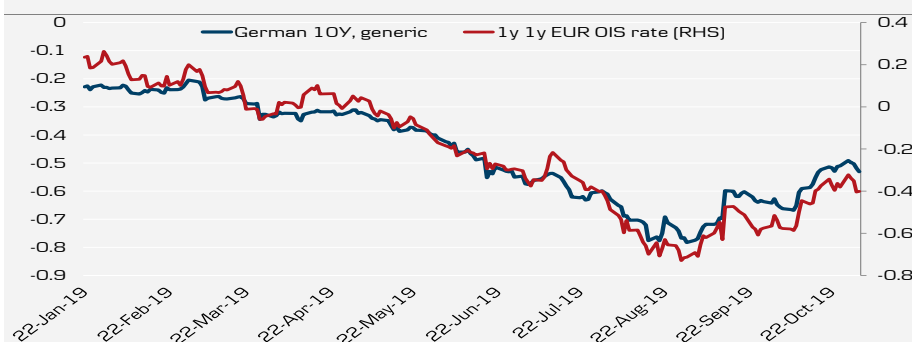


# Yield Outlook

## Bond sell-off to take a pause for now

The move higher in yields that started in September has continued in October and November. During the second half of August, the 10Y Bund yield traded below -0.70% at times, while 30Y Bund yields sometimes dipped below -0.25%. Today, 10Y and 30Y Bund yields are at -0.25% and +0.30%, respectively.

The repricing of ECB has pushed longer-dated yields higher



Source: Danske Bank, Bloomberg

In our research paper *FI Research: Seven reasons why yields are higher* of 23 October we looked into the factors behind the move higher in yields. We point in particular to the repricing of the ECB. The market has gone from a situation where it expected further rate cuts to basically expecting the ECB to be on hold after the depo rate was cut to -0.50% at the September ECB meeting. The graph below shows the 1y1y rate (expected 1Y rate starting in one year). It has a very close correlation with the 10Y yield.

The repricing of the ECB comes after it became clear that the ECB Governing Council was heavily divided when the 'big package' was presented in September. Hence, it seems unlikely that Lagarde as new ECB President will be able to get a majority for further monetary easing. The ECB is now basically on hold and instead trying to convince 'surplus countries' to step-up fiscal spending.

The better risk appetite on the back of positive trade and Brexit news has also helped to change rate expectations. It has fuelled the strong equity rally and pushed inflation expectations higher for a change.

New rhetoric from the Federal Reserve has also been an important factor for the move higher in yields. At the latest meeting on 30 October it became clear that after three rate cuts the Fed is now on hold. Hence, we have also changed our outlook for the Fed Funds rate and now only expect one more rate cut over the next six months to 1.5%. Before we expected that the rate would be slashed all the way to 1.0%. For more see *FOMC Call Update – Fed on hold for now but may be forced to cut again* published 11 November.

It should also be underlined that US numbers in particular have been positive over the past month. We saw that 128,000 new jobs were created in October despite the GM strike lowering the number by 50,000 persons.

### Quick links

- [Forecasts table](#)
- [Forecasts for the eurozone](#)
- [Forecasts for the US](#)
- [Forecasts for the UK](#)
- [Forecast for Denmark](#)
- [Forecasts for Sweden](#)
- [Forecasts for Norway](#)

### Policy rates

Country	Spot	+3m	+6m	+12m
USD	1.75	1.75	1.50	1.50
EUR	-0.50	-0.50	-0.50	-0.50
GBP	0.75	0.75	0.50	0.50
DKK	-0.75	-0.75	-0.75	-0.75
SEK	-0.25	0.00	0.00	0.00
NOK	1.50	1.50	1.75	1.75

### 10Y government bond yields

Country	Spot	+3m	+6m	+12m
USD	1.95	1.85	1.85	2.10
EUR	-0.24	-0.30	-0.20	0.00
GBP	0.81	0.80	0.80	1.00
DKK	-0.21	-0.30	-0.20	0.00
SEK	0.09	0.10	0.20	0.30
NOK	1.61	1.60	1.70	1.80

Note: EUR = Germany

### 10Y swap rates

Country	Spot	+3m	+6m	+12m
USD	1.86	1.75	1.75	2.00
EUR	0.16	0.10	0.20	0.40
GBP	0.99	0.95	0.95	1.15
DKK	0.25	0.20	0.30	0.50
SEK	0.62	0.65	0.70	0.80
NOK	2.03	2.00	2.10	2.20

Source: Danske Bank

### Chief Analyst

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## Will the factors that pushed yields higher in the autumn continue?

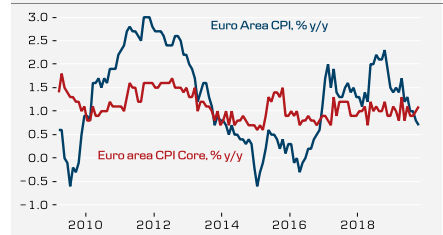
In this edition of *Yield Outlook* our message is that we are not heading for an extended period of rising yields, as we saw, for example, in 2015, when 10Y Bund yields rose close to 1 percentage point in a short space of time. We argue that the upside factors for yields are now running out of steam.

Importantly, we have now repriced both the ECB and the Federal Reserve. We have a hard time seeing the market starting to price in outright rate hikes. Hence, if we are going to see a next move higher in yields it has to come from higher inflation expectations and/or a higher term premium.

In respect of inflation expectations we note that current inflation is still very muted. Euro area inflation came in at just 0.7% y/y in October. We see little upside for inflation in 2020.

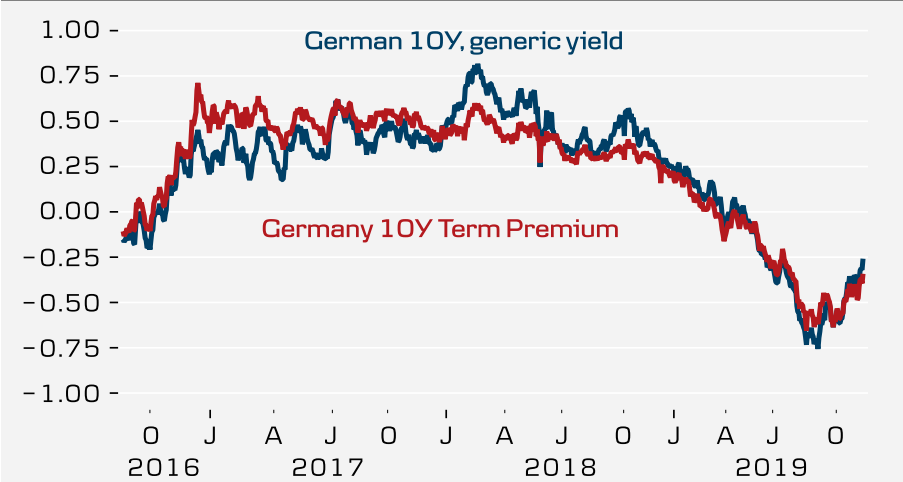
The term-premium is a measure which is used to gauge the additional premium that investors require to invest in long-term versus short-term risk-free debt. The term-premium has been another main factor behind the drop and subsequent rise in long-dated yields this year. The ECB's QE programme tries to compress the term-premium and with the new open-ended ECB QE programme and the sizeable reinvestment programme we hold the view that the term-premium will stay low throughout 2020. That said the term-premium is still very low and if we see a step-up in fiscal spending (more bond supply) the term-premium could be moved a new leg higher.

### Inflation still muted



Source: Danske Bank, Bloomberg

### Keep an eye on the term-premium



Source: Danske Bank

Risk appetite is the unknown factor here. If everything plays out positively and we get a smooth Brexit, a comprehensive trade deal and better global growth data there could easily be more upside for yields. We take a more cautious view here. A lot of good news is priced into financial markets in our opinion.

Finally, we have to take into account the cyclical outlook. Global manufacturing PMIs are at very low levels and the verdict is still out on whether the service sector will be infected. The question is also whether the weakness will start spreading to the labour market, in the US but especially in Germany. In Sweden that is in many respects a mirror of the global economy we have already seen a clear weakening of the labour market. If Sweden is the 'canary in the coal mine' for Germany the downward pressure on yields could return with a vengeance.

## Yields set to stabilise

Overall, we expect German yields to stabilise around the current level after the recent rise. The combination of a still weak economic cycle, monetary easing by the ECB – not least QE – and the ongoing struggle by investors to avoid negative yields points in that direction. Hence, we have lifted our 3 and 6 months forecast some 30bp for the 10Y Bund yield.

We continue to see 10Y bund yields slightly higher on a 12M horizon as the cyclical outlook is expected to improve in the second part of 2020. We expect that 10Y Bund yields will hit zero on a 12M horizon.

**We expect to publish the next issue of *Yield Outlook* by mid-January next year.**

# Forecasts

Forecasts*		Horizon	Policy rate	3m x1bor	2-yr swap	5-yr swap	10-yr swap	2-yr gov	5-yr gov	10-yr gov
USD	Spot		1.75	1.90	1.72	1.72	1.84	1.68	1.75	1.94
	+3m		1.75	1.71	1.50	1.55	1.75	1.50	1.60	1.85
	+6m		1.50	1.65	1.50	1.55	1.75	1.50	1.60	1.85
	+12m		1.50	1.65	1.60	1.75	2.00	1.60	1.80	2.10
EUR	Spot		-0.50	-0.39	-0.33	-0.18	0.16	-0.62	-0.52	-0.24
	+3m		-0.50	-0.41	-0.30	-0.15	0.10	-0.60	-0.50	-0.30
	+6m		-0.50	-0.41	-0.30	-0.05	0.20	-0.60	-0.40	-0.20
	+12m		-0.50	-0.41	-0.20	0.05	0.40	-0.50	-0.30	0.00
GBP	Spot		0.75	0.79	0.83	0.89	0.99	0.57	0.56	0.81
	+3m		0.75	0.60	0.80	0.80	0.95	0.50	0.50	0.80
	+6m		0.50	0.54	0.70	0.70	0.95	0.40	0.40	0.80
	+12m		0.50	0.54	0.80	0.80	1.15	0.50	0.50	1.00
DKK	Spot		-0.75	-0.42	-0.24	-0.08	0.25	-0.64	-0.46	-0.21
	+3m		-0.75	-0.45	-0.20	0.86	0.20	-0.65	-0.50	-0.30
	+6m		-0.75	-0.45	-0.20	0.05	0.30	-0.65	-0.40	-0.20
	+12m		-0.75	-0.45	-0.10	0.15	0.50	-0.55	-0.30	0.00
SEK	Spot		-0.25	0.04	0.18	0.32	0.62	-0.34	-0.29	0.09
	+3m		0.00	0.15	0.15	0.40	0.65	-0.45	-0.20	0.10
	+6m		0.00	0.15	0.15	0.50	0.70	-0.45	-0.10	0.20
	+12m		0.00	0.15	0.15	0.60	0.80	-0.45	0.00	0.30
NOK	Spot		1.50	1.97	2.01	2.01	2.03	1.31	1.37	1.61
	+3m		1.50	2.20	2.10	2.05	2.00	1.40	1.40	1.60
	+6m		1.75	2.20	2.10	2.15	2.10	1.40	1.50	1.70
	+12m		1.75	2.17	2.15	2.25	2.20	1.45	1.60	1.80

\* German government bond yields and EUR swap rates used  
Source: Danske Bank

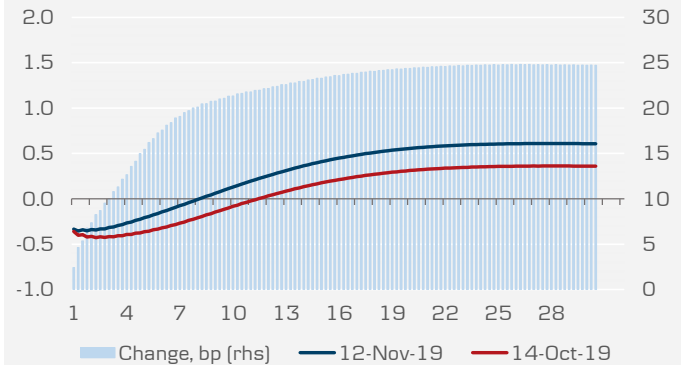
# Eurozone forecasts

## EUR forecast summary

12/11/2019	--- Forecast ---				--- Fcst vs Fwd in bp ---		
EUR	Spot	+3m	+6m	+12m	+3m	+6m	+12m
<u>Money Market</u>							
Refi	0.00	0.00	0.00	0.00	-	-	-
Deposit	-0.50	-0.50	-0.50	-0.50	-	-	-
3M	-0.39	-0.41	-0.41	-0.41	-2	1	2
6M	-0.33	-0.36	-0.36	-0.36	-3	-1	-2
<u>Government Bonds</u>							
2-year	-0.62	-0.60	-0.60	-0.50	-	-	-
5-year	-0.52	-0.50	-0.40	-0.30	-	-	-
10-year	-0.24	-0.30	-0.20	0.00	-	-	-
<u>Swap rates</u>							
2-year	-0.33	-0.30	-0.30	-0.20	2	1	7
5-year	-0.18	-0.15	-0.05	0.05	0	-3	11
10-year	0.16	0.10	0.20	0.40	-9	-2	12

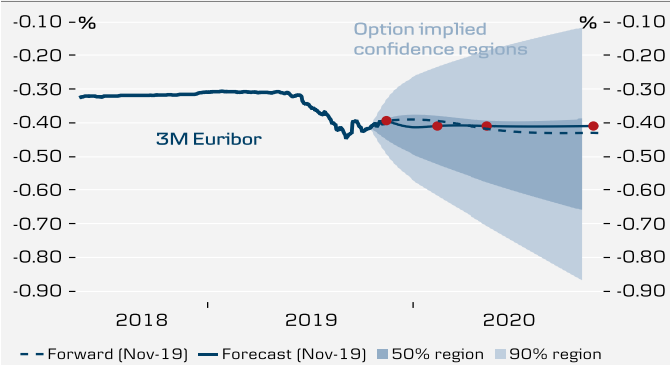
Source: Danske Bank

## 1M change in 6M Euribor



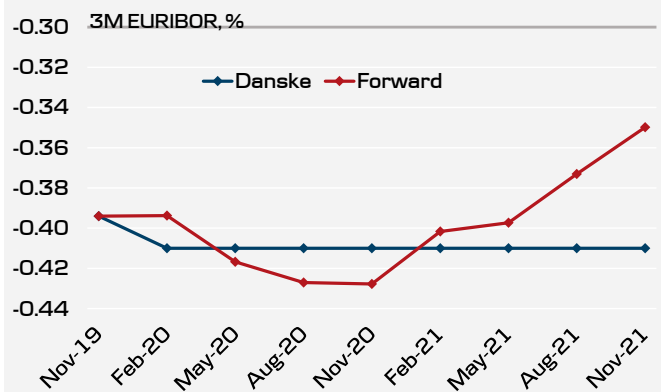
Source: Danske Bank

## 3M Euribor



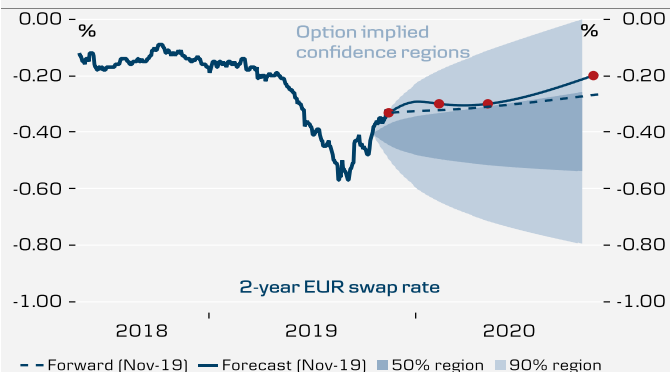
Source: Macrobond Financial, Danske Bank

## Danske Bank forecast and forwards



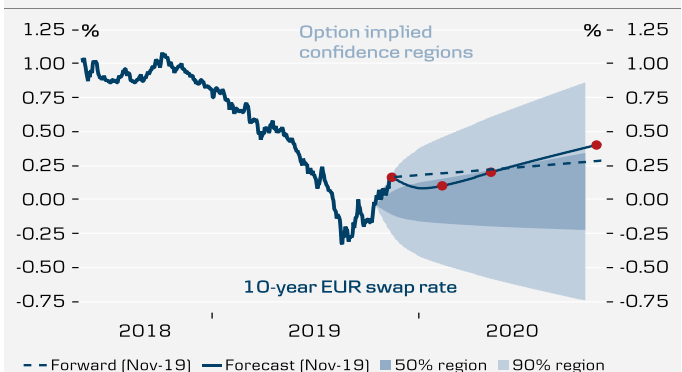
Source: Macrobond Financial, Danske Bank

## 2Y EUR swap rates



Source: Danske Bank

## 10Y EUR swap rates



Source: Danske Bank

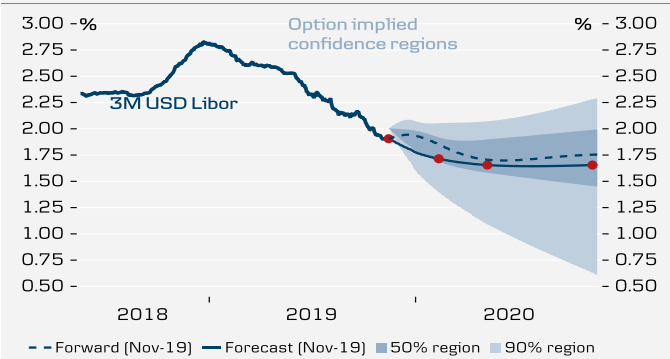
# US forecasts

## USD forecast summary

12/11/2019	--- Forecast ---				--- Fcst vs Fwd in bp ---		
USD	Spot	+3m	+6m	+12m	+3m	+6m	+12m
<u>Money Market</u>							
Fed Funds	1.75	1.75	1.50	1.50	-	-	-
3M	1.90	1.71	1.65	1.65	-7	-8	-3
<u>Government Bonds</u>							
2-year	1.68	1.50	1.50	1.60	-	-	-
5-year	1.75	1.60	1.60	1.80	-	-	-
10-year	1.94	1.85	1.85	2.10	-	-	-
<u>Swap rates</u>							
2-year	1.72	1.50	1.50	1.60	-19	-17	-7
5-year	1.72	1.55	1.55	1.75	-17	-17	2
10-year	1.84	1.75	1.75	2.00	-10	-11	12

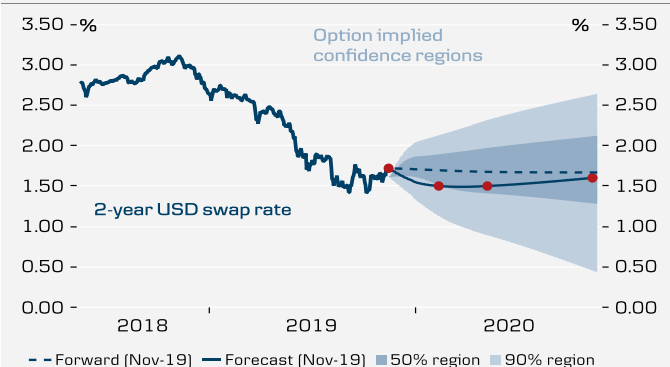
Source: Danske Bank

## 3M USD Libor rates



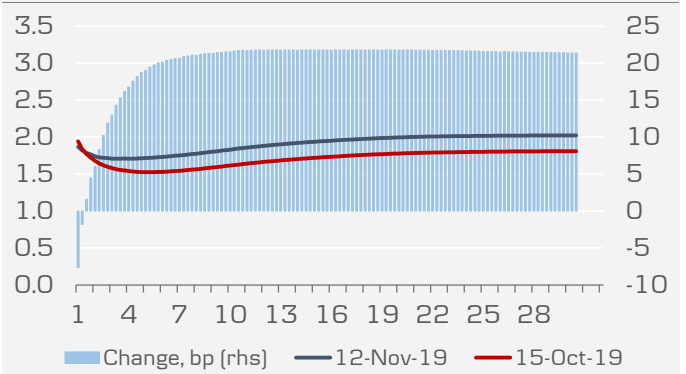
Source: Macrobond Financial, Danske Bank

## 2Y USD swap rates



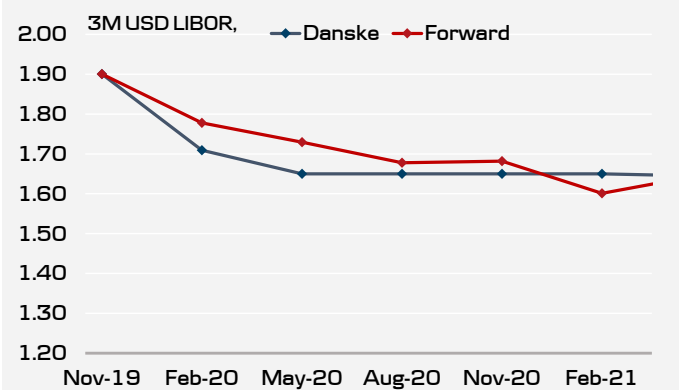
Source: Danske Bank

## 1M change in 3M USD Libor



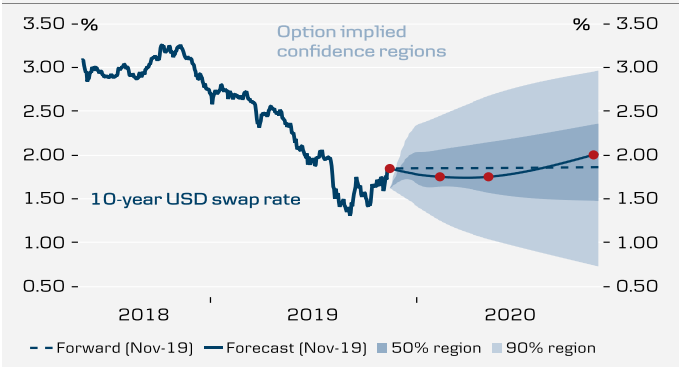
Source: Danske Bank

## Danske Bank forecast and forwards



Source: Macrobond Financial, Danske Bank

## 10Y USD swap rates



Source: Danske Bank

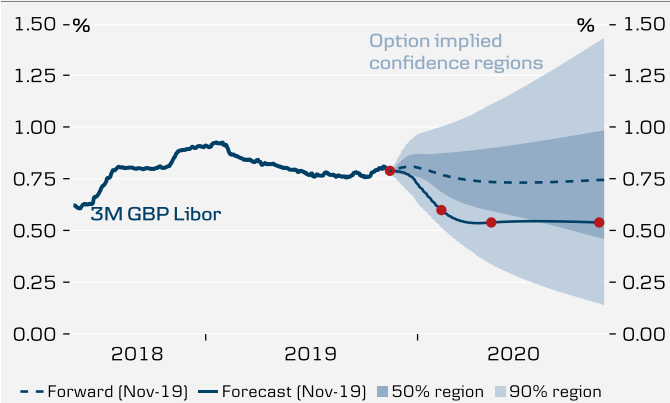
# UK forecasts

## UK forecast summary

12/11/2019	--- Forecast ---				--- Fcst vs Fwd in bp ---		
GBP	Spot	+3m	+6m	+12m	+3m	+6m	+12m
<u>Money Market</u>							
Repo	0.75	0.75	0.5	0.5	-	-	-
3M	0.79	0.60	0.54	0.54	-17	-20	-21
<u>Government Bonds</u>							
2-year	0.57	0.50	0.40	0.50	-1	-7	5
5-year	0.559	0.5	0.4	0.5	-1	-9	2
10-year	0.81	0.80	0.80	1.00	-3	-5	10
<u>Swap rates</u>							
2-year	0.83	0.80	0.70	0.80	-2	-13	-6
5-year	0.89	0.80	0.70	0.80	-9	-20	-23
10-year	0.99	0.95	0.95	1.15	-5	-6	12

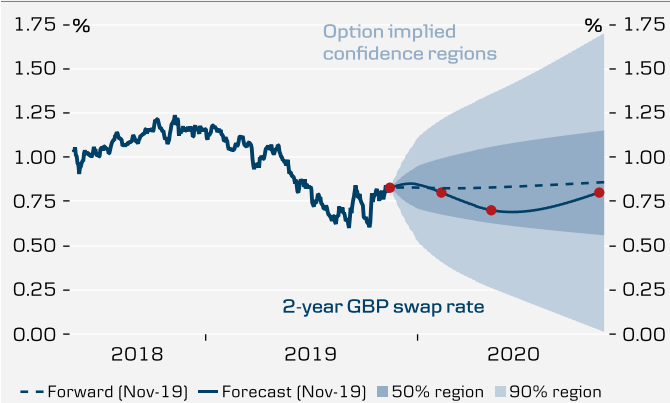
Source: Danske Bank

## 3M GBP Libor rates



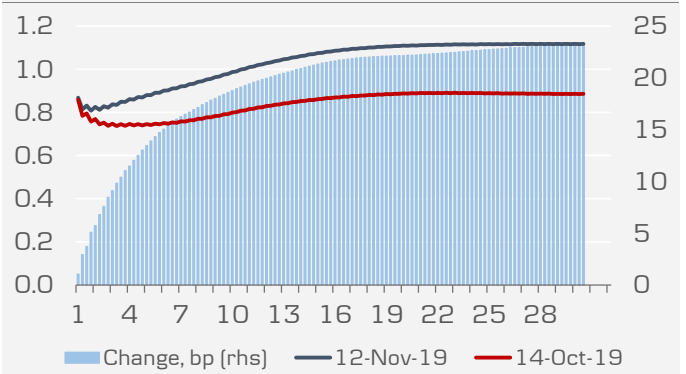
Source: Macrobond Financial, Danske Bank

## 2Y UK swap rates



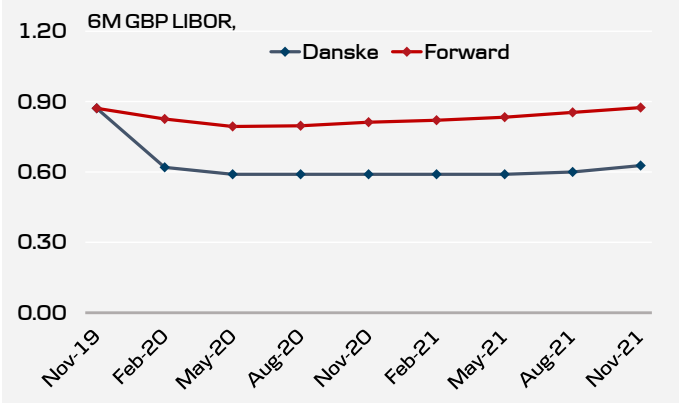
Source: Danske Bank

## 1M change in 6M GBP Libor



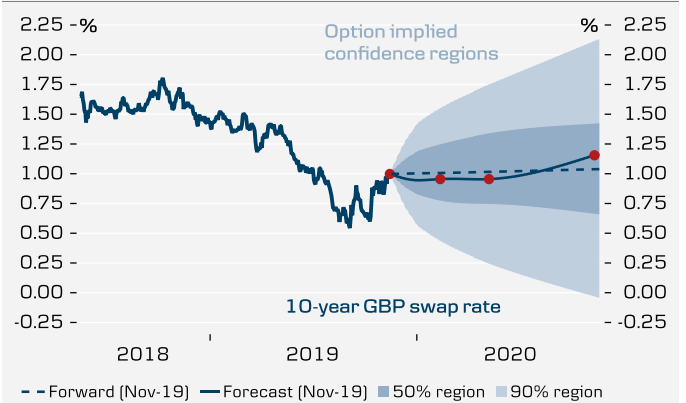
Source: Danske Bank

## Danske Bank forecast and forwards



Source: Macrobond Financial, Danske Bank

## 10Y UK swap rates



Source: Danske Bank

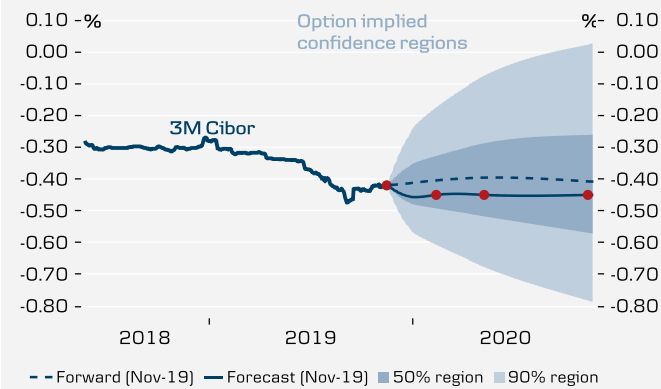
# Denmark forecasts

## DKK forecast summary

12/11/2019		--- Forecast ---				--- Fcst vs Fwd in bp ---		
DKK	Spot	+3m	+6m	+12m	+3m	+6m	+12m	
<u>Money Market</u>								
CD	-0.75	-0.75	-0.75	-0.75	-	-	-	
Repo	0.05	0.05	0.05	0.05	-	-	-	
3M	-0.42	-0.45	-0.45	-0.45	-5	-5	-4	
6M	-0.25	-0.30	-0.30	-0.30	-5	-4	-5	
<u>Government bonds</u>								
2-year	-0.64	-0.65	-0.65	-0.55	-	-	-	
5-year	-0.46	-0.50	-0.40	-0.30	-	-	-	
10-year	-0.21	-0.30	-0.20	0.00	-	-	-	
<u>Swap rates</u>								
2-year	-0.24	-0.20	-0.20	-0.10	3	2	7	
5-year	-0.08	0.86	0.05	0.15	92	8	12	
10-year	0.25	0.20	0.30	0.50	-8	-1	13	

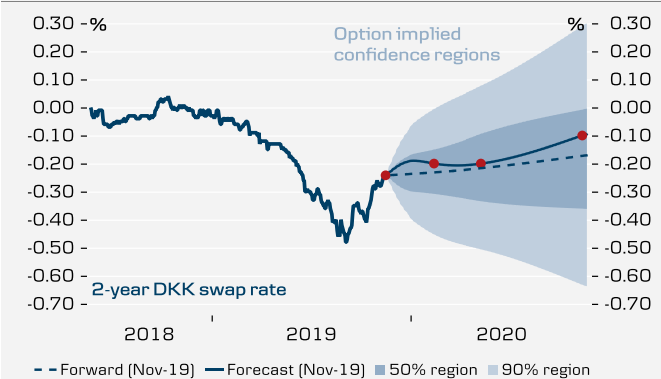
Source: Danske Bank

## 3M Cibur



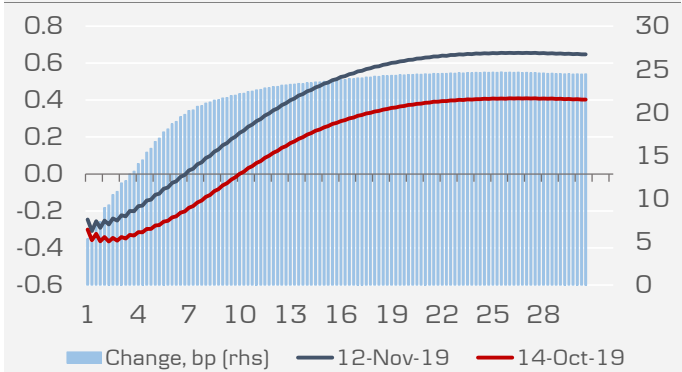
Source: Macrobond Financial, Danske Bank

## 2Y DKK swap rates



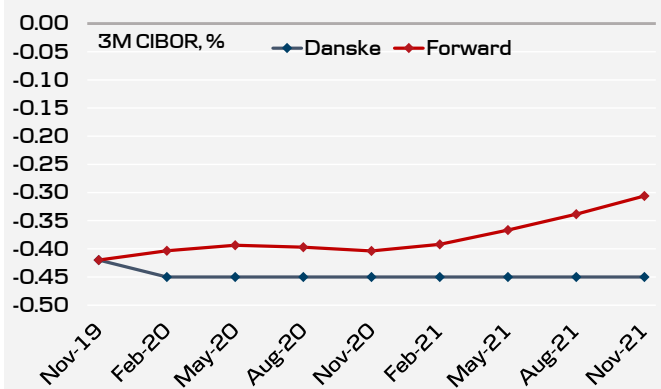
Source: Danske Bank

## 1M change in 6M Cibur



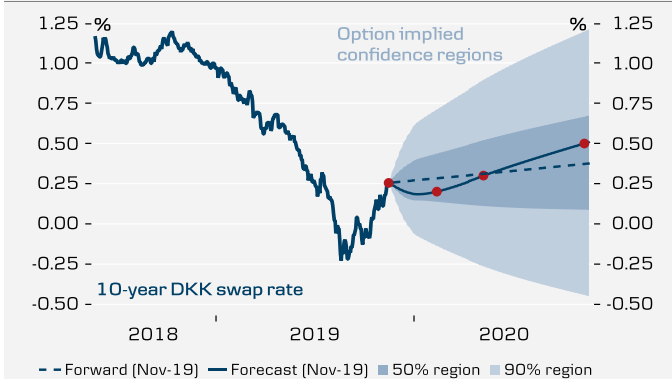
Source: Danske Bank

## Danske Bank forecast and forwards



Source: Macrobond Financial, Danske Bank

## 10Y DKK swap rates



Source: Danske Bank



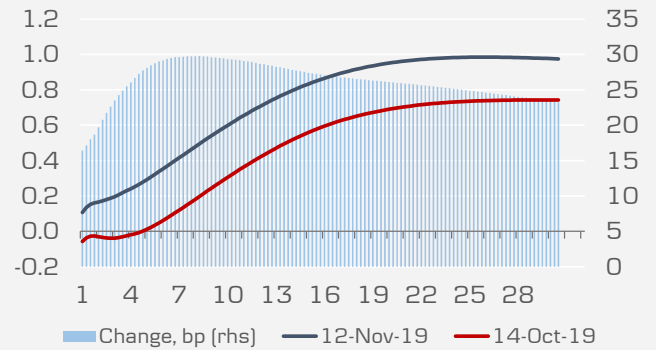
# Sweden forecasts

## SEK forecast summary

12/11/2019	--- Forecast ---				--- Fcst vs Fwd in bp ---		
SEK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
<b>Money market</b>							
Repo	-0.25	0.00	0.00	0.00	-	-	-
3M	0.04	0.15	0.15	0.15	-3	-4	-3
<b>Government bonds</b>							
2-year	-0.34	-0.45	-0.45	-0.45	-	-	-
5-year	-0.29	-0.20	-0.10	0.00	-	-	-
10-year	0.09	0.10	0.20	0.30	-	-	-
<b>Swap rates</b>							
2-year	0.18	0.15	0.15	0.15	-5	-6	-10
5-year	0.32	0.40	0.50	0.60	5	13	17
10-year	0.62	0.65	0.70	0.80	0	2	7

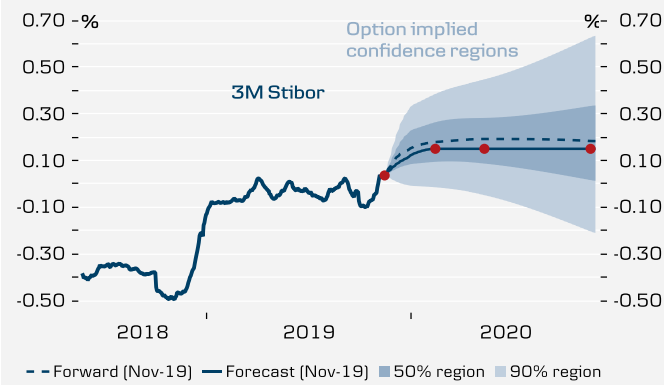
Source: Danske Bank

## 1M change in 3M Stibor



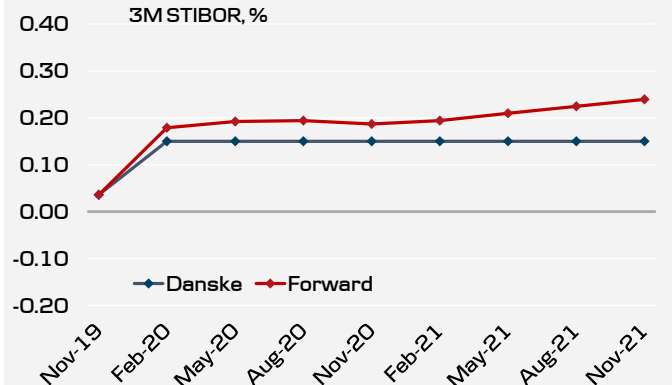
Source: Danske Bank

## 3M Stibor rate



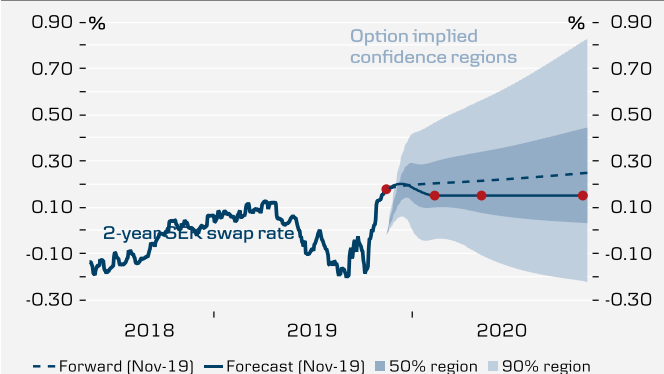
Source: Macrobond Financial, Danske Bank

## Danske Bank forecast and forwards



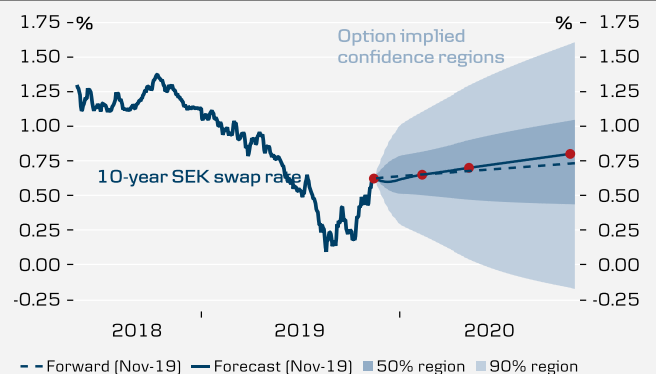
Source: Macrobond Financial, Danske Bank

## 2Y SEK swap rates



Source: Danske Bank

## 10Y SEK swap rates



Source: Danske Bank

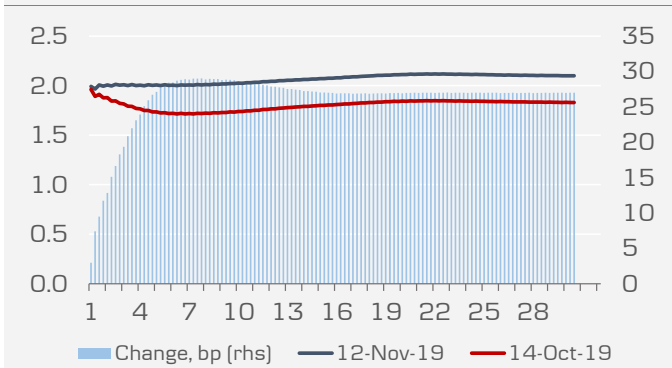
# Norway forecasts

## NOK forecast summary

NOK	12/11/2019				--- Forecast ---			--- Fcst vs Fwd in bp ---		
	Spot	+3m	+6m	+12m	+3m	+6m	+12m	+3m	+6m	+12m
<b>Money market</b>										
Deposit	150	150	175	175	-	-	-	-	-	-
3M	1.85	2.10	2.10	2.10	20	16	11			
6M	1.97	2.20	2.20	2.17	21	19	16			
<b>Government bonds</b>										
2-year	1.31	1.40	1.40	1.45	-	-	-			
5-year	1.37	1.40	1.50	1.60	-	-	-			
10-year	1.61	1.60	1.70	1.80	-	-	-			
<b>Swap rates</b>										
2-year	2.01	2.10	2.10	2.15	8	9	14			
5-year	2.01	2.05	2.15	2.25	4	15	25			
10-year	2.03	2.00	2.10	2.20	-3	7	16			

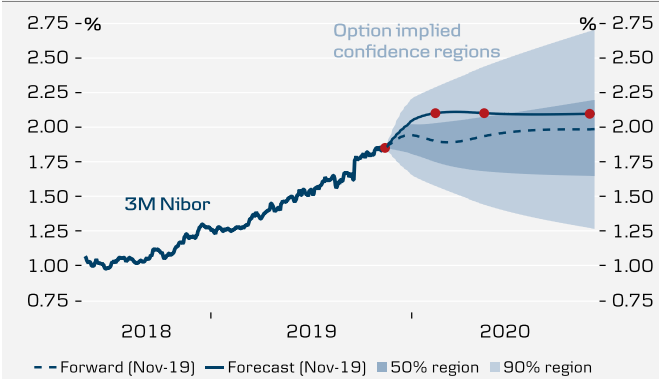
Source: Danske Bank

## 1M change in 6M Nibor



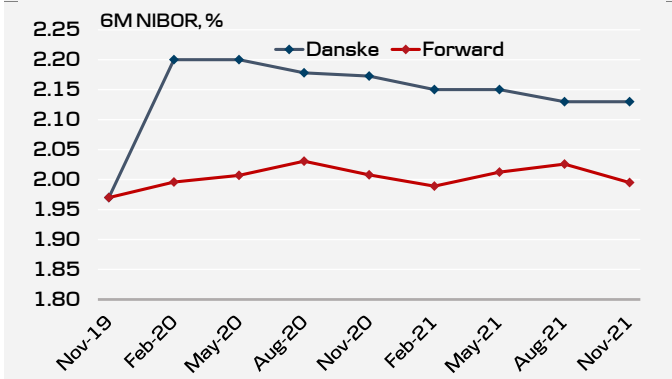
Source: Danske Bank

## 3M Nibor



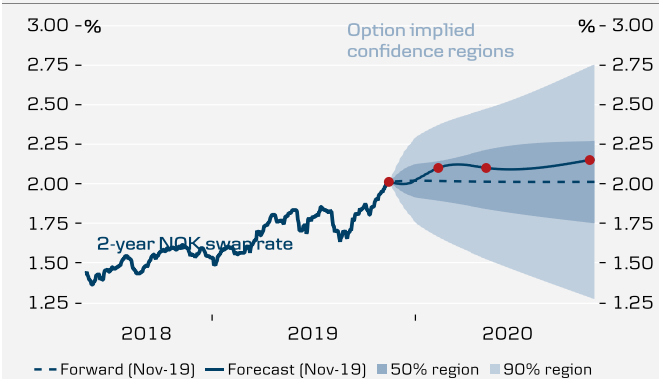
Source: Danske Bank

## Danske Bank forecast and forwards



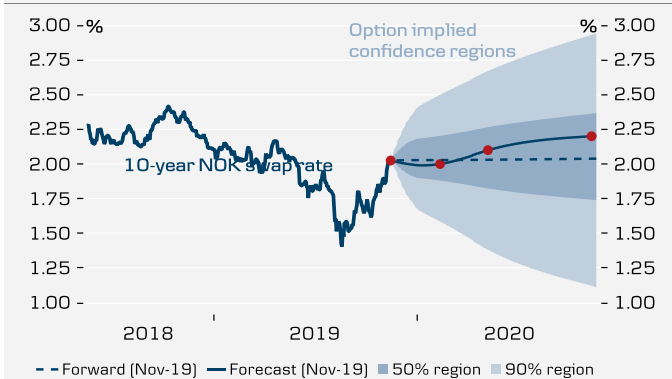
Source: Danske Bank

## 2Y NOK swap rate



Source: Danske Bank

## 10Y NOK swap rate



Source: Danske Bank

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<b>Forecasts table</b> .....					<b>4</b>
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