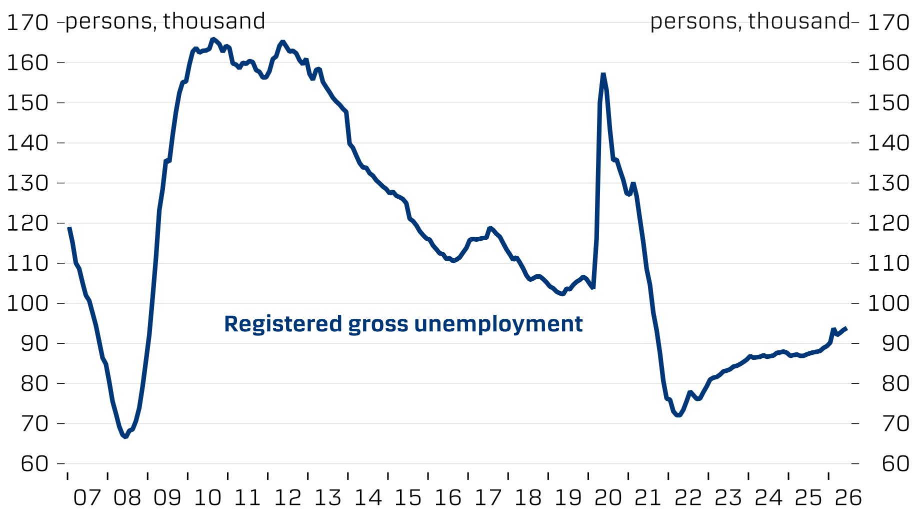
Reading the Markets Denmark

Strong labour force growth sends unemployment higher

- ***Macro.*** Unemployment has risen moderately over the past year. This is due to a growing labour force and not a slowdown in employment – it is growing at exactly the same pace as previously.
- ***FX + STIR.*** The pressure on EUR/DKK has continued during August and has probably fuelled expectations that Danmarks Nationalbank has resumed FX intervention. The 3M EUR/DKK FX forward has risen again, driven by the above, but also by increased expectations for rate hikes from the ECB this year. It is still low, and we do not expect a further rise in the coming months.
- ***Bonds.*** The floater and noncallable auctions in recent weeks have probably been affected by the weak DKK, which is adding to speculation about an independent rate hike from Danmarks Nationalbank. Next week's opening of the new '59 bond series creates opportunities for investors and we recommend buying 4'59 (ordinary and IO), both outright and relative to 4'56 (ordinary and IO).
- See ***Trade overview*** on page 6.

Unemployment is increasing, driven by a growing labour force



Note: Employment according to the national accounts. Work force = employment + registered unemployment. Source: Statistics Denmark, Macrobond, Danske Bank

Recent publications

- *FX Forecast Update - Temporary USD weakness*, 21 August
- *Yield Outlook - Markets expect too many ECB hikes*, 18 August

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Macro. Labour force drives higher unemployment

In June, registered unemployment was 6,600 full-time persons higher than a year earlier, and preliminary figures indicate that it increased by a further 300 in July. The increase has occurred despite the number of wage-earner jobs rising by 31,030 over the same period – and the figures only cover developments up to May, which is the latest point for which data is currently available. There has been a small decline in the number of self-employed people, but overall unemployment has risen because more people are registered as being available for the labour market – the number in this group has increased faster than the number of jobs.

Public-sector job growth offsets decline in industry

This may partly be because the number of jobs is growing more slowly than previously, for example because Novo Nordisk has carried out what must be one of the largest rounds of redundancies in Denmark. The figures also clearly show that the number of jobs in manufacturing has declined over the past year, whereas manufacturing had previously made a clearly positive contribution to job growth – in both cases probably to a large extent related to Novo Nordisk.

That effect has, however, been offset by job growth picking up in other areas. This applies to trade, transport and, to a large extent, the public sector, which over the past year has accounted for more than one-third of total job growth. This means that the increase in total employment over the past 12 months is just as large as the increase over the preceding 12 months.

Immigration causes higher growth in the labour force

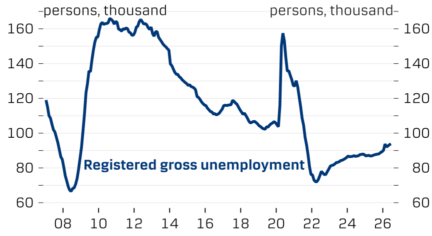
A large part of the explanation for more people being registered as available for the labour market is immigration. Around 20,000 more foreign citizens are working in Denmark now than a year ago, including more than 5,000 additional Ukrainians. There are also a couple of thousand more foreign citizens receiving cash benefit and similar benefits, again pulled higher by Ukrainians, but with declines for other groups. At the same time, more Danes are in employment, which is partly possible because people are retiring later from the labour market.

Unemployment can still be a challenge for the economy, even if it is due to the labour force growing rather than employment declining. However, the relatively limited increase we are talking about does not appear problematic and may also reflect that a group of newly-arrived Ukrainians has not entered employment immediately. In Denmark, we normally measure unemployment based on who is registered as being available for the labour market.

Uncertain future

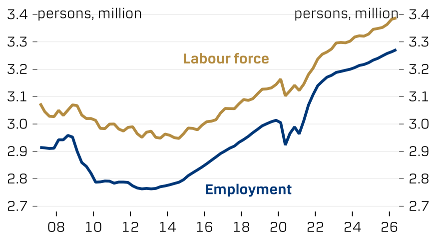
So what does the future look like? Job growth looks reasonable when viewed in the context of the state of the economy – though with a small caveat as to whether we begin to see AI-related cutbacks. Whether we continue to see immigration and higher labour force participation is considerably more uncertain, but as a starting point, developments suggest that unemployment will remain low without being extremely low. Other indicators also suggest that the labour market is relatively balanced. This applies, for example, to wage growth, which is, if anything, slightly lower than in a weighted average of the countries Denmark trades with.

Unemployment is increasing



Source: Statistics Denmark, Macrobond, Danske Bank

Driven by a growing labour force



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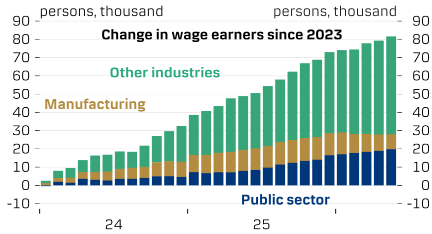
Job growth has shifted, not stopped



Source: Statistics Denmark, Macrobond, Danske Bank

Wage growth follows developments abroad

Note: 4-quarter moving average. Source: DA, Macrobond.

FX+STIR. Several factors driving FX forwards

EUR/DKK has been around the intervention level from June for large parts of August. At the same time, the net position is slightly lower than expected. It is therefore reasonable to speculate whether Danmarks Nationalbank has resumed intervention in the FX market, which was started in June but paused in July.

The FX reserve for August will be published on Wednesday and will reveal whether this has been the case and, if so, how much intervention has taken place. This will naturally affect expectations for a possible rate hike, but intervention also affects the STIR market through another channel, namely through its impact on the net position.

Intervention may put some pressure on DKK liquidity

When Danmarks Nationalbank intervenes, it lowers the net position 1:1 and thereby drains DKK liquidity. The net position has risen well above DKK300bn over the summer, which provides a solid safety margin to the low level where short-end rates start to be pushed upward.

The first place where DKK liquidity could come under pressure from intervention is around quarter ends. We currently expect the net position to be around DKK310-315bn at the end of Q3 and around DKK325bn at the end of the year. By comparison, the net position was DKK235bn and DKK324bn at the end of Q3 and Q4 last year, respectively.

Danmarks Nationalbank's intervention purchases of DKK have rarely exceeded DKK10bn per month. The probability of a very low net position at the Q3 quarter-end is therefore very small. On the other hand, through a combination of intervention and stronger public finances, the net position could end lower at the end of the year. If so, it would take quite a lot before it, for example, declines below DKK260bn, which was the level at the end of 2024.

Several reasons for the rise in EUR/DKK forwards

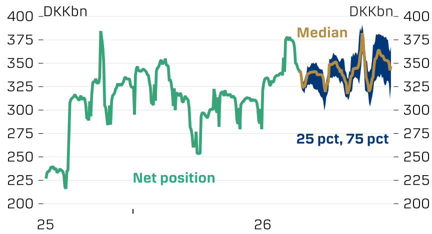
EUR/DKK FX forwards have risen slightly since the start of August. The 3M forward is now around -41bp versus -43bp two weeks ago. The rise has been driven by moves in both XCCY basis and the swap spread. It is still below the policy rate spread.

Several factors are pushing forwards higher; expectations of an independent rate hike and the impact of the net position are the primary factors, but it does not stop there. The market has slightly increased its expectations for rate hikes from the ECB for the rest of the year and now expects the policy rate to be raised by 40bp, due partly to the European natural gas price. Because of the five-day value-date difference between rate hikes from Danmarks Nationalbank and the ECB, higher expectations for rate hikes from the ECB will push FX forwards higher and vice versa.

Earlier this year, there was speculation that the ECB could consider raising the minimum reserve requirement from 1% to 2%. We doubt that this will happen, but if it does, it will also push EUR/DKK forwards higher through a larger month-end effect around the months when banks report their reserve requirements. They do so in October, December, January, March, etc. Large month-end effects characterised the FX forward market in 2023-2025, but the effect has been less pronounced this year. It could return if the ECB raises the minimum reserve requirement.

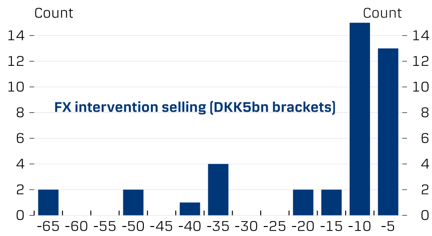
We expect only one rate hike from the ECB this autumn, no independent rate hike from Danmarks Nationalbank and a stable, high net position. We therefore do not think the 3M forward should rise further.

Stable, high net position through year-end



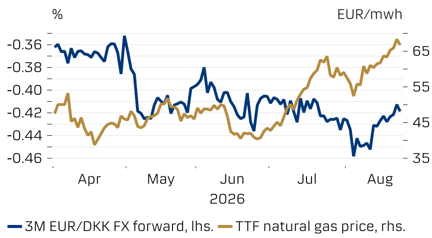
Source: Danmarks Nationalbank, Macrobond, Danske Bank

Danmarks Nationalbank rarely intervenes by more than DKK10bn per month



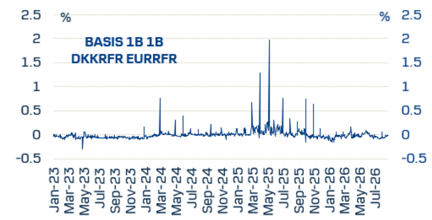
Source: Danmarks Nationalbank, Macrobond, Danske Bank

3M forward and the gas price have tracked each other closely recently



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

Will the turn-of-the-month effect return?



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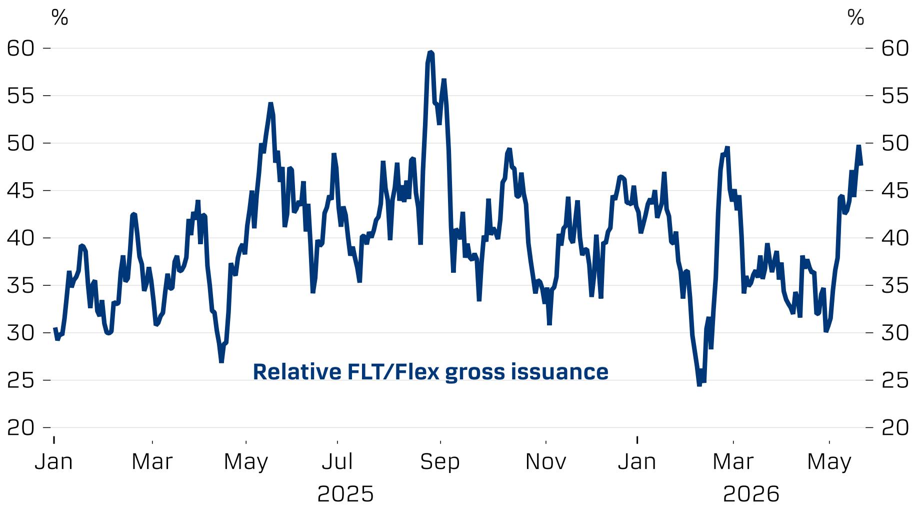
Bonds. Weak DKK spills over to covered bonds

The continued weakening pressure on DKK has over recent months spilled over to the net position, which has declined, FX forwards, which have become less negative, and the bond market, where clients with hedging via EUR swaps could come under pressure.

The floater refinancing auction last week was on the soft side. 3M Cibor Apr'29 and 3M Cibor Oct'29 came in at around 7bp and 10bp, respectively, versus similar noncallables and 37bp versus DESTR. This was 2bp above both the secondary market and our expectations. The EUR floater auction last Friday, however, saw solid demand. 3M Euribor Oct'29 was sold at 6bp versus similar noncallables and with an interest rate spread of 26bp, corresponding to 10bp versus Euribor 6M midswap. If EUR/DKK remains around the current level of 7.4759, it will keep speculation about an independent rate hike from Danmarks Nationalbank alive and could put further pressure on DKK bonds.

We expect floater issuance to remain stable and account for around 40-45% of total noncallable and floater issuance. The share has been slightly higher over the summer, which we attribute primarily to seasonal effects.

Relative floater-to-noncallable issuance remains stable at around 40%



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

Our expectation is that DKK floaters will trade around the current 4-8bp for the rest of 2026 and possibly 1-3bp tighter, as the repricing at the Aug'26 auction may have been slightly excessive. **We see good value for outright investors in buying floaters given the extra pick-up versus noncallables, combined with some hedging against rate uncertainty from the ECB and the risk that Danmarks Nationalbank raises the key policy rate independently of the ECB.**

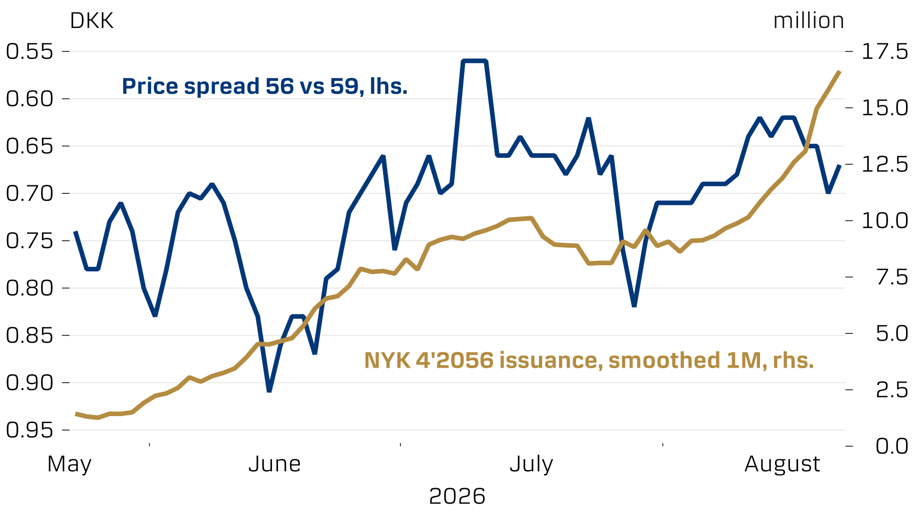
The front end of noncallables performs softly at auction

NDA and JYSK sold DKK14bn of noncallables at Tuesdays auction. JYSK sold in Oct'27, while NDA sold in the Oct'27, Oct'29 and Oct'31 series. The four series came in at a price 1-3bp above the secondary market with a bid-to-cover ratio between 2.56-4.56. The front end of the curve saw the weakest demand, and the curve flattened in ASW terms, probably due to interest in the 5Y point from RV investors. As a result, the spread between 5Y noncallables and DESTR has widened by 5bp over the past two weeks, and from an RV perspective they look attractive versus, for example, 5Y Bostäder. **We therefore recommend buying 5Y noncallables versus 5Y Bostäder.**

Opening of '59 series creates an opportunity for outright and hedged investors

Issuance in the 4% 2056 callables closes on Tuesday next week, after which issuance in the new 4% 2059 series is expected to increase significantly. As with previous series changes, this gives rise to some interesting considerations for investors, as described in our analysis *Pricing of the new 30Y callables - where it is attractive to buy 4% 2059*, 24 June.

The price spread for NYK 4'56 versus 4'59 narrows as issuance grows



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

In our view, the issuance pattern for 4'59 will follow 4'56, with total daily issuance of DKK300-500m. Our target for the price spread between 4'59 and 4'56 is 40-50 cent (ordinary) and 90-100 cent (IO). The spread is currently around 65 cent (ordinary) and 95 cent (IO), respectively. **We therefore recommend buying 4'59 (ordinary amd IO) both outright and relative to 4'56 (ordinary and IO). For hedged investors, we recommend buying with EUR swaps or Bobl futures.**

Trade overview

Overview of current trades

Open/closed trades	Opened	Closed	Opening level	Current level	Target	P/L	% of principal
Buy 5Y noncallables vs. Estr	22/04/2025	06/08/2025	56	44	46	12	0.58%
Buy 5Y DGB vs. 5Y SGB	27/05/2025	23/09/2025	4	-2	-10	5	0.26%
Buy 3Y Noncallable hedged into USD (vs. SOFR)	04/06/2025	06/08/2025	48	43	40	5	0.16%
Recieve 5Y DKK swap vs. 5Y EUR swap (vs. 6M Xibor)	12/06/2025		17	18	10	0	0.01%
Buy EUR/DKK 12M FX forward	06/08/2025	28/10/2025	7.4359	7.4498	7.4730 (spot)	0.19%	0.19%
Buy DGB 2.25% 11/35 vs. DBR 2.6% 08/35	20/08/2025	14/01/2025	-13.5	-8.0	-22	-6	-0.50%
Recieve 2y2y DESTR vs. 2y2y ESTR swap	20/08/2025		-25	-21	-32	-3	-0.06%
Recieve 2Y DKK swap vs. Paying 10Y DKK swap (vs. 6M Cibor)	03/09/2025	01/10/2025	68	58	90	-10	-0.90%
Buy 4% 2056 vs. Paying 6Y EUR swap (1:0.5)	03/09/2025	16/09/2025	99.51 and 2.44%	100.32 and 2.41%	0.50%	0.73%	0.73%
Buy 3.5% 2056 vs. Selling DGB 2.25% 11/33	05/11/2025	04/02/2026	-2.02	-1.43	0	0.59	0.59%
Buy 4% 2056 (top trade 2026)	11/12/2025	18/02/2026	99.6	100.54	101.00	0.97	0.97%
Buy DGB 2% 11/28 vs. DBR 0% 11/28 (top trade 2026)	21/01/2026	04/02/2026	-14	-20	-25	6	0.17%
Buy 5Y Noncallable outright as an alternative to DGBs	04/02/2026	18/02/2026	2.58%	2.47%	2.30%	0.11%	0.48%
Buy 5Y Noncallable hedged into USD (vs. SOFR) as alternative to USD-den. European SSAs, trading between SOFR+20bp to +25bp	04/02/2026	12/03/2026	41	47	30.0	-6.3	-0.29%
Buy 3.5% 2056 (switch from 4'56 to 3.5'56)	18/02/2026	12/03/2026	97.2	96.1	98.5	-1.1	-1.10%
Buy 3.5% 2056 and sell DGB 0% 11/33 - 1:1	18/02/2026	24/03/2026	-1.60	-2.22	-0.75	-0.62	-0.62%
Buy 3.5% 2056 and sell DGB 0% 11/31 - 1:1	08/04/2026		8.1	7.3	9.0	-0.7	-0.7%
Buy RD 1% 04/31 and sell DGB 11/31	14/04/2026		30	28	20	2	0.1%
Buy RD 4'56 and DGB 11/29 and DGB 11/31 : 1:0.5:0.5	16/06/2026		8.45	7.33	9.5	-1.1	-1.1%

Source: Danske Bank

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