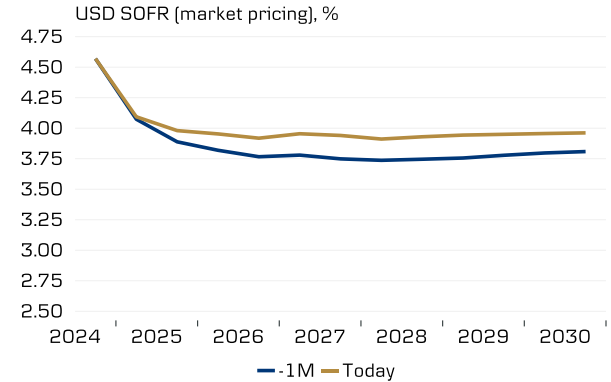
USD forecast

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	-14	-29	-68
Government bonds							
2Y	4.29	4.15	3.90	3.75			
5Y	4.39	4.25	4.10	3.90			
10Y	4.55	4.40	4.30	4.20			
Swap rates							
2Y	4.13	3.90	3.65	3.50	-17	-40	-52
5Y	4.06	3.95	3.80	3.60	-9	-23	-42
10Y	4.06	3.90	3.80	3.70	-15	-25	-35

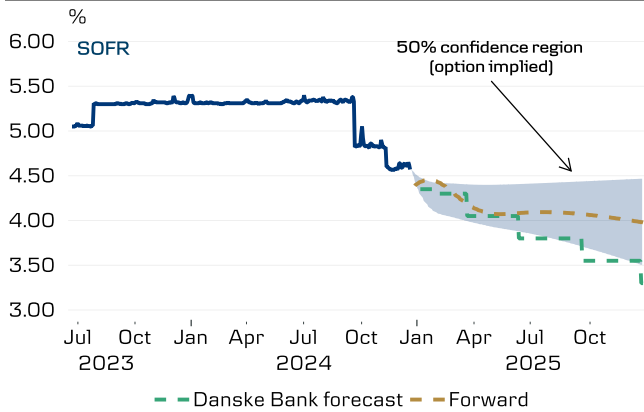
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in USD SOFR forward curve



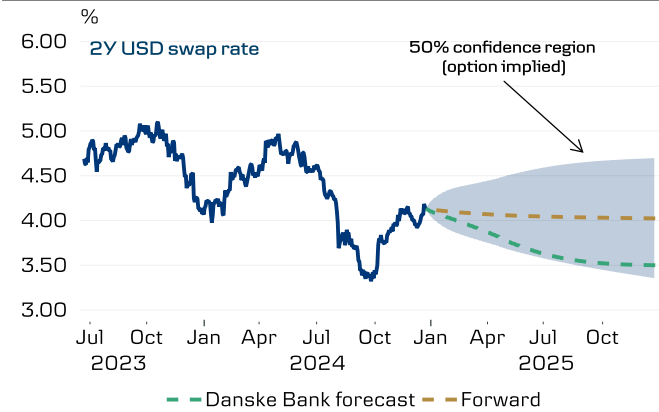
Note: Past performance is not a reliable guide to future returns Source: Danske Bank

SOFR rates



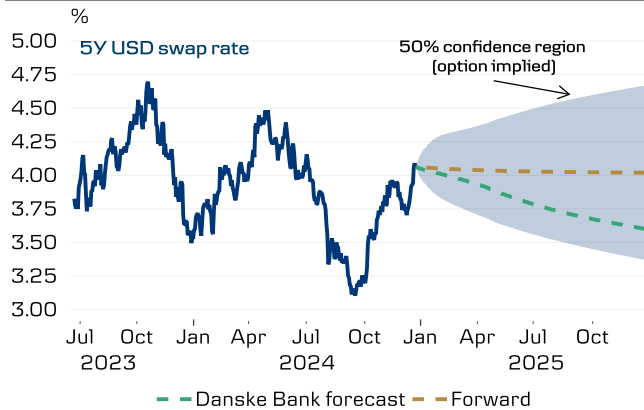
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y USD swap rates



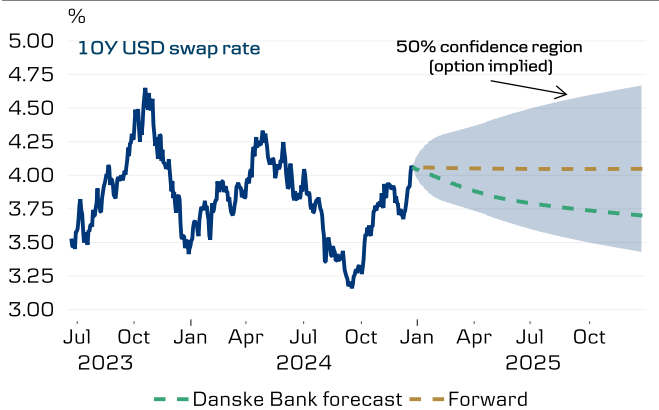
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

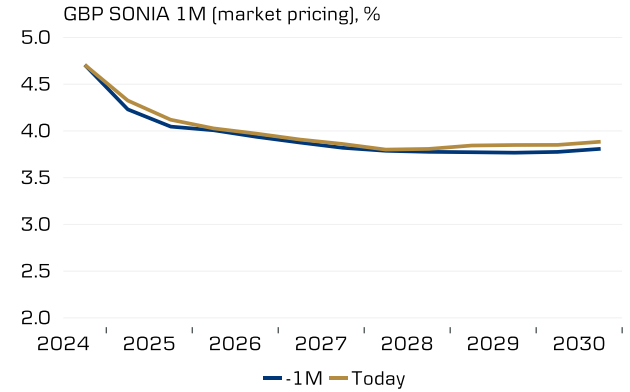
GBP forecast

GBP forecast table

GBP	--Forecast--				--Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Bank rate	4.75	4.50	4.25	3.75			
SONIA (1M)	4.71	4.45	4.19	3.68	-4	-13	-44
Government bonds							
2Y	4.42	4.25	4.05	3.75			
5Y	4.37	4.25	4.10	3.85			
10Y	4.58	4.45	4.35	4.10			
Swap rates							
2Y	4.29	4.15	3.95	3.65	-6	-19	-40
5Y	4.08	4.00	3.85	3.60	-4	-16	-37
10Y	4.09	3.95	3.85	3.60	-13	-22	-47

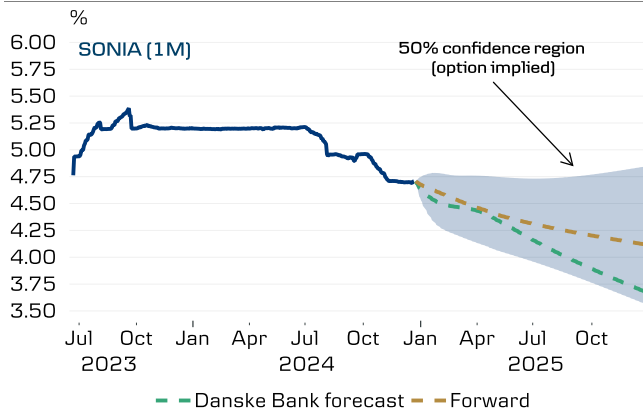
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in SONIA 1M forward curve



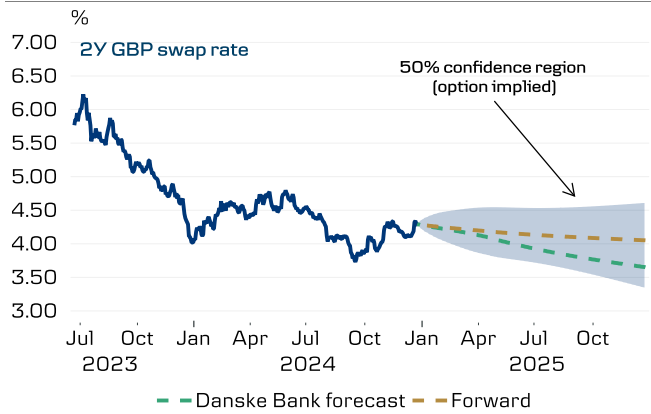
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

SONIA (1M)



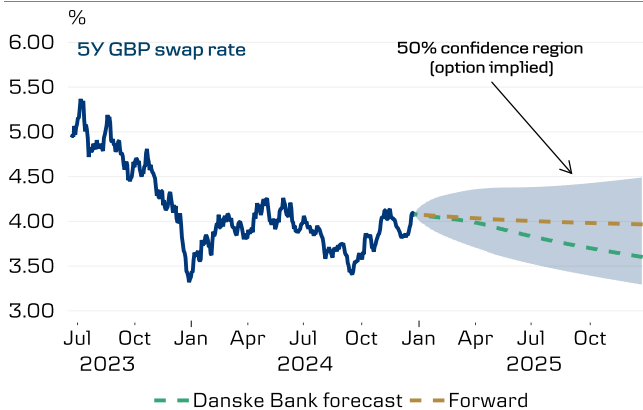
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y UK swap rates



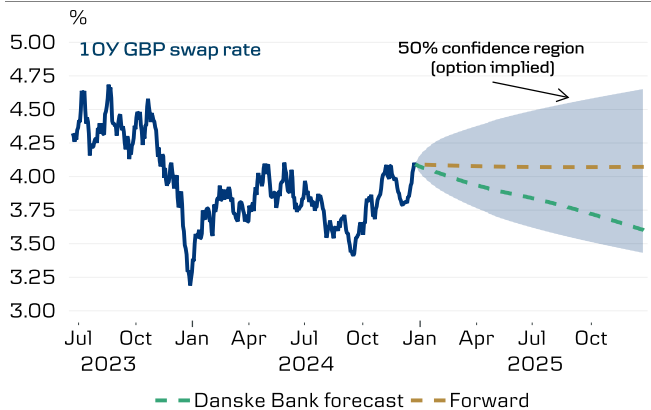
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

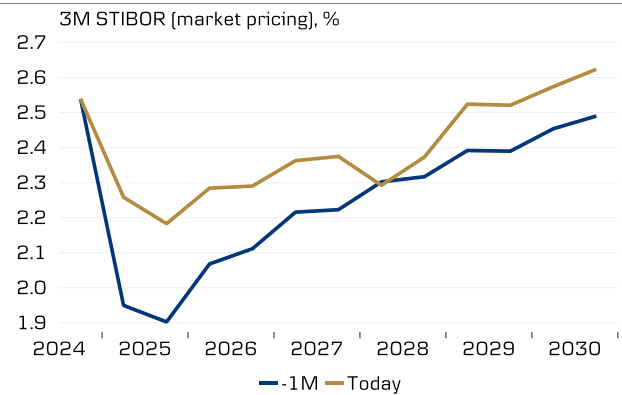
SEK forecast

SEK forecast table

SEK	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	2.50	2.50	2.00	2.00			
STIBOR (3M)	2.54	2.34	2.09	2.10	4	-14	-5
Government bonds							
2Y	2.00	2.00	2.00	2.10			
5Y	2.07	2.20	2.30	2.40			
10Y	2.28	2.40	2.50	2.60			
Swap rates							
2Y	2.32	2.10	2.10	2.15	-18	-18	-17
5Y	2.38	2.35	2.40	2.50	-3	0	7
10Y	2.56	2.50	2.60	2.75	-6	2	14

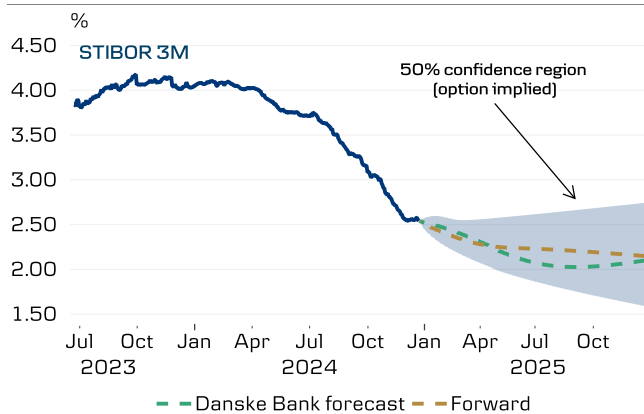
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in STIBOR3M forward curve



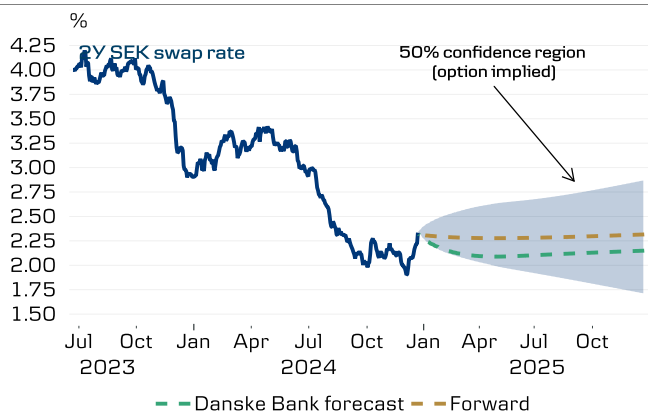
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Stibor rates



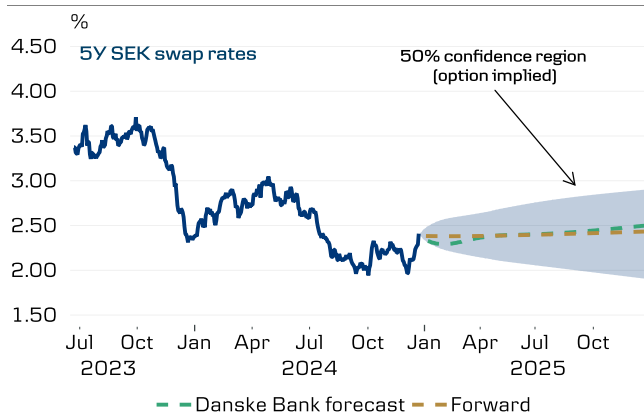
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y SEK swap rates



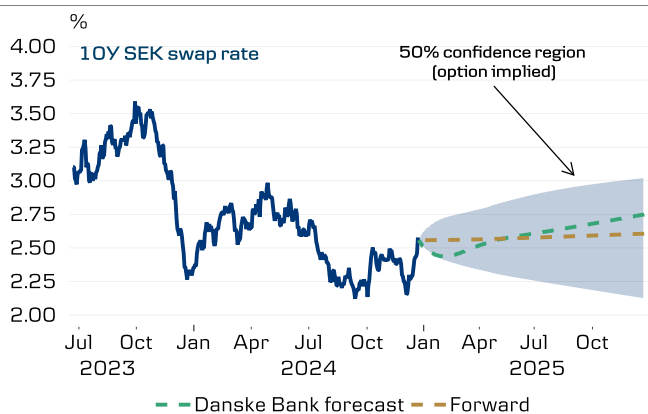
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

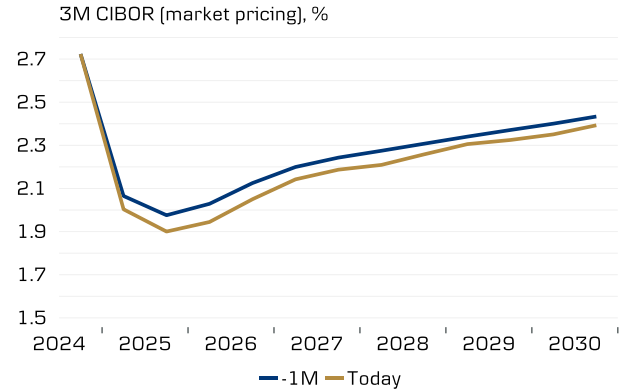
DKK forecast

DKK forecast table

DKK	Spot	--Forecast--			-- Fcst vs Fwd in bp--		
		+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Repo	2.75	2.25	1.75	1.25			
Deposit	2.60	2.10	1.60	1.10			
CIBOR (3M)	2.72	2.14	1.70	1.45	-5	-30	-45
CIBOR (6M)	2.67	2.05	1.70	1.55	-15	-35	-47
Government bonds							
2Y	1.70	1.65	1.45	1.25			
5Y	2.02	1.90	1.80	1.70			
10Y	2.03	1.90	1.85	1.80			
Swap rates							
2Y	2.26	2.15	1.95	1.75	-1	-19	-45
5Y	2.33	2.25	2.15	2.05	-5	-16	-30
10Y	2.44	2.35	2.30	2.25	-8	-13	-21

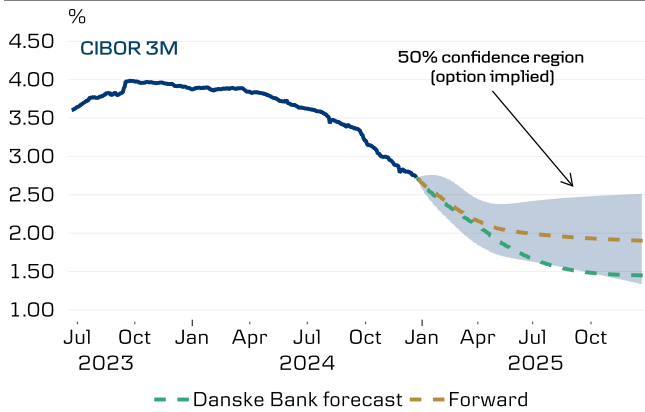
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in DKK swap (3M)



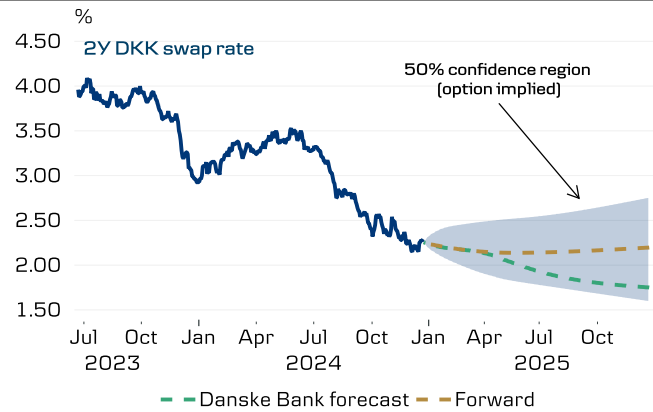
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M CIBOR



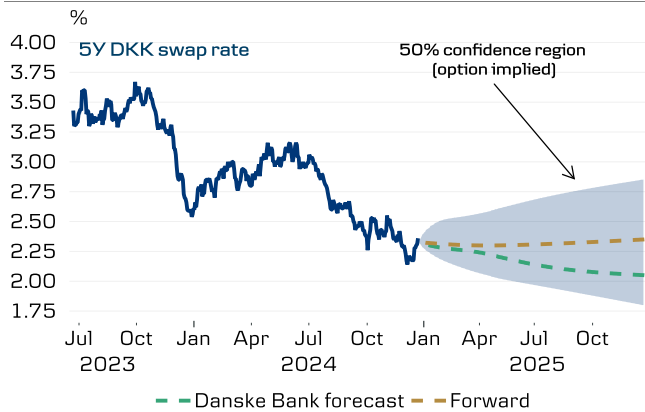
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y DKK swap rates



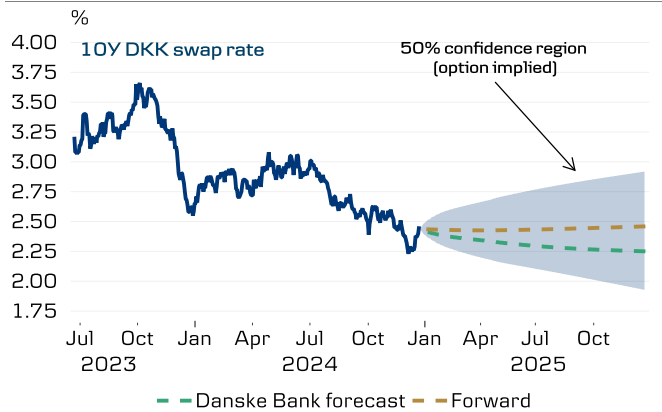
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

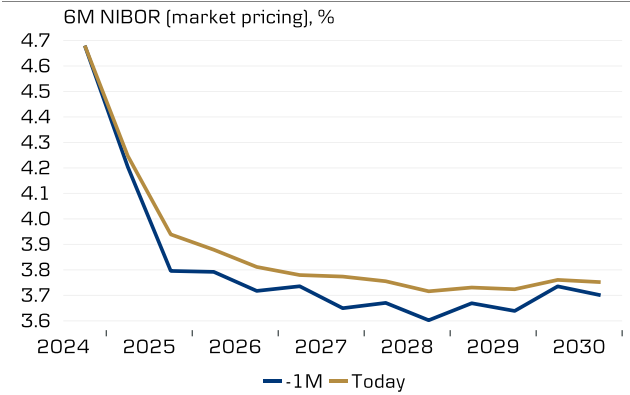
NOK forecast

NOK forecast table

NOK	--Forecast--				-- Fcst vs Fwd in bp--		
	Spot	+3M	+6M	+12M	+3M	+6M	+12M
Money market							
Deposit	4.50	4.25	4.00	3.50			
NIBOR (3M)	4.68	4.45	4.20	3.70	-4	-5	-12
NIBOR (6M)	4.68	4.45	4.20	3.70	-4	-5	-24
Government bonds							
2Y	4.02	3.90	3.65	3.25			
5Y	3.73	3.60	3.40	3.25			
10Y	3.76	3.70	3.60	3.50			
Swap rates							
2Y	4.25	4.00	3.80	3.40	-11	-21	-49
5Y	3.98	3.80	3.60	3.45	-12	-28	-37
10Y	3.92	3.80	3.70	3.60	-8	-16	-24

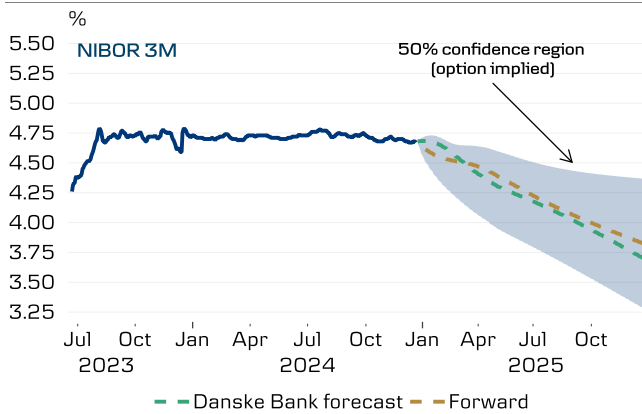
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

1M change in NOK swap (6M)



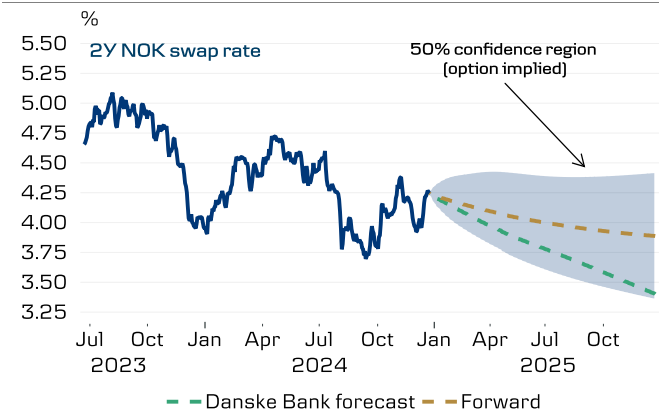
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Nibor



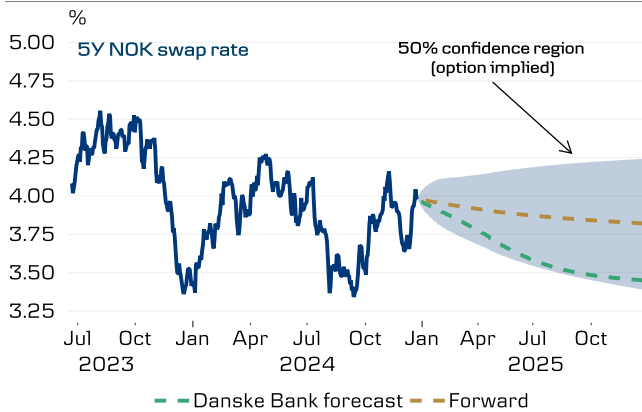
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y NOK swap rate



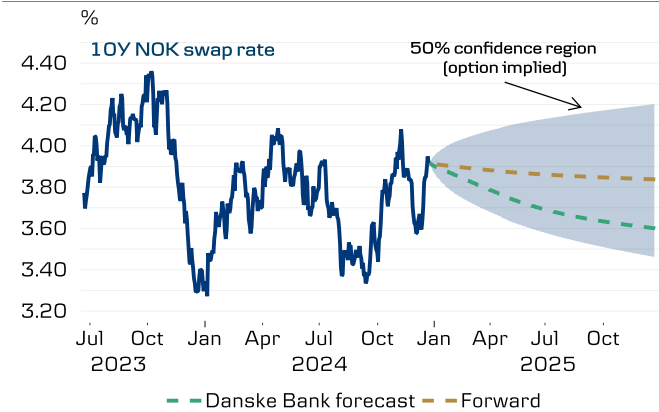
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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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