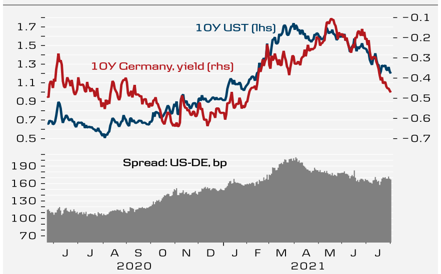
3 August 2021

Yield Outlook

Yields set to tick up later in 2021 as the US labour market improves and the Fed starts tapering

- We expect US rates and yields to increase late in 2021 as growth really spreads to the labour market and the Fed starts tapering its asset purchases. The US 10Y yield will probably hit 1.7% (previous forecast: 2.0 %) by the end of 2021 and 2% (2.2 %) on a 12M horizon.
- However, in the coming months markets are likely to focus on 1) whether inflation is actually temporary, 2) whether the economic cycle and growth have topped, 3) whether the Delta variant prompts further hospitalisations and restrictions and 4) whether the US labour market improves, which is a focus for the Federal Reserve. Hence, we expect range trading in coming months – with a slight upside risk to both European and US long yields.
- The ECB strengthened its forward guidance at the July meeting, emphasising that policy rates are set to remain at current or lower levels until the ECB sees inflation on track to reach 2% well ahead of the end of its projection horizon (typically one and a half years) and durably for the rest of the projection horizon. Note, not least, that the ECB is ready to accept that inflation is expected to move – or in fact moves – moderately above the 2% target for a transitory period.
- It will probably be quite difficult for the ECB to present a forecast meeting these requirements in the coming years. Hence, we no longer expect markets to price early rate hikes from the ECB – not even as the first US rate hikes move very close. We have therefore lowered our forecast for eurozone 5Y yields for the next 12 months, which also feeds into our 10Y yield outlook for the eurozone. We now expect the German 10Y yield to increase to -0.25% (0.0 %) by the end of 2021 and to 0.1% (0.3 %) 12 months from now.

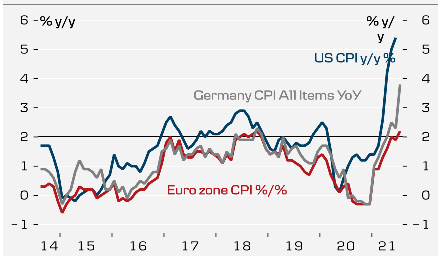
Long yields have declined over summer ....



Note: Past performance is not a reliable indicator of current or future results

Source: Danske Bank, Macrobond Financial, Bloomberg

... in spite of higher inflation



Note: Past performance is not a reliable indicator of current or future results

Source: Danske Bank, Macrobond Financial.

Links

Forecast table

EUR forecast

USD forecast

GBP forecast

SEK forecast

DKK forecast

NOK forecast

Central bank policy rates

Country	Spot	+3m	+6m	+12m
USD	0.25	0.25	0.25	0.25
EUR	-0.50	-0.50	-0.50	-0.50
GBP	0.10	0.10	0.10	0.10
DKK	-0.50	-0.60	-0.60	-0.60
SEK	0.00	0.00	0.00	0.00
NOK	0.00	0.25	0.50	1.00

10Y government bond yields

Country	Spot	+3m	+6m	+12m
USD	1.22	1.45	1.75	2.00
EUR	-0.46	-0.40	-0.20	0.10
GBP	0.57	0.80	0.90	1.30
DKK	-0.14	-0.10	0.05	0.35
SEK	0.11	0.25	0.40	0.50
NOK	1.19	1.50	1.70	1.90

Note: EUR = Bunds

10Y swap rates

Country	Spot	+3m	+6m	+12m
USD	1.25	1.45	1.75	2.00
EUR	-0.07	-0.03	0.15	0.45
GBP	0.83	1.05	1.15	1.55
DKK	0.23	0.24	0.40	0.70
SEK	0.56	0.70	0.80	0.85
NOK	1.49	1.80	2.00	2.20

Source: Danske Bank for all three tables

Chief Analyst, Head of Corporate Research
Arne Lohmann Rasmussen
+45 2146 2951
arr@danskebank.dk

Downward pressure on yields following increases earlier this year

Both eurozone and US long-term yields ticked up in Q1 21 as the global economy reopened and vaccines were rolled out to priority groups. Reopening, combined with large US fiscal easing, boosted GDP growth, and inflation expectations in the financial markets rose significantly. US 10Y Treasury yields increased from under 1% to more than 1.75% in Q1 21 and the benchmark German 10Y yield rose from -0.60% to -0.30%.

Yield picture turned round in Q2

However, yields made a U-turn in Q2 21, with US 10Y yields falling around 30bp. This trend has continued over summer and US 10Y yields are now down 50bp from their early-April peak. Eurozone yields have also declined quite a lot, with German 10Y yields back at minus 0.45% after hitting -0.1% in May. This is the lowest level of German yields since February.

Yields falling in spite of growth optimism and high inflation

Many market participants have been surprised by the decline in yields over the past 2-3 months. The economic outlook has improved as the vaccine programmes have been rolled out and the overall outlook is now brighter than at any time since the breakout of the pandemic in 2020.

Meanwhile, inflation has increased above the levels normally accepted by central banks. In the US, overall inflation rose to 5.4% y/y in June and unemployment has now edged below 6%. German inflation hit 3.8% y/y in July – its highest level since 1993. The Euro Stoxx 50 and S&P500 indices are up more than 15% so far this year.

What is making yields fall?

We see several reasons for the drop in yields in recent months but as we explain elsewhere, we expect long-term yields to start moving higher again in the winter months. However, risks are that yields could remain broadly at current or slightly lower levels for a longer period than we expect.

1. **Both the ECB and the Fed are patient**

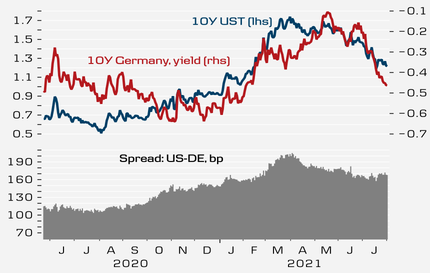
In the last issue of *Yield Outlook – Central banks to set the agenda over summer*, 17 June 2021, we underlined the continued dovish signals from the ECB and the FOMC. The Fed has argued for a long time that the inflation spike is transitory and due in part to the very low level of inflation a year ago, in part to the temporary effects of reopening.

As such, the Fed has argued for much of this year that it is too early to start talking about tapering its asset purchases. However, at the June and, not least, July meetings, discussions about tapering moved higher up the agenda and if our forecast for the US economy materialises, we expect tapering to start late in 2021. Consequently, the first US policy rate hike could likely come in H2 22.

The markets are pricing the first rate hike (25bp) at the beginning of Q2 23. While FOMC dots indicate two rate hikes in 2023, the Fed obviously is not in a hurry to hike rates and is not overly concerned about the increase in inflation in recent months.

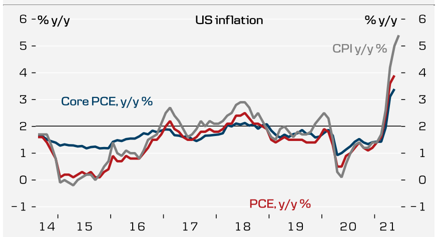
We have also received news from the ECB over summer. At the beginning of July, the central bank published its long awaited strategy review. It now has a clearly symmetric inflation target of 2%. In principle, this is a less aggressive strategy than the Fed's average inflation targeting, which implies the Fed is ready to accept inflation overshooting the target for a period if it has been too low in the preceding period.

Yields have declined in recent months



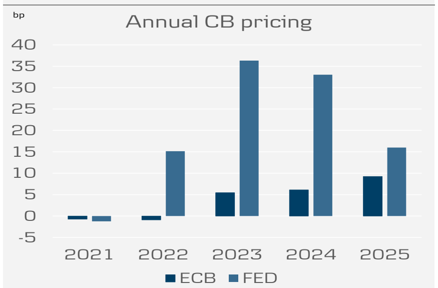
Note: Past performance is not a reliable indicator of current or future results. Source: Danske Bank

US inflation running above 5%



Source: Macrobond Financial, Bloomberg

Money market pricing of policy rate changes, bp



Note: Past performance is not a reliable indicator of current or future results. Source: Danske Bank

However, at its meeting on 22 July, the ECB sounded much like the Fed. ECB President Lagarde emphasised that policy rates are set to remain at current or lower levels until the ECB sees inflation on track to reach 2% well ahead of the end of its projection horizon (typically one and a half years) and durably for the rest of the projection horizon. Note, not least, that Lagarde said the ECB is ready to accept that inflation is expected to move – or in fact moves – moderately above the 2% target for a transitory period.

According to our macro economists, it could be quite difficult for the ECB to present a forecast meeting these requirements in the coming years. Although the eurozone can also boast decent growth rates, labour market pressure and inflationary pressures are far lower in the eurozone than in the US.

In other words, we have become even more convinced that the ECB is likely to maintain policy rates at minus 0.5% for quite a few years.

However, more importantly, we now believe the market will be far less inclined to price early rate hikes from the ECB – even when the first US rate hikes move really close. We have therefore lowered our forecast for eurozone 5Y yields for the next 12 months, which also feeds into our 10Y yield outlook for the eurozone.

2. Growing perception that inflation and growth have peaked

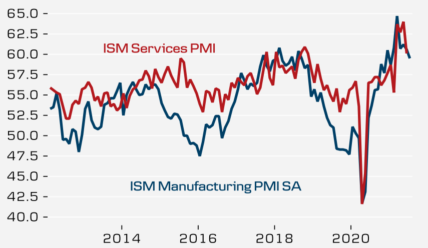
We also believe that the market is now really buying the narrative that the central banks are correctly arguing that the spike in inflation is temporary and due to transitory factors.

It should be noted in particular that market inflation expectations as measured by 10Y bond market break-evens now seem to be past peak though they remain above the Q1 21 and pre-pandemic levels – even with oil prices still rising. Historically, there has been a close correlation between inflation expectations (break-evens) and oil prices.

The lower inflation expectations serve to underline the market perception that current inflation is transitory, but it is also an indication that the market is starting to fear that the growth-curbing effects of higher commodity prices could erode household purchasing power. It might also mean that the market now believes US economic growth likely peaked in the second quarter at a year-on-year growth rate of 12.2%. The shaded area in the centre chart below shows consensus expectations for year-on-year US economic growth. It should be noted, however, that quarterly y/y growth rate may be as high, or even higher, in the third quarter. There is also an indication that the benchmark ISM indicator may have peaked. See the right-hand chart below. Overall, the market has begun to focus less on reflation in recent months. This might also be an indication that the market is expecting a shift in consumer spending away from goods consumption towards services in step with the reopening of the global economy. Such a shift might also alleviate some of the pressure or even curb the overheating currently seen in the global manufacturing industry. The right-hand chart below illustrates such a scenario for the US economy.

Note also that a number of major US companies, including Amazon and Facebook, indicated in their recent quarterly reports that they believe the high growth rates seen in the second quarter will likely not persist. In other words, the ketchup effect from reopening will likely not last much longer. The question now is how strong will the underlying growth be in the quarters ahead. We assume that it will be more than strong enough to support further distinct improvements, not least in the US labour market. In particular, we believe the market is underestimating the US growth outlook.

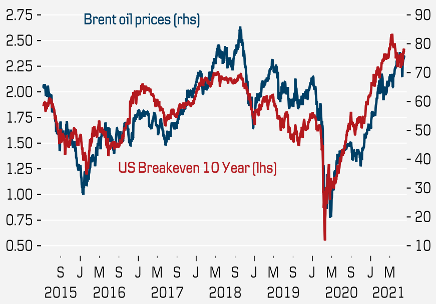
Concern that business cycle may have peaked – ISM data, net balance



Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank. Macrobond Financial

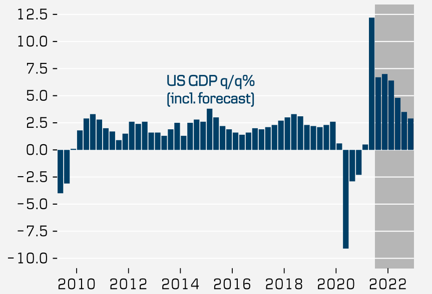
Still, new yield falls should certainly not be ruled out, especially if the market begins to price further deceleration of growth. In that scenario, the equity markets could become a joker, and so could a severe spike in the number of hospitalised COVID-19 patients due to the more contagious Delta variant. In fact, concerns about the Delta variant and uncertainty surrounding Chinese equities may have contributed to the past month's drop in yields. We have assumed that vaccines will effectively keep hospitals in Europe and the US from being overwhelmed, even in the event of a spike in the number of infections. Unfortunately, the situation currently unfolding for many emerging markets is not a positive one, due to the lag in vaccine roll-outs.

Lower inflation expectations (10Y break-evens) despite higher oil prices



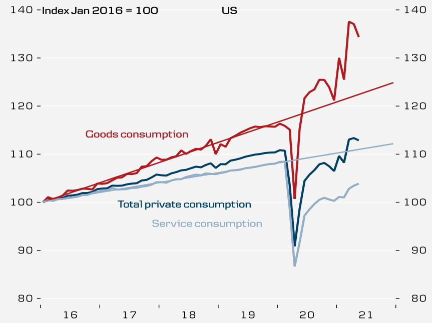
Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Macrobond Financial

The market perception is that US GDP growth peaked in Q2 21 (y/y %)



Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Bloomberg

Reduced goods consumption and increased service consumption going forward likely to relieve pressure on commodity inflation



Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Macrobonod Financial

Significant drop in real interest rates

The drop in yields, coupled with inflation expectations that have only moved slightly lower, has caused real interest rates to plummet over the course of the summer months. The charts below show 10Y real interest rates derived from 10Y index-linked bonds in Germany and the US. In the US, 10Y real rates have now dropped below minus 1%, the lowest level in more than 20 years. In light of the growth momentum in the US economy and the rapidly recovering labour market, the real rate of interest is in fact quite low. A comparison of the expected real interest rate for the next 10 years with estimates of the neutral real interest rate (referred to as r*) clearly indicates that today's real rate is quite low. The chart below (right-hand side) shows the estimated neutral real interest rate from New York Fed's Laubach and Williams and from Lubik and Matthes of the Richmond Fed. Their most recent estimates for the neutral real rate of interest are 0% and 0.65%, respectively.

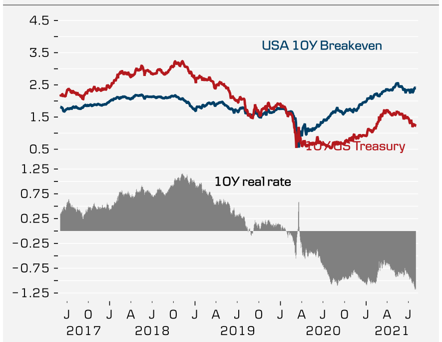
Undisputedly, the neutral real interest rate in the eurozone is quite low. This is due to the European savings surplus and low potential growth. However, the minus 2% expected by markets for the next ten years in Germany is clearly at the low end, in our view.

The falling yields witnessed this summer are driven by both the ECB and the Fed emphasising that initial rate cuts are still a long way off and maintaining their asset purchase programmes, and also by the fact that current inflation and commodity prices continue to move higher.

As described in the section below, concerns about the Delta variant and extended restrictions and new waves of infection have also played a role.

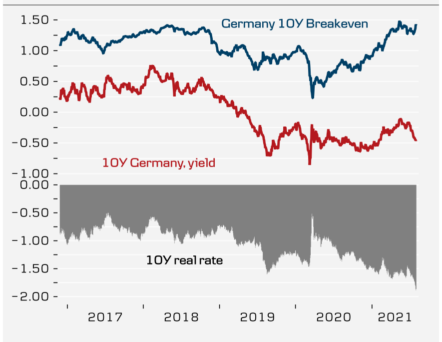
We have assumed that inflation expectations will move slightly higher from current levels as economic growth truly starts to have labour market repercussions both in Europe and the US. We have assumed that real interest rates will rise from current levels as the US starts to taper its asset purchases and we approach March 2022, when the ECB's Pandemic Emergency Purchase Programme (PEPP) ends. The PEPP may well be extended in some form or other, but other things being equal, the scope of asset purchases is likely to be reduced.

10Y real interest rates now lower than minus 1% in the US …



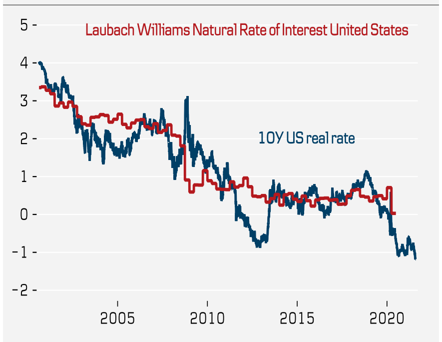
Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Macrobond Financial

… and close to minus 2% in Germany



Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Macrobond Financial

10Y real interest rate in the US now far below the neutral real interest rate (r*)



Note: Past performance is not a reliable indicator of current or future results
Source: Danske Bank, Macrobond Financial

3. Market positioned for higher yields

As mentioned in our latest edition of *Yield Outlook – Central banks to set the agenda over summer*, 17 June 2021, one key reason for the drop in yields could be that the market had already strongly positioned for, not least, higher US yields in spring. However, given the steep US yield curve, this was quite an 'expensive' position, which cost investors money each day yields did not move higher.

Generally, it is difficult to get an overview of positioning in the market, but there is much to indicate that 'higher yields' was a popular trade among investors in the first half of 2021. Given the drop in yields already witnessed, we believe current positioning is more neutral and not so much a specific market driver.

The current focus on the Delta variant and fears of low vaccine efficacy may also have prompted investors to look towards safe haven bond markets, contributing to the drop in yields.

We still believe yields will edge higher again at the end of 2021 and in 2022

We were surprised by how sharply yields fell during the spring and summer months. However, we do not expect yields to move lower over the next few months. On the other hand, we maintain that long-term US rates, and to some extent the European ones, are likely to tick higher as we move into Q4 21 and 2022.

In the near term, central banks look likely to succeed in keeping long-term rates at current levels by emphasising that they are in no hurry to start normalising their policies in spite of high inflation and vaccine rollouts. However, we believe the situation, not least in the US, will change when we look three to six months ahead.

Risk that the spike in inflation is not transitory

First of all the Federal Reserve is ignoring inflation overshooting the target for now, as it expects the increase in inflation to be transitory due to base effects (low inflation in 2020) and the effects of re-opening. However, commodity prices have soared in the past six months, with the surge broadly based across the spectrum. This will almost inevitably feed through to other prices in coming quarters. Commodity markets are usually very cyclical, but looking at this summer's price developments, it is difficult to identify fears of a global economic slowdown, which might otherwise explain part of the drop in yields.

Focus on US labour market and tapering

Secondly, the Fed has been sending new signals over the course of the summer period. Focus is now very much on improvements in the US labour market – which are set to continue in the coming months. At the recent FOMC meeting, Fed chair Jerome Powell emphasised that the 'economy is growing' and that the Fed will be assessing the 'improvement' at upcoming meetings.

We still expect tapering to be a prominent theme at the FOMC meeting in September with actual tapering likely to start in Q4 21. In this context, it is also worth keeping an eye on the Jackson Hole symposium due to be held in late August. Previously, the annual central bank symposium has delivered important news.

We expect the tapering process to last for around six months, after which time the Fed would probably no longer be buying bonds. Subsequently, we expect the Fed to deliver an initial policy rate hike in H2 22. As previously mentioned, markets are not pricing a rate hike until at the beginning of Q2 23. We expect markets to begin pricing more tightening into the US yield curve over the course of the next six months.

ECB to scale down asset purchases in 2022 … but stronger forward guidance

In June, the ECB extended its exceptionally high pace of bond buying into Q3 21. However, given the re-opening of economies and vaccine rollouts, we expect the pace of Pandemic Emergency Purchase Programme (PEPP) buybacks to normalise post Q3. It remains to be seen whether purchases will be scaled down in Q4 21. This would depend on whether the ECB will stay within the EUR1,850bn envelope of the PEPP or whether it decides to expand and/or extend the programme, which is set to expire by the end of Q1 22.

However, as mentioned above, the important thing was the ECB's stronger forward guidance. This will make it easier for the central banks to maintain a relatively tight grip on European rates and yields over the next couple of years. The yield curve out to three and perhaps even five years seems even more firmly anchored now.

We have previously forecast an increase to 0% in the 10Y Bund yield by the end of the year, and given the latest ECB statements that now seems less likely. However, we still expect US yields moving higher on a six to twelve month horizon to have an effect on long-term European yields and we also expect the ECB's monthly asset purchases to be reduced when the PEPP expires at the end of March 2022. Nevertheless, we have opted to downgrade our expectations for German yields. We now expect the 10Y Bund yield to rise to -0.25% (previously 0.0%) by the end of 2021, and we project an additional modest increase to 0.1% (previously 0.3%) on a 12-month horizon.

10Y UST yields still set to move higher

Overall, we still expect to see a further increase in long-term US yields.

The question is when. The summer months have shown that the fixed income market is at the forefront of developments, currently focusing on both inflation and cyclical trends/growth possibly having peaked in Q2 21. It will probably be a few months before focus shifts towards an improvement in the US labour market and tapering of Fed asset purchases. Still, our best estimate is that long-term US yields will not start moving significantly higher until in Q4 21. For now, central banks and fears that cyclical trends and inflation have peaked are keeping rates and yields anchored.

We expect 10Y US Treasury yields to rise to 1.7% by the end of the year, edging further up to 2% during 2022 as the initial policy rate hike moves closer.

As mentioned, we expect 10Y Bund yields to increase to 0.1% on a 12M horizon, with most of the increase materialising in Q2 and Q3 22.

We expect to publish the next issue of *Yield Outlook* in mid-September 2021.

Forecast*

	Horizon	Policy rate	3m xlbor	2-yr swap	5-yr swap	10-yr swap	2-yr gov	5-yr gov	10-yr gov
USD	Spot	0.25	0.12	0.27	0.79	1.25	0.18	0.68	1.22
	+3m	0.25	0.11	0.30	0.90	1.45	0.20	0.80	1.45
	+6m	0.25	0.11	0.40	1.10	1.75	0.30	1.00	1.75
	+12m	0.25	0.21	0.85	1.40	2.00	0.75	1.30	2.00
EUR*	Spot	-0.50	-0.54	-0.49	-0.36	-0.07	-0.76	-0.74	-0.46
	+3m	-0.50	-0.54	-0.50	-0.30	-0.03	-0.70	-0.65	-0.40
	+6m	-0.50	-0.54	-0.45	-0.25	0.15	-0.65	-0.60	-0.20
	+12m	-0.50	-0.54	-0.40	-0.05	0.45	-0.60	-0.40	0.10
GBP	Spot	0.10	0.07	0.43	0.67	0.83	0.06	0.27	0.57
	+3m	0.10	0.07	0.50	0.90	1.05	0.15	0.50	0.80
	+6m	0.10	0.07	0.55	0.95	1.15	0.20	0.60	0.90
	+12m	0.10	0.07	0.70	1.20	1.55	0.35	0.85	1.30
DKK	Spot	-0.50	-0.21	-0.13	-0.04	0.23	-0.58	-0.56	-0.14
	+3m	-0.60	-0.28	-0.20	-0.03	0.24	-0.53	-0.48	-0.10
	+6m	-0.60	-0.28	-0.17	0.00	0.40	-0.49	-0.44	0.05
	+12m	-0.60	-0.28	-0.12	0.20	0.70	-0.44	-0.24	0.35
SEK	Spot	0.00	-0.01	0.03	0.23	0.56	-0.32	-0.19	0.11
	+3m	0.00	-0.04	0.07	0.40	0.70	-0.30	-0.05	0.25
	+6m	0.00	-0.04	0.05	0.40	0.80	-0.30	0.00	0.40
	+12m	0.00	-0.04	0.05	0.40	0.85	-0.25	0.05	0.50
NOK	Spot	0.00	0.32	0.99	1.31	1.49	0.59	0.95	1.19
	+3m	0.25	0.66	1.20	1.65	1.80	0.80	1.30	1.50
	+6m	0.50	1.01	1.50	1.85	2.00	1.10	1.50	1.70
	+12m	1.00	1.35	1.80	1.95	2.20	1.40	1.60	1.90

** German government bond yields and euro swap rates*
Source: Danske Bank

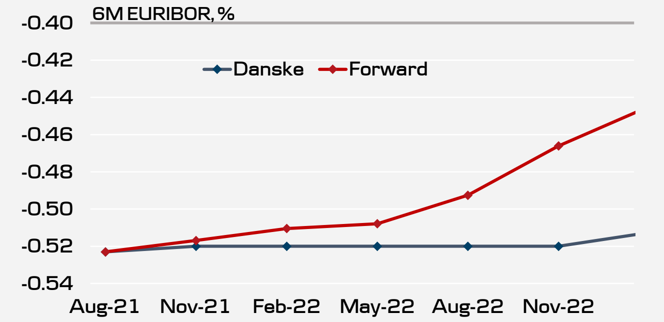
EUR forecast

EUR forecast summary

02/08/2021		--- Forecast ---			--- Fcst vs Fwd in bp ---		
EUR	Spot	+3m	+6m	+12m	+3m	+6m	+12m
			Money Market				
Refi	0.00	0.00	0.00	0.00	-	-	-
Deposit	-0.50	-0.50	-0.50	-0.50	-	-	-
3M	-0.54	-0.54	-0.54	-0.54	1	-1	-1
6M	-0.52	-0.52	-0.52	-0.52	-1	-1	-3
			Government Bonds				
2-year	-0.76	-0.70	-0.65	-0.60	-	-	-
5-year	-0.74	-0.65	-0.60	-0.40	-	-	-
10-year	-0.46	-0.40	-0.20	0.10	-	-	-
			Swap rates				
2-year	-0.49	-0.50	-0.45	-0.40	-2	1	2
5-year	-0.36	-0.30	-0.25	-0.05	4	2	22
10-year	-0.07	-0.03	0.15	0.45	1	17	41

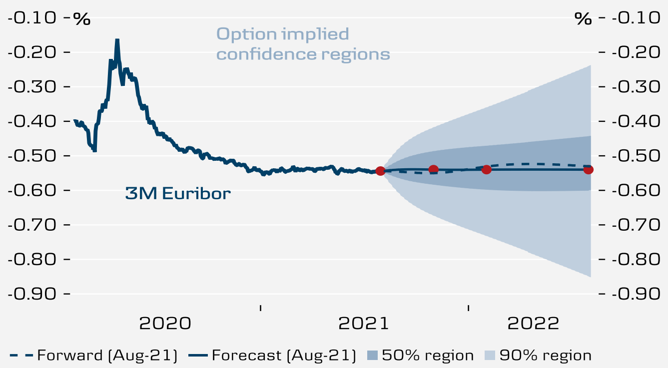
Source: Danske Bank

Danske Bank forecast and forwards



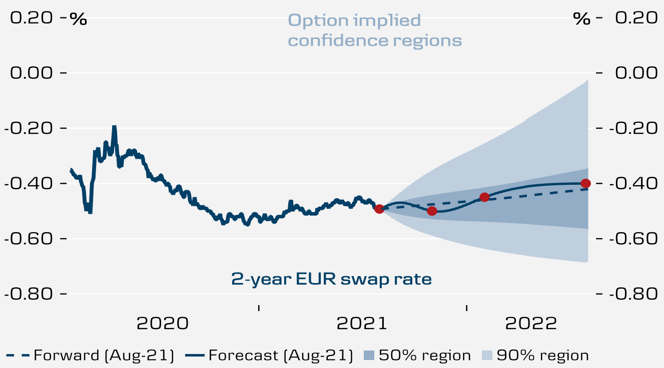
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Euribor



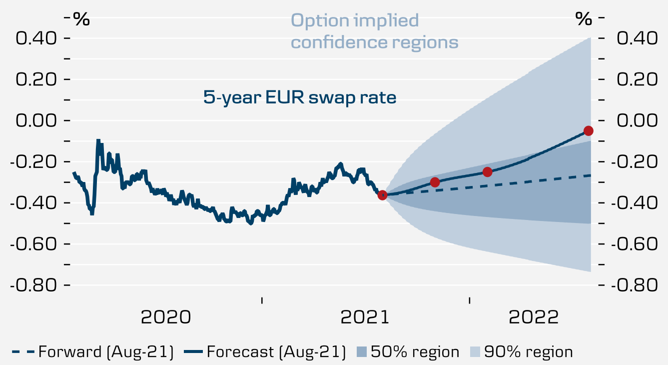
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y EUR swap rates



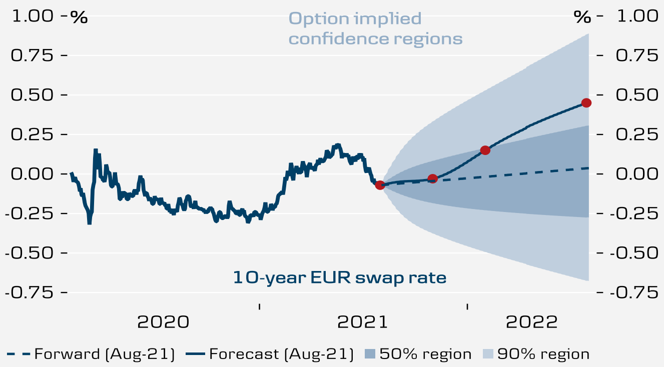
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

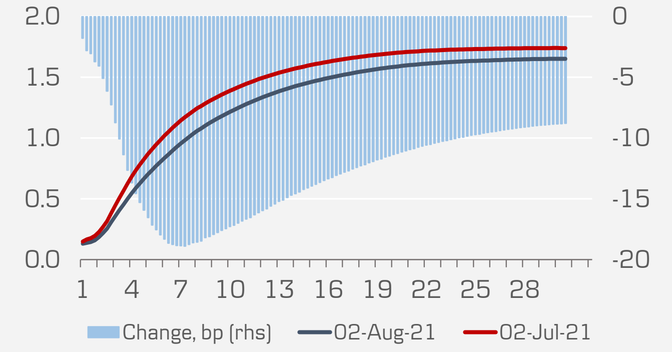
USD forecast

USD forecast summary

02/08/2021		--- Forecast ---			--- Fcst vs Fwd in bp ---		
USD	Spot	+3m	+6m	+12m	+3m	+6m	+12m
			Money Market				
Fed Funds	0.25	0.25	0.25	0.25	-	-	-
3M	0.12	0.11	0.11	0.21	-3	-5	-2
			Government Bonds				
2-year	0.18	0.20	0.30	0.75	-	-	-
5-year	0.68	0.80	1.00	1.30	-	-	-
10-year	1.22	1.45	1.75	2.00	-	-	-
			Swap rates				
2-year	0.27	0.30	0.40	0.85	-5	-3	22
5-year	0.79	0.90	1.10	1.40	5	18	33
10-year	1.25	1.45	1.75	2.00	15	40	56

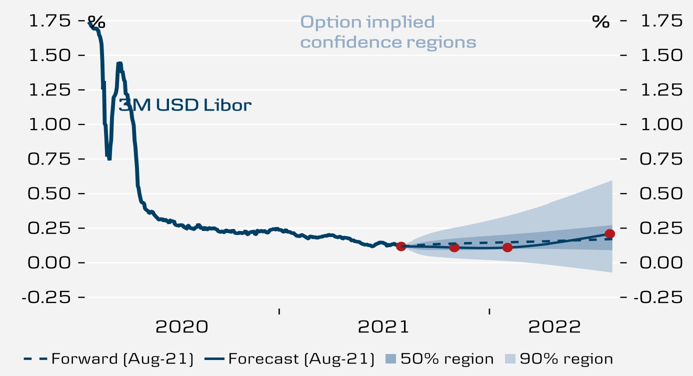
Source: Danske Bank

1M change in USD swap (3M)



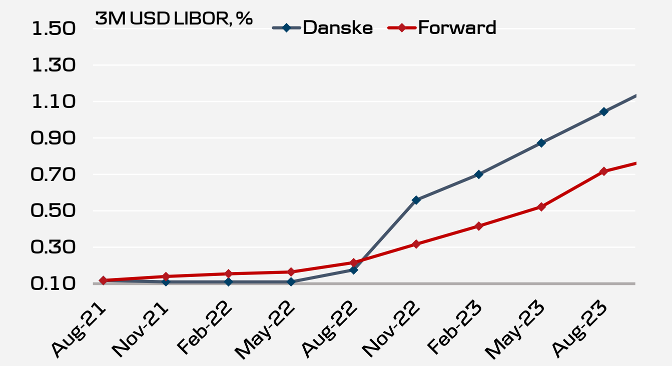
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M USD Libor rates



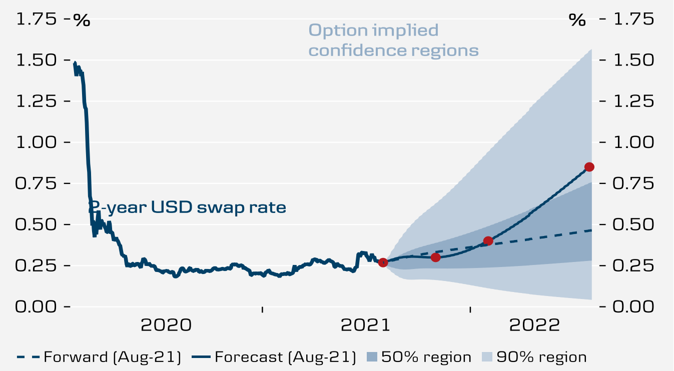
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

Danske Bank forecast and forwards



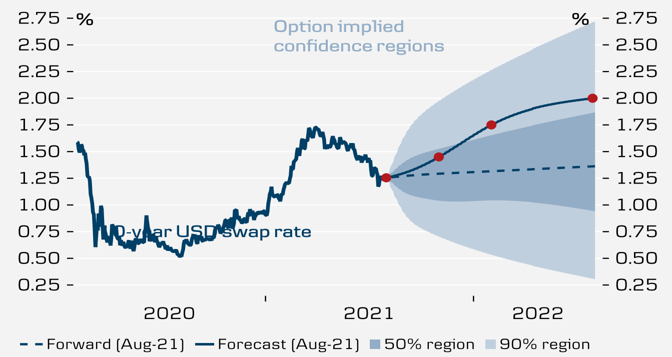
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y USD swap rates



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

10Y USD swap rates



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

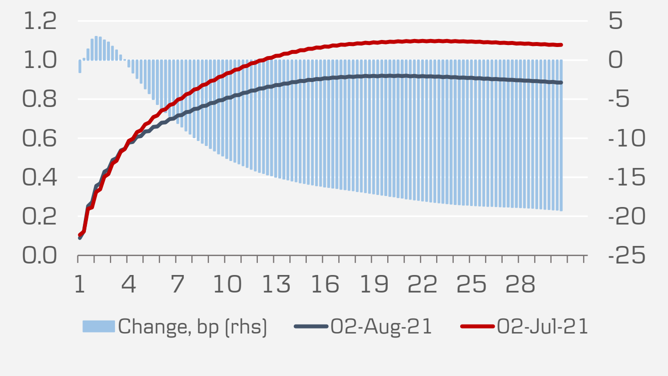
GBP forecast

GBP forecast summary

02/08/2021		--- Forecast ---			--- Fcst vs Fwd in bp ---		
GBP	Spot	+3m	+6m	+12m	+3m	+6m	+12m
			Money Market				
Repo	0.10	0.1	0.1	0.1	-	-	-
3M	0.07	0.07	0.07	0.07	-3	-15	-30
			Government Bonds				
2-year	0.06	0.15	0.20	0.35	0	2	11
5-year	0.266	0.5	0.6	0.85	17	24	43
10-year	0.57	0.80	0.90	1.30	12	18	51
			Swap rates				
2-year	0.43	0.50	0.55	0.70	1	-4	2
5-year	0.66	0.90	0.95	1.20	21	21	30
10-year	0.82	1.05	1.15	1.55	21	28	65

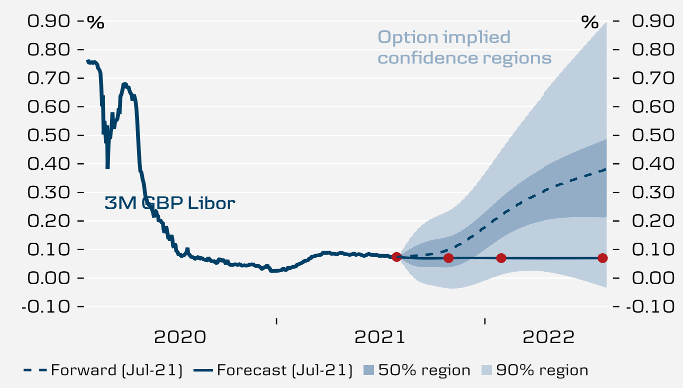
Source: Danske Bank

1M change in GBP swap (6M)



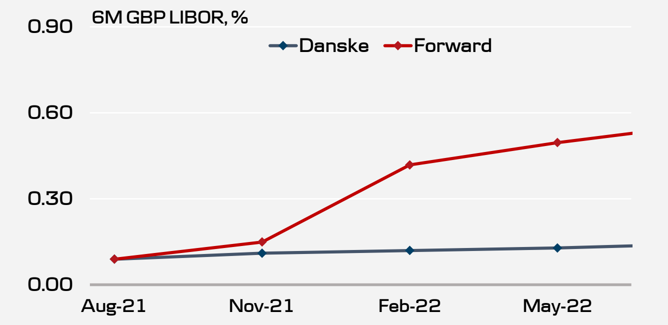
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M GBP Libor rates



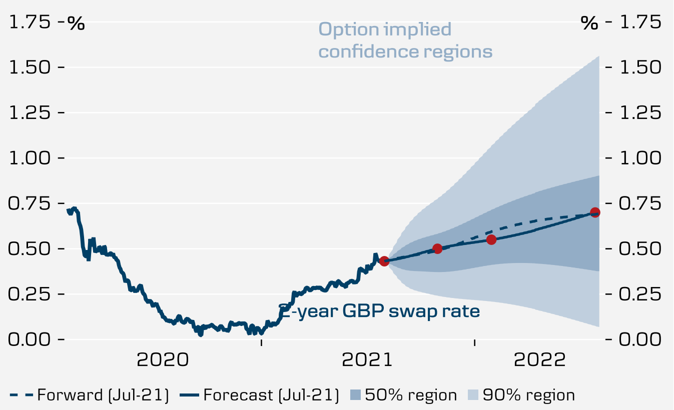
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

Danske Bank forecast and forwards



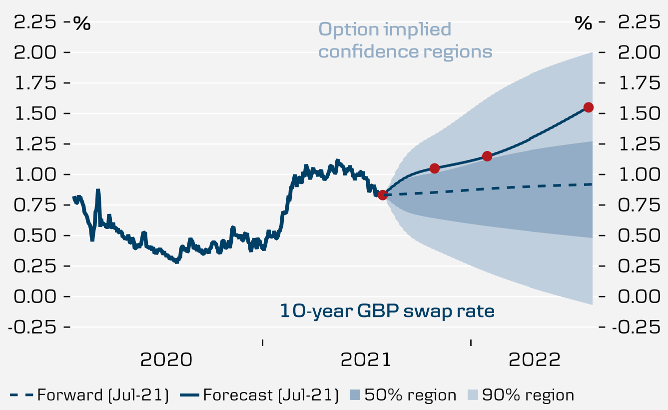
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

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

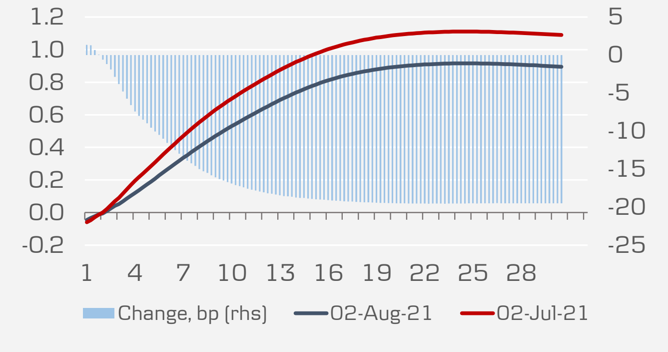
SEK forecast

SEK forecast summary

02/08/2021 SEK	Spot	--- Forecast --- +3m	+6m	+12m	--- Fcst vs Fwd in bp --- +3m	+6m	+12m
			Money market				
Repo	0.00	0.00	0.00	0.00	-	-	-
3M	-0.01	-0.04	-0.04	-0.04	4	-3	-7
			Government bonds				
2-year	-0.32	-0.30	-0.30	-0.25	-	-	-
5-year	-0.19	-0.05	0.00	0.05	-	-	-
10-year	0.11	0.25	0.40	0.50	-	-	-
			Swap rates				
2-year	0.03	0.07	0.05	0.05	2	-3	-9
5-year	0.23	0.40	0.40	0.40	14	11	4
10-year	0.56	0.70	0.80	0.85	12	18	17

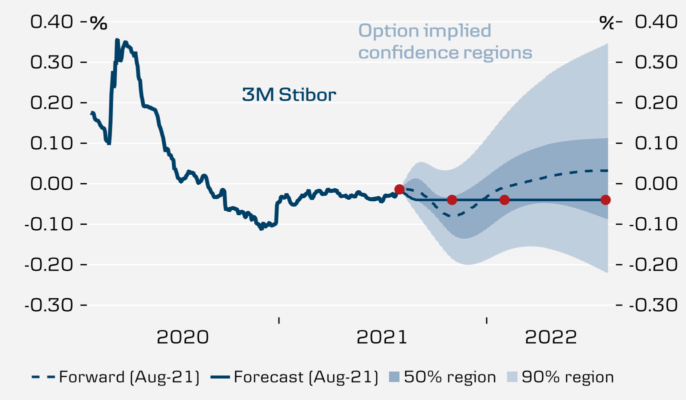
Source: Danske Bank

1M change in SEK swap (3M)



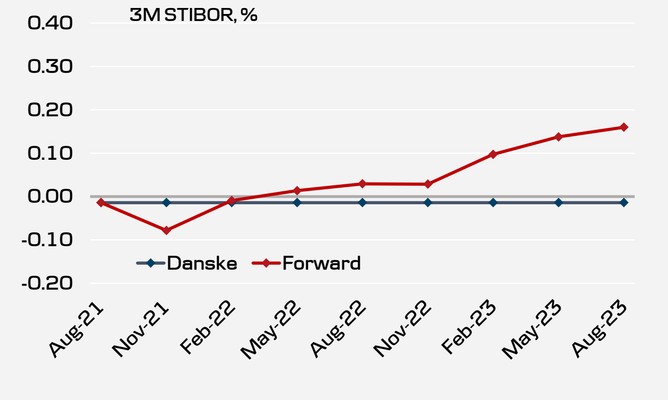
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Stibor rate



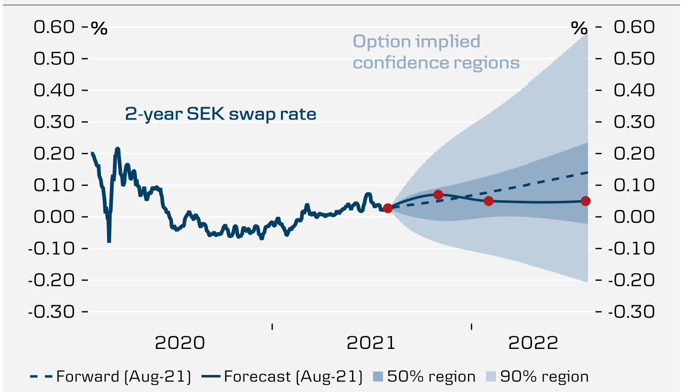
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

Danske Bank forecast and forwards



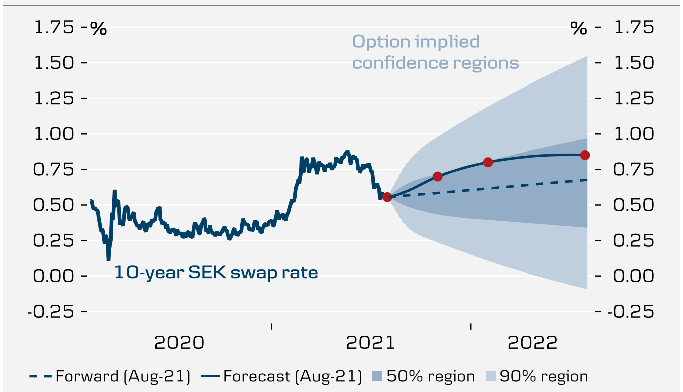
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y SEK swap rates



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

10Y SEK swap rates



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

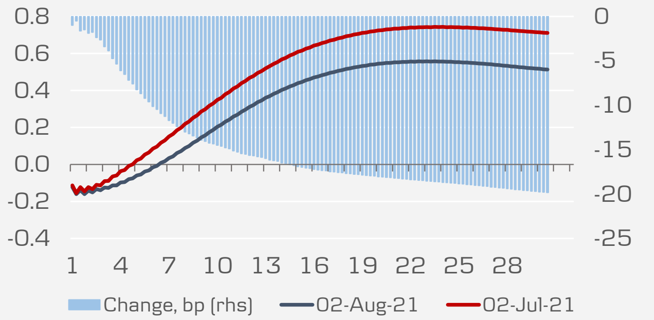
DKK forecast

DKK forecast summary

02/08/2021		--- Forecast ---			--- Fcst vs Fwd in bp ---		
DKK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
			Money Market				
CD	-0.50	-0.60	-0.60	-0.60	-	-	-
Repo	-0.35	-0.45	-0.45	-0.45	-	-	-
3M	-0.21	-0.28	-0.28	-0.28	-5	-2	-3
6M	-0.12	-0.17	-0.17	-0.17	-4	-2	-3
			Government bonds				
2-year	-0.58	-0.53	-0.49	-0.44	-	-	-
5-year	-0.56	-0.48	-0.44	-0.24	-	-	-
10-year	-0.14	-0.10	0.05	0.35	-	-	-
			Swap rates				
2-year	-0.13	-0.20	-0.17	-0.12	-7	-5	-3
5-year	-0.04	-0.03	0.00	0.20	-1	0	16
10-year	0.23	0.24	0.40	0.70	-1	12	37

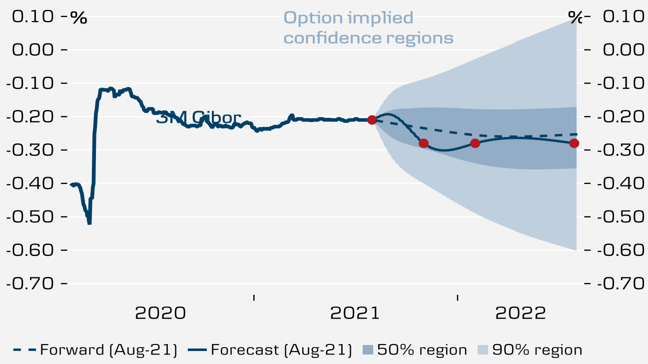
Source: Danske Bank

1M change in DKK swap (6M)



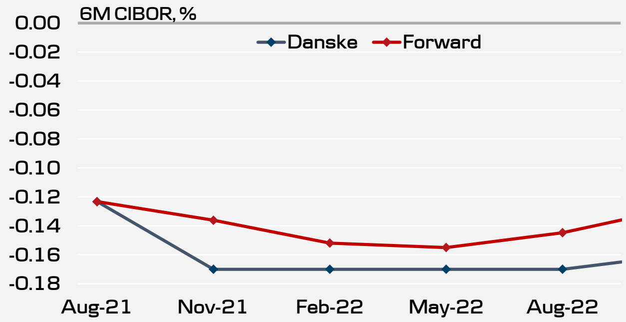
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Cibor



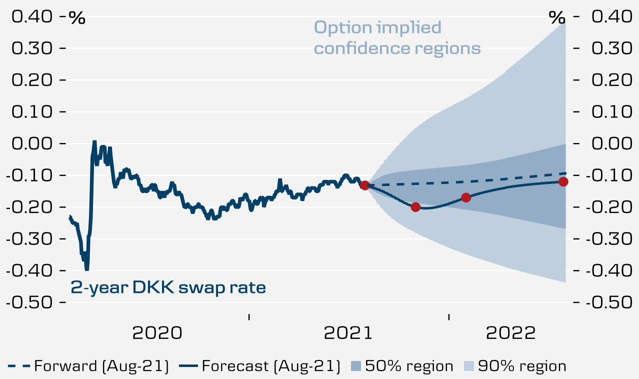
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

Danske Bank forecast and forwards



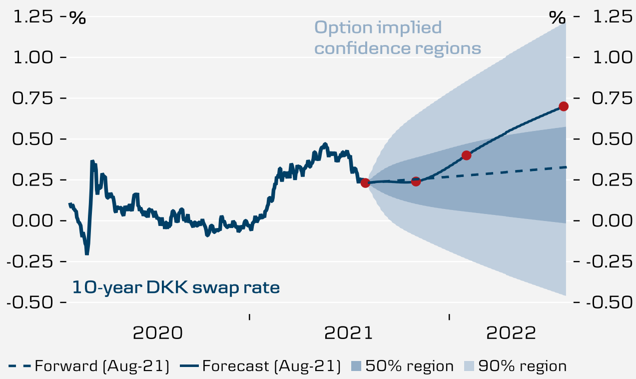
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y DKK swap rates



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

10Y DKK swap rates



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

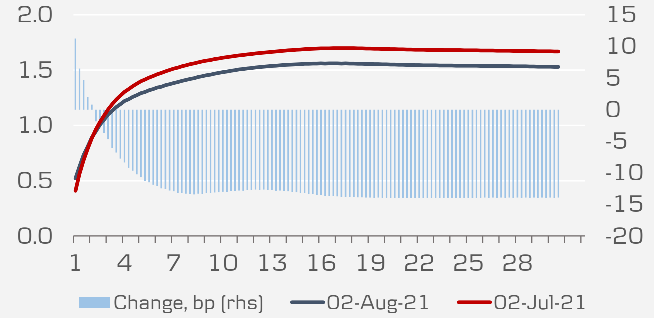
NOK forecast

NOK forecast summary

02/08/2021		--- Forecast ---			--- Fcst vs Fwd in bp ---		
NOK	Spot	+3m	+6m	+12m	+3m	+6m	+12m
Money market							
Deposit	0.00	0.25	0.50	1.00	-	-	-
3M	0.32	0.66	1.01	1.35	3	21	27
6M	0.51	0.87	1.20	1.48	9	26	28
Government bonds							
2-year	0.59	0.80	1.10	1.40	-	-	-
5-year	0.95	1.30	1.50	1.60	-	-	-
10-year	1.19	1.50	1.70	1.90	-	-	-
Swap rates							
2-year	1.01	1.20	1.50	1.80	6	26	41
5-year	1.32	1.65	1.85	1.95	27	42	46
10-year	1.49	1.80	2.00	2.20	27	44	60

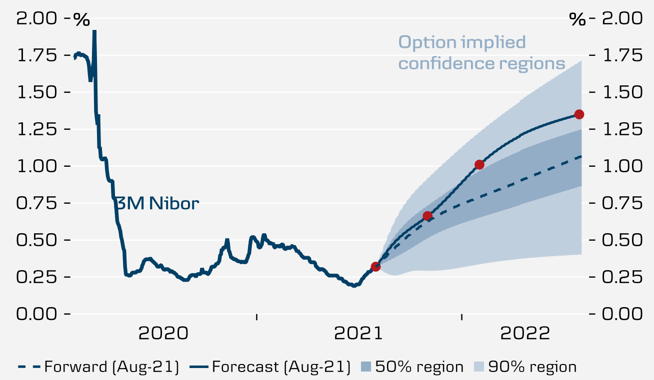
Source: Danske Bank

1M change in NOK swap (6M)



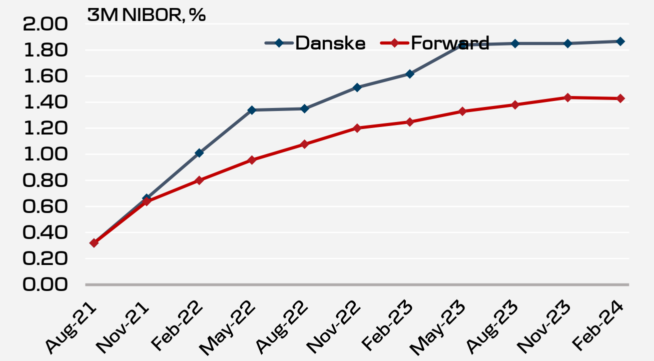
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

3M Nibor



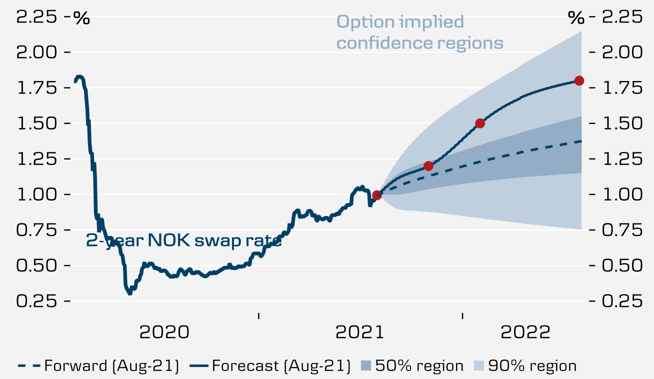
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

Danske Bank forecast and forwards



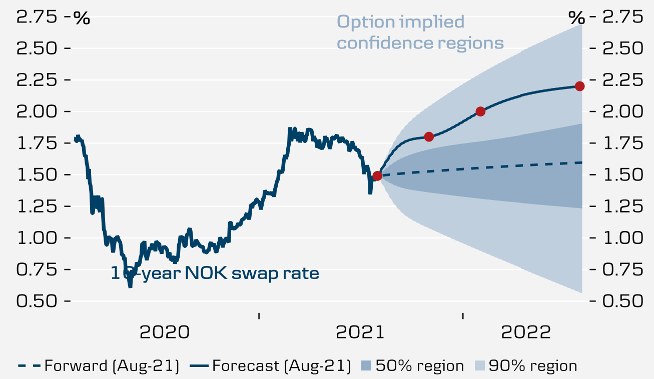
Note: Past performance is not a reliable guide to future returns
Source: Danske Bank

2Y NOK swap rate



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

10Y NOK swap rate



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

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Arne Lohmann Rasmussen, Chief Analyst, Head of Corporate Research.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Danske Bank is not registered as a Credit Rating Agency pursuant to the CRA Regulation (Regulation (EC) no. 1060/2009); hence, Danske Bank does not comply with nor seek to comply with the requirements applicable to Credit Rating Agencies.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Danske Bank is a market maker and liquidity provider and may hold positions in the financial instruments mentioned in this research report.

Danske Bank, its affiliates and subsidiaries are engaged in commercial banking, securities underwriting, dealing, trading, brokerage, investment management, investment banking, custody and other financial services activities, may be a lender to the companies mentioned in this publication and have whatever rights are available to a creditor under applicable law and the applicable loan and credit agreements. At any time, Danske Bank, its affiliates and subsidiaries may have credit or other information regarding the companies mentioned in this publication that is not available to or may not be used by the personnel responsible for the preparation of this report, which might affect the analysis and opinions expressed in this research report.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual fixed income asset.

We base our conclusion on an estimation of the financial risk profile of the financial asset. By combining these risk profiles with market technical and financial asset-specific issues such as rating, supply and demand factors, macro factors, regulation, curve structure, etc., we arrive at an overall view and risk profile for the specific financial asset. We compare the financial asset to those of peers with similar risk profiles and on this background, we estimate whether the specific financial asset is attractively priced in the specific market. We express these views through buy and sell recommendations. These signal our opinion about the financial asset's performance potential in the coming three to six months.

More information about the valuation and/or methodology and the underlying assumptions is accessible via *https://danskeci.com/ci/research/research-disclaimer*. Select *Fixed Income Research Methodology*.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Completion and first dissemination

The completion date and time in this research report mean the date and time when the author hands over the final version of the research report to Danske Bank's editing function for legal review and editing.

The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

See the final page of this research report for the date and time of completion and first dissemination.

Validity time period

This communication as well as the communications in the list referred to below are valid until the earlier of (a) dissemination of a superseding communication by the author, or (b) significant changes in circumstances following its dissemination, including events relating to the market or the issuer, which can influence the price of the issuer or financial instrument.

Investment recommendations disseminated in the preceding 12-month period

A list of previous investment recommendations disseminated by the lead analyst(s) of this research report in the preceding 12-month period can be found at *https://danskeci.com/ci/research/research-disclaimer*. Select Fixed Income Trade Recommendation History

Other previous investment recommendations disseminated by Danske Bank are also available in the database.

See *https://danskeci.com/ci/research/research-disclaimer* for further disclosures and information.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

Report completed: 03 August 2021, 18:30 CET
Report first disseminated: 03 August 2021, 19:15 CET