

Yield Outlook

Normalisation post banking turmoil

The banking turmoil that erupted in the wake of the collapse of Silicon Valley Bank (SVB) five weeks ago has subsided as a market theme as the string of negative news has come to a halt. As a result, with traditional stress indicators declining, the focus has increasingly moved to the macro narrative, as we also discussed in our previous *Yield Outlook - Uncertainty about US banking sector clouds rate outlook*, 17 March.

The ‘normalisation’ of the rate outlook means that markets are currently trading two major themes which we also expect to set the tone for rates markets in coming months. While ‘Dollar Land’ is already discussing the first US rate cut, we expect the Federal Reserve to deliver a final 25bp rate hike at the upcoming May meeting and then to keep policy rates unchanged until Q1 24, when a gradual rate cutting cycle will likely commence. As regards the eurozone, discussions about rate cuts are still premature. We continue to expect a further string of rate hikes, with a 50bp hike in May followed by 25bp hikes in both June and July, bringing the peak policy rate to 4%. This is somewhat above the current market pricing of a 3.75% peak policy rate. The biggest risk to our forecast of a 4% peak policy rate hike is whether the ECB will deliver a 25bp or a 50bp rate hike in May. Markets are currently pricing 32bp for May. The economic backdrop for our central bank calls is presented in the *Nordic Outlook - Unchartered territory*, 4 April.

As a result, we see longer-term USD yields peaking ‘now’ and expect them to stay around current levels until autumn this year before starting to decline gradually, reflecting the expected easing cycle in 2024. The USD curve is currently heavily inverted due to markets expecting the Fed to start easing monetary policy as early as this summer. At the time of writing, markets are pricing three rate cuts of 25bp each between June and December this year. While we do not share this view, we do not expect a significant repricing posing considerable upside risk to longer-term USD yields, as markets are focusing on the next big move in rates markets, which is likely to be for lower rates. Historical evidence shows that, on average, the Fed has started cutting policy rates three quarters after the last rate hike. We currently expect a first rate cut from the Fed in Q1 24 followed by a sequence of cuts at a pace of one cut per quarter through 2024. This should likely support the lower rates narrative starting in autumn this year in anticipation of monetary policy easing.

As for the eurozone, we continue to see modest upside risk to longer-term yields on a 3M horizon in a curve flattening move, as the ECB is yet to show a strong hand in fighting the high underlying inflation prints, taking the front end up relative to the long end. We expect eurozone markets to start discussing and pricing 2024 rate cuts from the ECB towards the end of this year, trailing US markets slightly. This is likely to support longer-term yields on 6M-12M horizons. We project an ECB rate cutting cycle starting in summer 2024.

While the very high volatility in rates markets we observed one month ago has subsided somewhat, volatility has remained at elevated levels, and markets are currently pricing 10Y EUR swap rates in a broad 3.5 percentage point range by the end of our projected horizon (with a 90% probability).

Links

- [Forecast table](#)
- [Forecast Euro area](#)
- [Forecast USA](#)
- [Forecast UK](#)
- [Forecast Denmark](#)
- [Forecast Sweden](#)
- [Forecast Norway](#)

Central bank policy rates

Country	Spot	+3m	+6m	+12m
USD	5.00	5.25	5.25	5.00
EUR	3.00	3.75	4.00	4.00
GBP	4.25	4.50	4.50	4.25
DKK	2.80	3.35	3.60	3.60
SEK	3.00	4.00	4.00	3.75
NOK	3.00	3.50	3.50	3.25

10Y government bond yields

Country	Spot	+3m	+6m	+12m
USD	3.51	3.60	3.50	3.30
EUR	2.44	2.60	2.50	2.20
GBP	3.67	3.60	3.50	3.40
DKK	2.70	2.70	2.60	2.30
SEK	2.40	2.55	2.65	2.65
NOK	3.14	3.10	2.90	2.60

Note: EUR = Germany

10Y swap rates

Country	Spot	+3m	+6m	+12m
USD	3.51	3.75	3.55	3.35
EUR	3.03	3.10	3.00	2.60
GBP (OIS)	3.58	3.70	3.60	3.50
DKK	3.17	3.25	3.15	2.75
SEK	2.90	2.90	2.80	2.75
NOK	3.23	3.15	2.95	2.60

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

Source: Danske Bank for tables above

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The economic outlook has held up well since we published the March issue of *Yield Outlook*, with little visible lasting impact of the banking turmoil. Bank and credit standards are set to tighten, as also targeted by central banks. In Europe, the economy is showing diverging drivers with goods production lower but services activity strengthening, supporting the resilient economic activity.

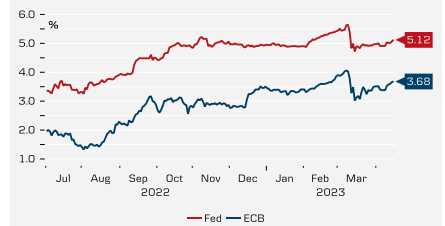
Market based inflation expectations are reverting to pre-banking turmoil levels

The normalisation of the market themes in recent weeks has sent inflation forwards significantly higher again to alarming levels, in particular in the eurozone, where inflation forwards are currently trading at 2.48% and hence call for more tightening by the ECB.

ECB to scale up QT again from July but not a dominant theme

The ECB has signalled an end to full APP reinvestments and is currently reducing its holdings by EUR15bn per month for the period from March until June this year. We expect the ECB to scale up on ending APP reinvestments altogether, which means that it will likely be shaving an average EUR26bn off monthly reinvestments from July. While we continue to expect a full end to APP reinvestments, the reinvestments of the PEPP programme still look likely to run their course as guided by the ECB, at least, until end-2024. That said, while it may become a brief market theme, we expect the balance sheet runoff to be only a minor theme that will probably not exert significant upward pressure on term premia or yields.

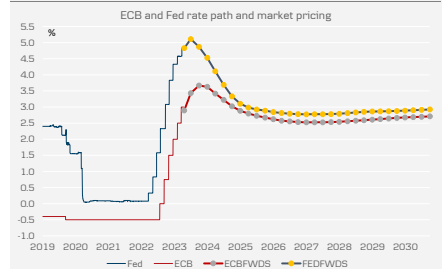
Market pricing of ECB and Fed peak policy rates



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

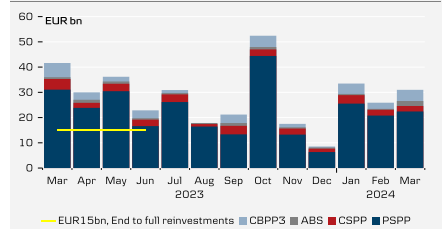
Source: Macrobond Financial and Danske Bank

Rate path trajectory



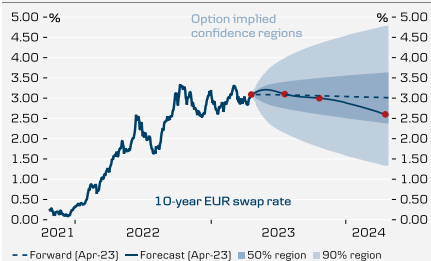
Source: Danske Bank

ECB APP redemption profile



Source: Macrobond Financial and Danske Bank

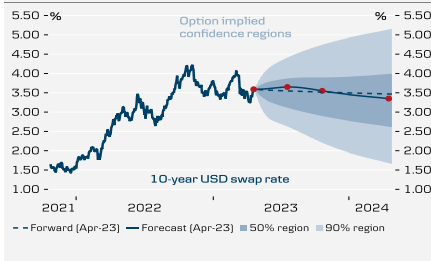
Forecast: 10Y EUR swap rates



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

Source: Danske Bank

Forecast: 10Y USD swap rates



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

Source: Danske Bank

Forecasts

	Horizon	Policy rate	3m xlibor	2-yr swap	5-yr swap	10-yr swap	2-yr gov
USD	Spot	5.00	5.26	4.49	3.77	3.59	4.17
	+3m	5.25	5.40	4.70	3.95	3.65	4.30
	+6m	5.25	5.40	4.60	4.15	3.55	4.20
	+12m	5.00	4.88	4.20	3.85	3.35	3.80
EUR *	Spot	3.00	3.22	3.57	3.18	3.09	2.88
	+3m	3.75	4.14	3.55	3.25	3.10	3.00
	+6m	4.00	4.16	3.20	3.05	3.00	2.70
	+12m	4.00	4.03	2.80	2.80	2.60	2.40
GBP**	Spot	4.25		4.40	3.92	3.63	3.61
	+3m	4.50		4.10	3.90	3.70	3.40
	+6m	4.50		4.10	3.85	3.60	3.40
	+12m	4.25		3.90	3.70	3.50	3.20
DKK	Spot	2.60	3.30	3.71	3.33	3.23	3.02
	+3m	3.35	3.83	3.70	3.40	3.25	3.15
	+6m	3.60	3.85	3.35	3.20	3.15	2.85
	+12m	3.60	3.74	2.95	2.95	2.75	2.55
SEK	Spot	3.00	3.51	3.62	3.13	2.99	3.03
	+3m	4.00	4.10	3.65	3.15	2.90	3.20
	+6m	4.00	4.15	3.30	2.90	2.80	2.90

* German government bond yields and euro swap rates ** Based on OIS swap rates. Note: 3M GBP Libor is no longer published

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

Source: Danske Bank

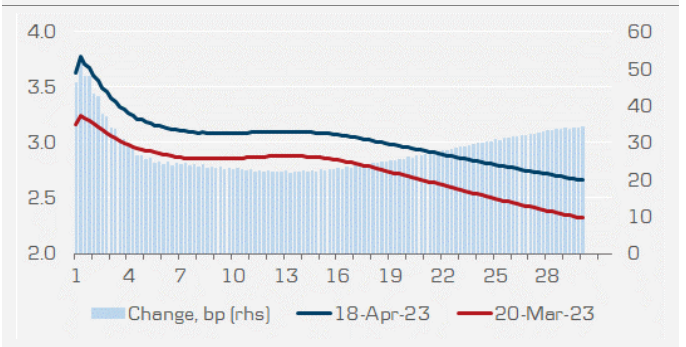
Eurozone forecast

EUR forecast summary

18/04/2023	--- Forecast ---			--- Fcst vs Fwd in bp ---			
EUR	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money Market							
Deposit	3.00	3.75	4.00	4.00	-	-	-
3M	3.22	4.14	4.16	4.03	37	30	55
6M	3.58	4.30	4.30	3.84	39	44	35
Government Bonds							
2-year	2.88	3.00	2.70	2.40	-	-	-
5-year	2.51	2.70	2.55	2.30	-	-	-
10-year	2.48	2.60	2.50	2.20	-	-	-
Swap rates							
2-year	3.57	3.55	3.20	2.80	3	-21	-36
5-year	3.18	3.25	3.05	2.80	10	-5	-19
10-year	3.09	3.10	3.00	2.60	2	-6	-41

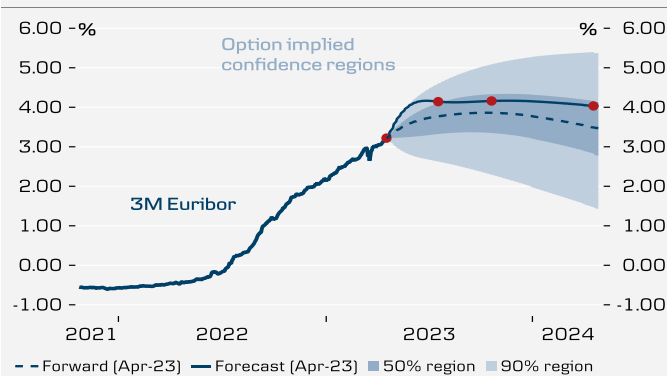
Source: Danske Bank

1M change in EUR swap rates



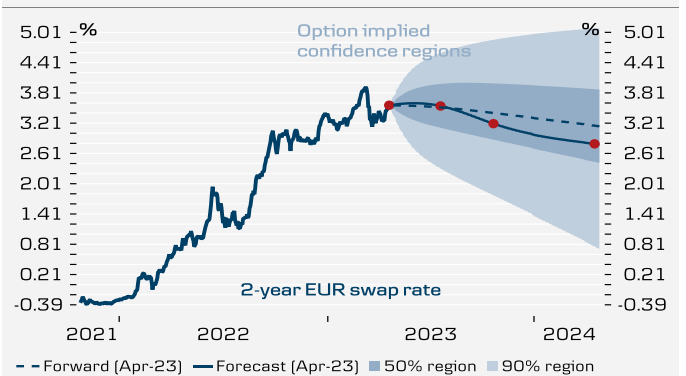
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Euribor rates



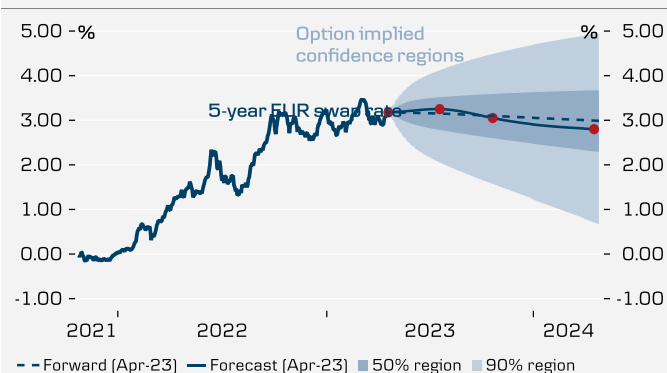
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y EUR swap rates



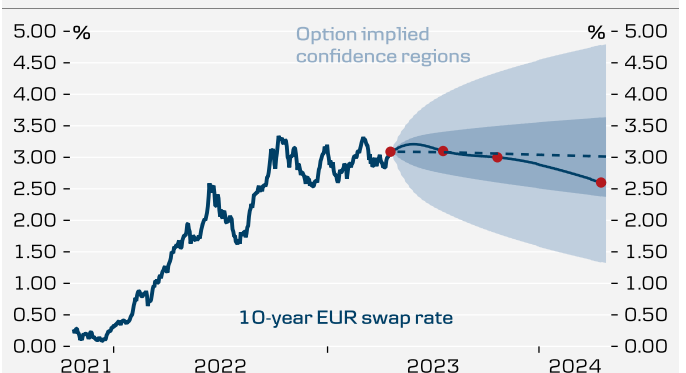
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

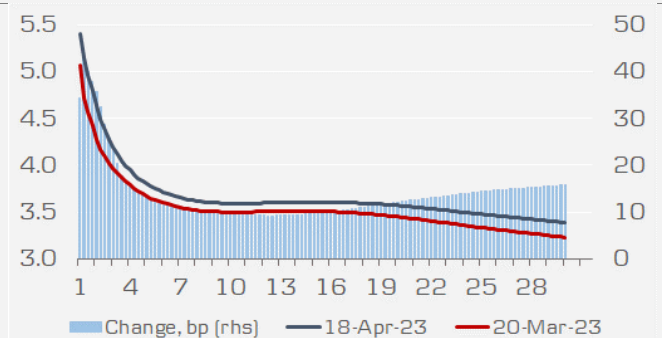
US forecast

USD forecast summary

18/04/2023	--- Forecast ---				--- Fcst vs Fwd in bp ---		
USD	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money Market							
Fed Funds	5.00	5.25	5.25	5.00	-	-	-
3M	5.26	5.40	5.40	4.88	-1	30	66
Government Bonds							
2-year	4.17	4.30	4.20	3.80	-	-	-
5-year	3.68	3.80	4.00	3.70	-	-	-
10-year	3.57	3.60	3.50	3.30	-	-	-
Swap rates							
2-year	4.49	4.70	4.60	4.20	46	62	64
5-year	3.77	3.95	4.15	3.85	29	60	48
10-year	3.59	3.65	3.55	3.35	11	7	-6

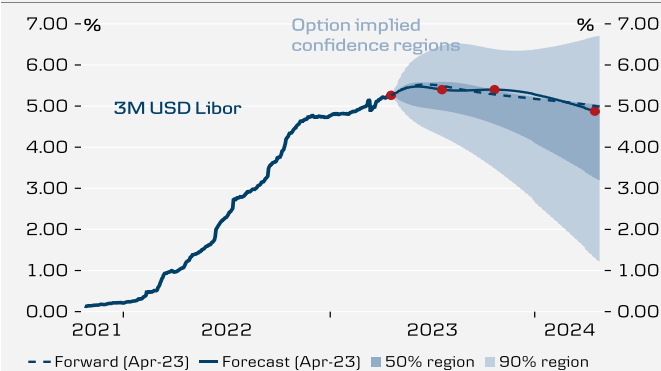
Source: Danske Bank

1M change in USD swap (3M) rates



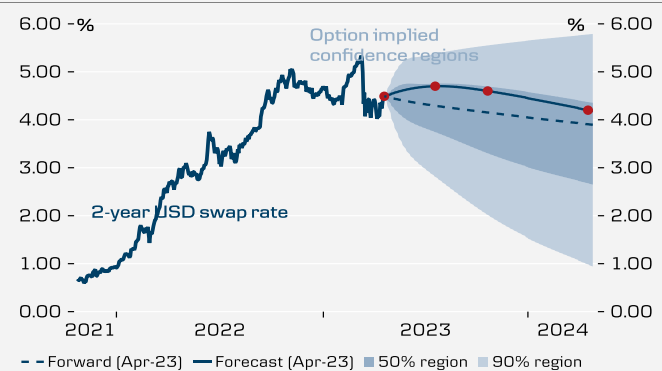
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M USD Libor rates



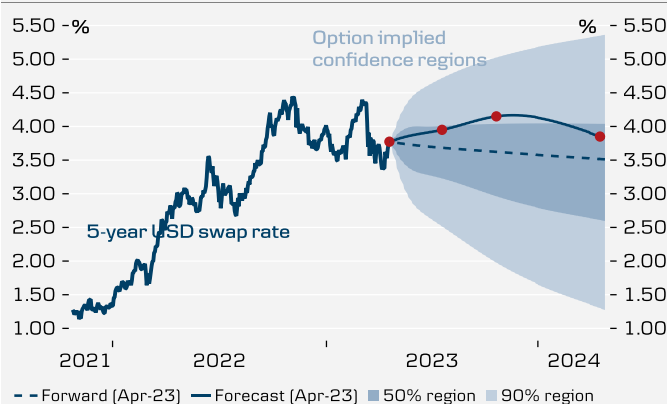
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y USD swap rates



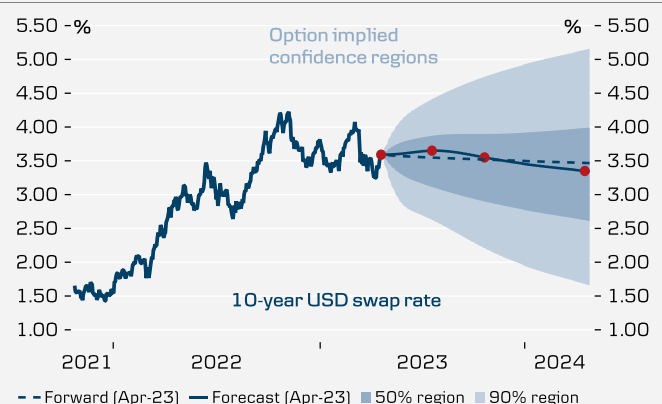
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

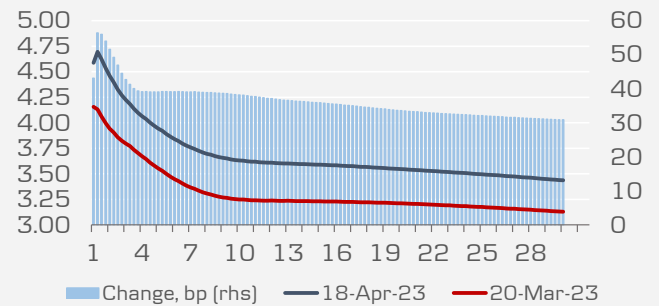
UK forecast

GBP forecast summary

18/04/2023	-- Forecast --				-- Fcst vs Fwd in bp --		
GBP	Spot	+3m	+6m	+12m	+3m	+6m	+12m
<u>Money Market</u>							
Bank rate	4.25	4.5	4.5	4.25	-	-	-
<u>Government Bonds</u>							
2-year	3.61	3.40	3.40	3.20	-9	6	-1
5-year	3.503	3.5	3.45	3.3	6	8	-16
10-year	3.68	3.60	3.50	3.40	-6	-14	-25
<u>Swap rates (SONIA OIS)</u>							
2-year	4.40	4.10	4.10	3.90	-22	-8	-1
5-year	3.92	3.90	3.85	3.70	4	7	21
10-year	3.63	3.70	3.60	3.50	10	4	1

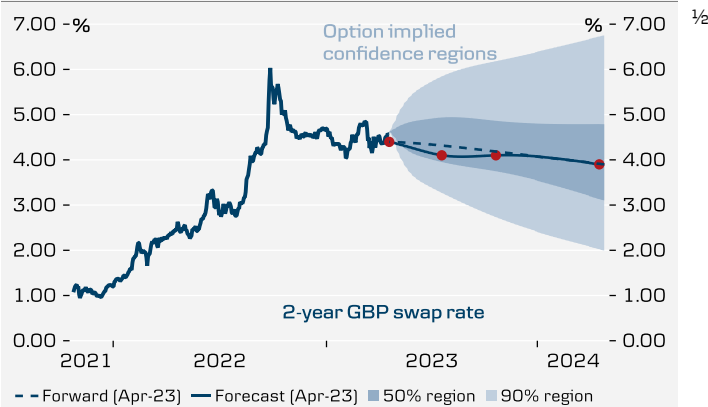
Based on OIS swaps
Source: Danske Bank

1M change in GBP swap (6M) rates



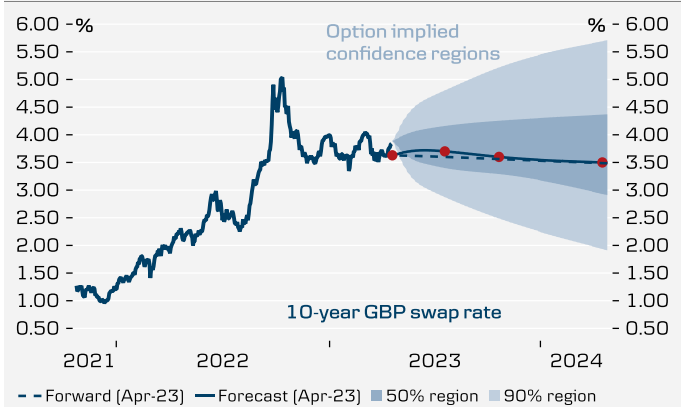
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y UK swap rates



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

10Y UK swap rates



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

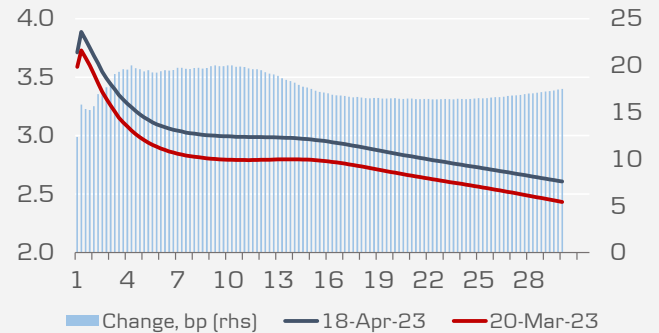
Sweden forecast

SEK forecast summary

18/04/2023	-- Forecast --				-- Fcst vs Fwd in bp --		
SEK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money market							
Repo	3.00	4.00	4.00	3.75	-	-	-
3M	3.51	4.10	4.15	3.70	23	25	17
Government bonds							
2-year	3.03	3.20	2.90	2.60	-	-	-
5-year	2.59	2.65	2.60	2.60	-	-	-
10-year	2.48	2.55	2.65	2.65	-	-	-
Swap rates							
2-year	3.62	3.65	3.30	3.00	10	-12	-13
5-year	3.13	3.15	2.90	2.80	6	-12	-9
10-year	2.99	2.90	2.80	2.75	-7	-14	-13

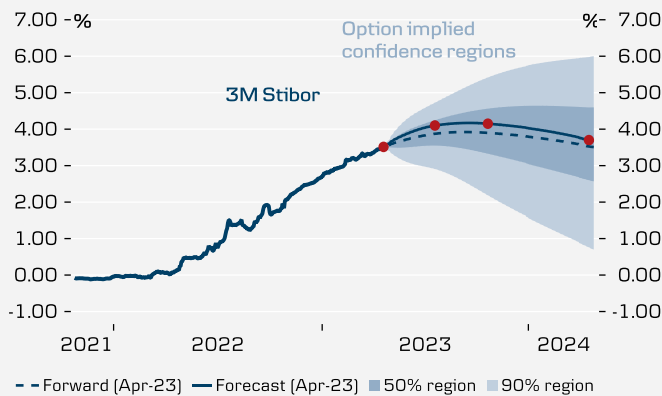
Source: Danske Bank

1M change in SEK swap (3M) rates



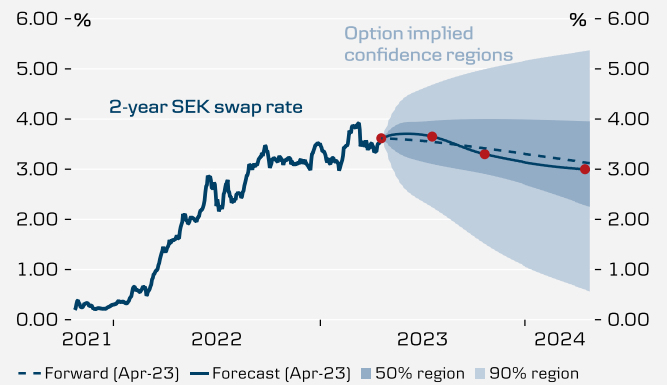
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Stibor rates



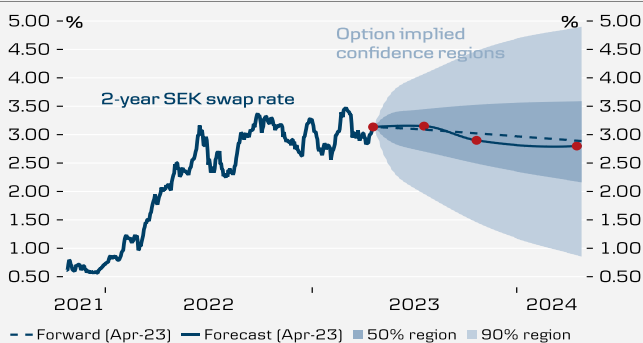
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y SEK swap rates



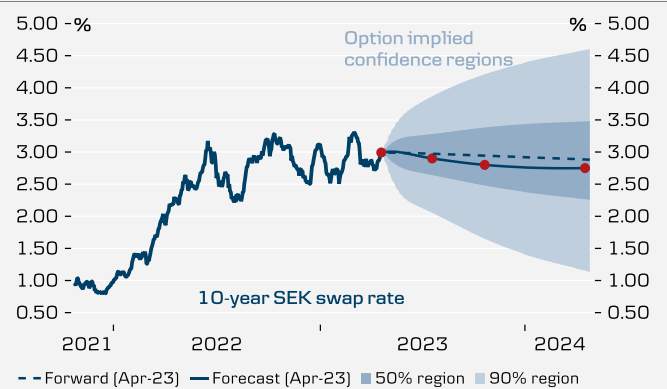
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

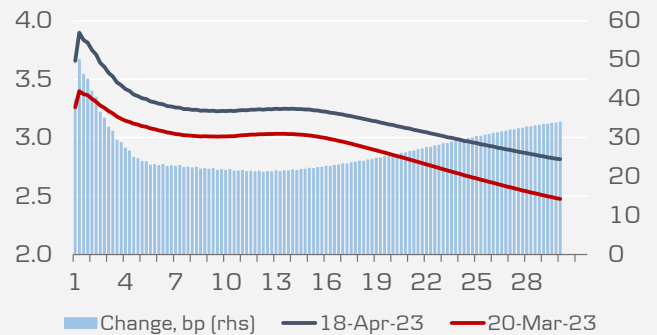
Denmark forecast

DKK forecast summary

18/04/2023	-- Forecast --				-- Fcst vs Fwd in bp --		
DKK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money Market							
CD	2.60	3.35	3.60	3.60	-	-	-
Repo	2.75	3.50	3.75	3.75	-	-	-
3M	3.30	3.83	3.85	3.74	3	-5	17
6M	3.66	3.66	3.70	3.70	-30	-24	11
Government bonds							
2-year	3.02	3.15	2.85	2.55	-	-	-
5-year	2.73	2.85	2.70	2.45	-	-	-
10-year	2.76	2.70	2.60	2.30	-	-	-
Swap rates							
2-year	3.71	3.70	3.35	2.95	2	-23	-38
5-year	3.33	3.40	3.20	2.95	9	-6	-20
10-year	3.23	3.25	3.15	2.75	3	-5	-41
30-year	2.81	3.00	2.90	2.85	20	12	11

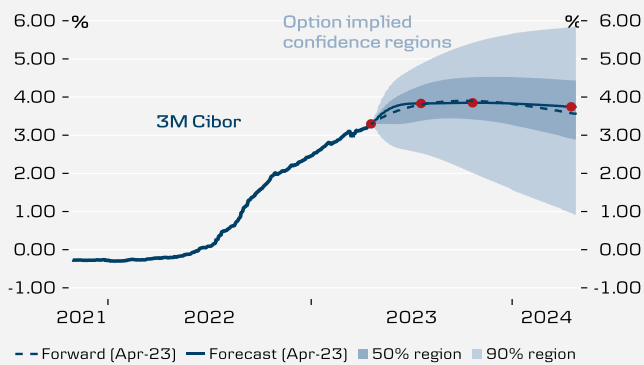
Source: Danske Bank

1M change in DKK swap (6M) rates



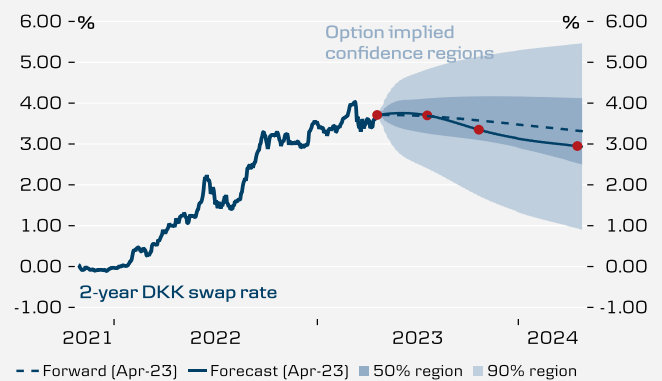
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Cibar rates



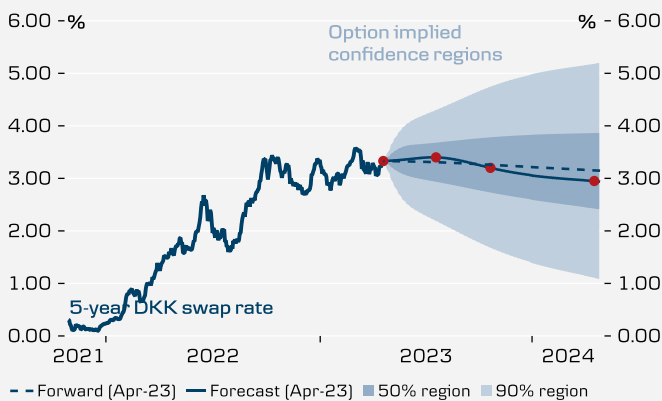
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y DKK swap rates



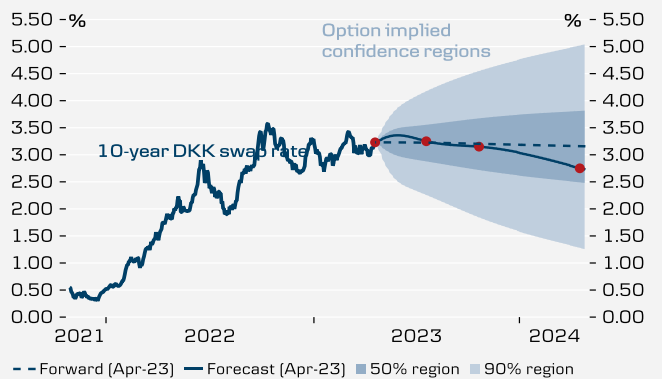
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

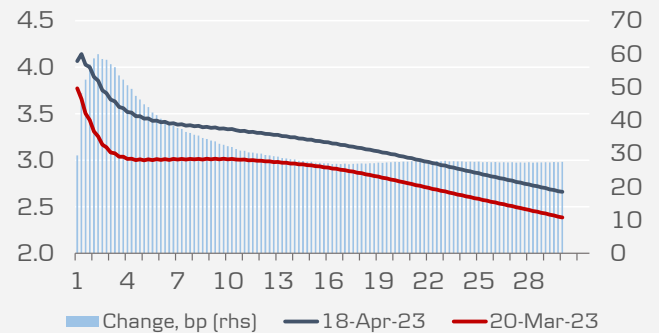
Norway forecast

NOK forecast summary

18/04/2023	-- Forecast --				-- Fcst vs Fwd in bp --		
NOK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money market							
Deposit	3.00	3.50	3.50	3.25	-	-	-
3M	3.67	3.45	3.31	3.20	-51	-74	-52
6M	4.00	3.68	3.52	3.45	-51	-62	-27
Government bonds							
2-year	3.41	3.10	2.90	2.80	-	-	-
5-year	3.16	3.10	2.90	2.80	-	-	-
10-year	3.25	3.10	2.90	2.60	-	-	-
Swap rates							
2-year	3.85	3.45	3.20	3.10	-31	-43	-27
5-year	3.45	3.35	3.10	2.95	-6	-26	-30
10-year	3.34	3.15	2.95	2.60	-16	-33	-62

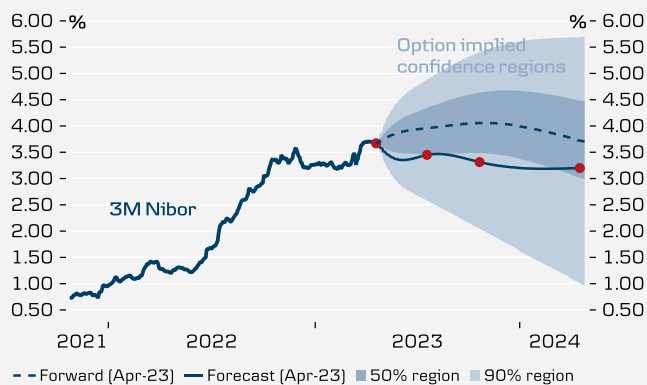
Source: Danske Bank

1M change in NOK swap (6M) rates



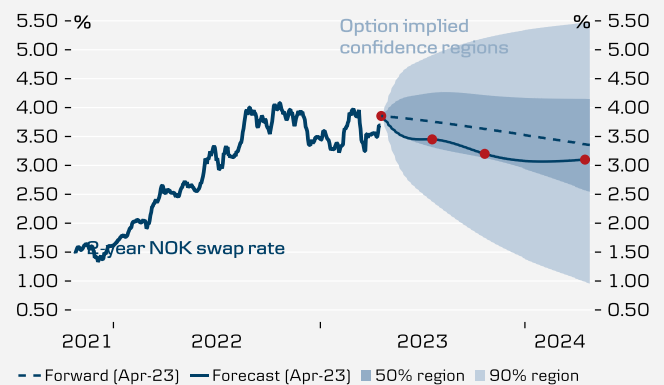
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Nibor rates



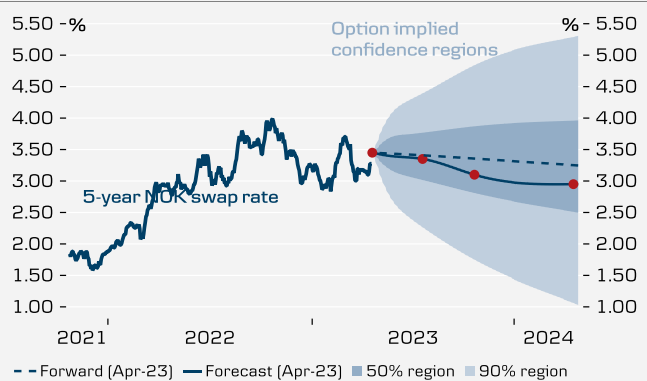
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y NOK swap rates



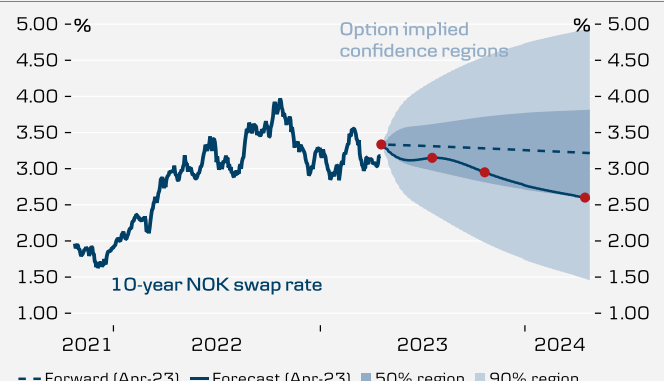
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

5Y NOK swap rates



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

10Y NOK swap rates



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

Disclosures

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