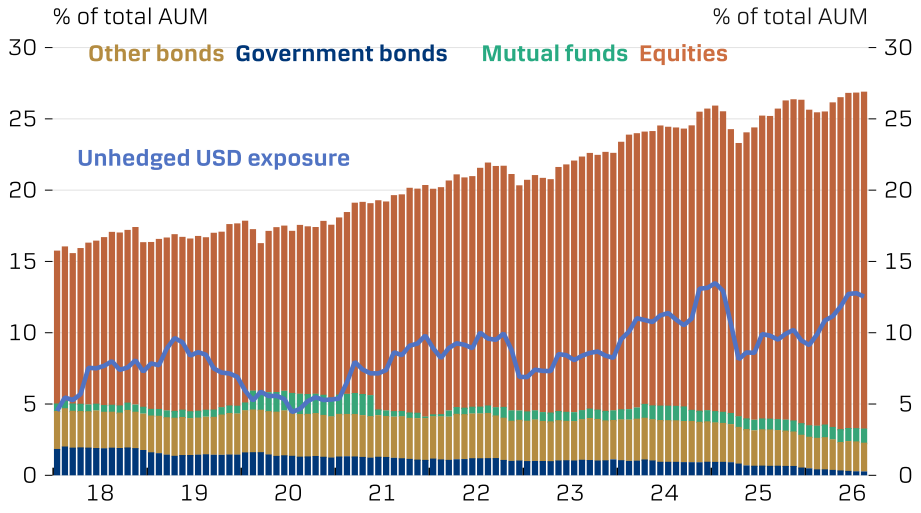
1 October 2026

Reading the Markets Denmark

AI boom could increase DKK's USD sensitivity

- ***Macro.*** Somewhat weak figures from the labour market and consumption over the summer are not a cause for concern. The outlook for the economy remains positive, and business optimism is reaching new highs.
- ***FX + STIR.*** The ongoing investment boom in the US technology sector could end up increasing exposure to US assets and USD among investors in Denmark, thereby making DKK even more sensitive to fluctuations in US equities and the USD exchange rate.
- ***Bonds.*** The rise in outright rates has made its mark on the Danish bond market. Despite callables having underperformed versus government bonds, we keep our recommendation to buy the high coupons versus government bonds open, supported by low net supply, positive carry and the potential for performance in the event of a normalisation of energy prices.
- See ***trade overview*** on page 6.

High exposure to US equities and USD



Source: Macrobond, Danske Bank

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

Recent publications

- *FX Forecast Update - Strong USD as Scandi headwinds build*, 18 September
- *Reading the Markets Denmark: Navigating a higher rate environment*, 18 September

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Macro: widespread optimism among businesses

The gap between consumers' and businesses' perception of the economy widened again in September. However, this mainly reflects good news, as business confidence rose to its highest level in more than four years, while consumer confidence declined only slightly.

Consumer confidence declined from -13.1 to -13.7 due to a setback in consumers' expectations for their own financial situation in one year, which is likely to be linked to an increase in expectations for inflation and unemployment. Consumer confidence has otherwise generally improved since the spring, mainly driven by slightly less concern about the national economy.

Overall, this has been reflected in slightly higher consumption in recent months. In August, retail sales declined by 0.6% after a couple of strong months, but sales in the June-August period are still 1.2% higher than in the previous three months.

Sentiment in the retail sector improved considerably. This is mainly due to the most optimistic turnover expectations in eight years. That said, the improvement in business confidence was broad-based, with a significant increase in manufacturing, which has otherwise been the weakest-performing sector. Only the already strongly performing service sector saw a minor decline.

Weak job growth is not a cause for concern

Recently, we also received new figures for employee employment in July. It grew by a modest 400 people, the lowest growth in two years. Manufacturing has weighed on employment growth for some time, with a loss of 5,000 jobs since the autumn and 500 in the latest month. According to *3F*, a Danish trade union, the number of employees at Novo declined by just under 6,000 people from October to June. Public-sector employment also declined by 700 people, which is the largest decline in more than two years. This should be seen in light of the current challenges in issuing security clearances, which make it more difficult to hire in the public sector as well as in the defence industry and within critical infrastructure and IT.

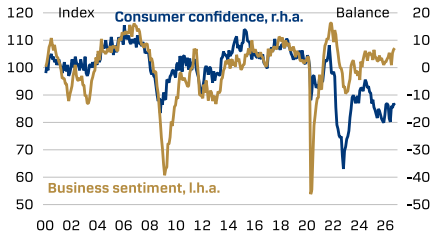
However, we see no signs of a clear slowdown in the labour market. Following Novo's announcements that it does not assess there to be a need for further large, overall cost-cutting rounds, employment expectations in manufacturing in September are back at their highest level since the summer of 2025, while retail is at its highest level in almost five years.

Danmarks Nationalbank sees AI as the biggest uncertainty factor

In its new forecast, *Danmarks Nationalbank* expects broadly unchanged employment growth and a modest recovery in consumption. The forecast is broadly in line with our own assessment of the economy, although GDP growth of 4.0% this year, which we also have in our own forecast, is starting to look low. GDP for the second quarter was revised up by 0.9% this week and GDP growth of 5% in 2026 is gradually starting to look more realistic.

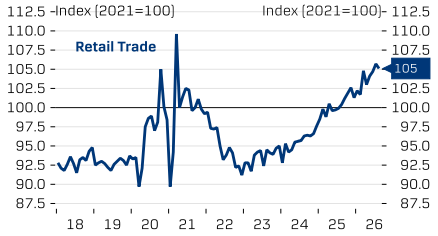
However, we wonder why Novo's contribution to GDP growth slows in Danmarks Nationalbank's forecast for 2027. With prospects of rising medicine sales, especially in the US market, this does not appear to be the most likely scenario. Danmarks Nationalbank mainly links the risk picture, which it assesses as balanced for the growth outlook but tilted to the upside for inflation, to AI and geopolitics.

Business and consumer confidence continue to diverge significantly



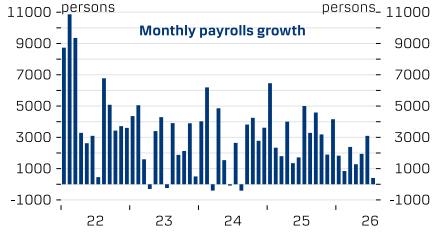
Source: Statistics Denmark, Macrobond

Solid progress in the retail sector



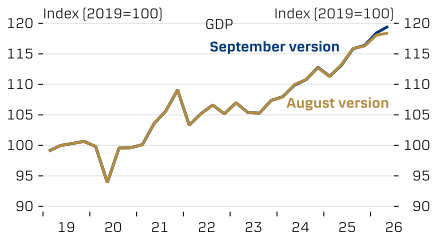
Source: Statistics Denmark, Macrobond

Modest job growth in July is not concerning



Source: Danske Bank, Statistics Denmark, Macrobond

GDP revised up in the first half of the year



Source: Danske Bank, Statistics Denmark, Macrobond

FX+STIR: DKK may become more USD-sensitive

The ongoing investment boom in the US technology sector is starting to leave a significant mark on capital markets and this week, we therefore allow ourselves to speculate on how it may affect capital flows from Denmark, DKK and forwards.

We touch on three themes related to this story: 1) how the pension sector's exposure to US assets and the USD is developing, 2) how hedging costs may develop and 3) how the overall equity exposure in the Danish economy positions DKK.

A US deficit is Denmark's surplus

According to some estimates, annual investments in data centres and similar assets may amount to more than 3% of GDP in the coming years. If the increase in investments does not crowd out other demand in the US economy (such as other investments or private consumption), it must be financed through borrowing abroad. This creates a larger deficit in the US current account balance, which must be matched by a larger surplus or smaller deficit in the rest of the world; for example, Denmark. This means even higher growth in Denmark's investments abroad.

The trend in the financial accounts of Denmark and the US in recent years has included large purchases by investors in Denmark of foreign equities and bonds, while the US has mainly attracted capital to the bond and equity markets. The large and growing exposure to US equities and USD, including in the pension sector, may therefore well increase further as a result of the investment boom.

Higher hedging costs

Growing foreign borrowing in the US may then increase the spread between interest rates in the US and interest rates in Europe and Denmark, as a larger interest rate differential is needed to attract the capital required to finance a larger balance of payments deficit.

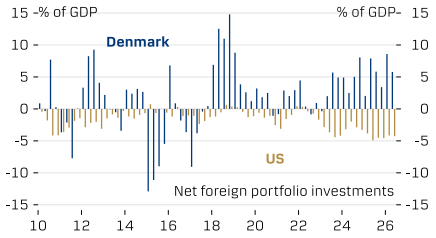
Specifically, this will result in a larger discount in USD/DKK FX forwards, making it more expensive for investors and companies to hedge the currency risk on their investments in the US. As the cost of hedging plays an important role for hedge ratios, this may well ultimately lead to a larger unhedged USD position, including in the pension sector.

The return in the pension sector and, as a result, PAL tax and DKK purchases in connection with rebalancing flows may therefore, due to the investment boom in the US technology sector, become even more dependent on developments in US equities and the USD than is already the case.

High equity dependence

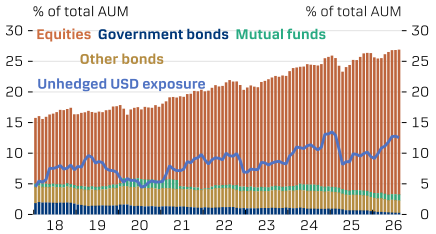
After Sweden, Denmark was the country among the G10 currencies, excluding Norway, which is in a league of its own due to the petroleum fund, that had the largest net foreign wealth in equities at the end of 2025. The wealth amounted to 70% of GDP, more than a doubling compared to 10 years prior. Overall, Denmark's foreign wealth will increase and decline with general increases and declines in the equity market. This dependence has increased and is among the highest compared with the other G10 currencies. If the positive sentiment in the equity market following a year of high earnings reverses, DKK, together with SEK and NOK, may well be among the currencies that are hit the hardest. For DKK, this would trigger more intervention from Danmarks Nationalbank and potentially an independent interest rate hike.

FX+STIR. DKK may become more USD-sensitive. Large net purchases of foreign portfolio assets



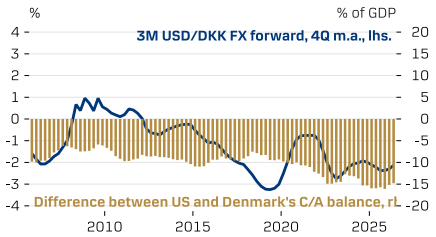
Source: Danske Bank, Macrobond, Statistics Denmark, U.S. Bureau of Economic Analysis

High exposure to US equities and USD



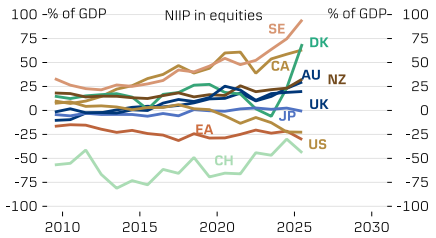
Source: Danmarks Nationalbank, Macrobond

USD/DKK forward discount increased due to balance of payments differences



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

Denmark has one of the largest equity wealth positions



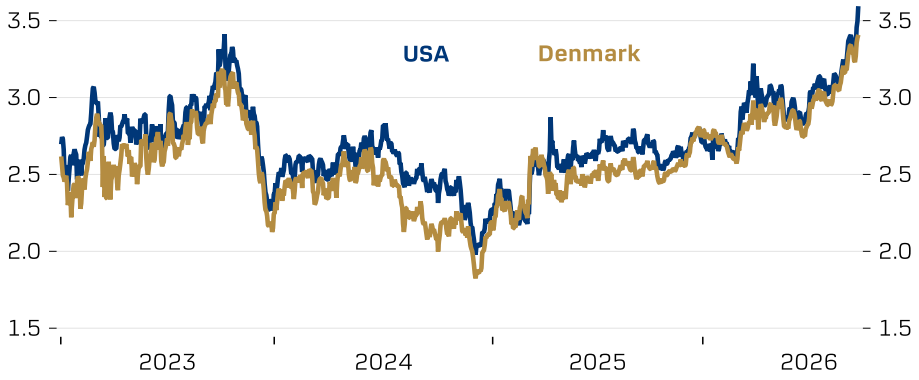
Source: Macrobond, Danske Bank

Bonds: price decline in 3.5% and 4% overdone

Rising energy prices have prompted more central banks to raise their policy rates and combined with continued public finance deficits in the US and Europe, this has pushed government bond yields higher globally. On Tuesday, US 30-year government bonds reached a yield of 5.60%, the highest level since 2002. The movement in outright rates has also made its mark on the Danish bond market, where yields have followed the increase abroad.

Danish government bond yields have followed the increase in US yields

10Y Government bond yields hedged into DKK (%)

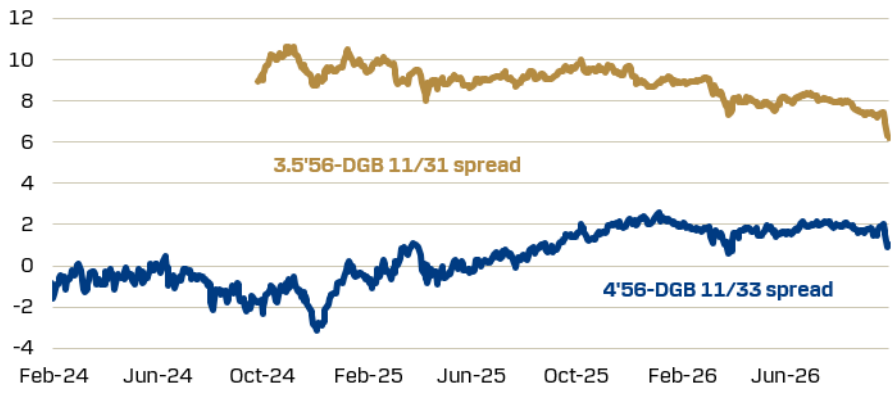


Source: Danske Bank

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

Back in April, we recommended, among other things, buying 3.5% 2056 versus DGB 11/31 and RD 4'56 versus DGB 11/29 and DGB 11/31 in our *Reading the Markets Denmark*, 9 April. As a result of the movement in outright rates, the price spread in both trade recommendations has come in and government bonds are now at a relatively more expensive level versus callables. However, we keep our position open as we still see a number of factors that benefit the high coupons.

The price spread for 3.5'56 versus DGB 11/31 and 4'56 versus DGB 11/33 has tightened

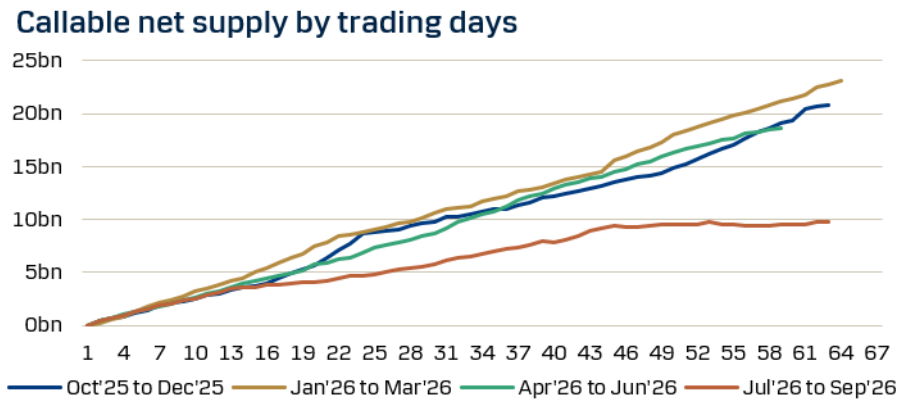


Source: Danske Bank

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

Supply in Danish callables remains at a flat level, with relatively limited issuance being offset by buybacks. This development is clear from the chart below.

Net supply in callables has flattened



Source: Danske Bank

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

In addition, there is still positive carry in holding the high coupons versus corresponding government bonds and, at a lower price, the potential has only strengthened. Although the movement in the outright yield level has narrowed the spread between 3.5'56 and DGB 11/31, a potential normalisation of traffic through the Strait of Hormuz could lead the high coupon callables to perform against government bonds.

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	16	10	2	0.08%
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	6.1	9.0	-1.9	-1.9%
Buy RD 1% 04/31 and sell DGB 11/31	14/04/2026		30	35	20	-5	-0.2%
Buy RD 4'56 and DGB 11/29 and DGB 11/31 : 1:0.5:0.5	16/06/2026		8.45	5.7	9.5	-2.7	-2.7%

Source: Danske Bank

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