Danske Daily - Danske Bank Research

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In focus today

- **In the euro area**, the September flash inflation print will be released. We expect the headline HICP inflation to rise to 3.6% y/y (prior: 3.2% y/y) and the core to rise slightly to 2.5% y/y (prior: 2.4% y/y). Headline HICP inflation prints from France, Italy and Germany on Wednesday were above expectations driven by higher energy prices while spillovers to core inflation were still only minor. The euro area release is likely to follow suit.
- **In the US**, September jobs report will be released. We expect nonfarm payrolls at +100k, unemployment at 4.0% (prior: 4.1%) and average hourly earnings at 0.3% m/m. We think that the labour market is heating up despite a softer-than-expected JOLTS report on Tuesday. Other employment indicators, such as ADP's weekly pulse and the PMI employment index, have been strong pointing to solid September job growth. Unemployment claims being at their lowest level since 2023, low labour market participation rate, and high job growth all support a further drop in unemployment.

Economic and market news

What happened overnight

In Japan, September Tokyo core CPI rose to 2.7% (cons: 2.4%). The figure was above the BOJ's 2% target for the first time since January.

In commodities, Brent crude futures traded above USD 102/bbl on Friday morning after the WSJ reported that the Pentagon will be sending a third aircraft-carrier strike group and additional soldiers to the Middle East. Also, according to the WSJ, President Trump has discussed with his aids striking Iran after the November midterms.

What happened yesterday

In geopolitics, US president Trump is pushing Germany and France to draw down emergency diesel reserves with the threat of a US diesel export ban, according to Reuters. In recent weeks Trump has repeatedly called for European countries to release diesel inventories to help to ease global fuel prices ahead of the November midterms.

In the euro area, French government presented its 2027 budget bill that aims to curb the booming deficit back to 5% of GDP. Markets felt sceptical about the prospects of belt-tightening in French public finances as the French 10Y briefly hit 4.96% widening the spread to German 10Y to a new post euro crisis high. The uncertainty in the French bond market spilled over to other markets. The 2Y EUR swap saw its largest decline since April as the market pricing for an October rate hike decreased to just 20%. EUR/USD continued to slide below 1.13.

Also in the euro area, August unemployment rate was unchanged at 6.4% (cons: 6.4%). This was the seventh consecutive month at 6.4%, so the aggregate labour market remains very stable. Beneath the surface German unemployment remains on a marginally upward trend while French unemployment has started to fall again after the upward trend recorded last year.

In the US, continued jobless claims fell to 1.701 million (cons: 1.725 million), and new claims came in at 197,000 (cons: 200,000). Continuing unemployment claims are at the lowest level since early 2023, suggesting that the US labour market is tight. In addition, the ISM survey for September fell against expectations to 54.5 (cons: 55.0). Despite the slight decrease, the print is still solidly in expansionary territory. Notably, the ISM price index increased much more than expected to 77.9 (cons: 72.3).

Also in the US, Fed's Jefferson (a permanent voter), sent a similar message from Fed's Williams from Tuesday that the Fed could take more time before deciding on the next move for interest rates. Markets reacted by sending down the probability of a rate hike in October below 30% from around 35% before the statement.

Equities: Global equities were flat on the day, after a late-session rally following balanced-to-slightly-dovish tones from the Fed. S&P500 rose 0.2%, Nasdaq was slightly positive and Russell2000 gained 0.4%. Europe did not benefit from the late-session rally, leaving the index 1.3% lower. Anthropic was reported to go public in mid-November. Overnight, Asian equities are mixed ahead of the US labour market report today, with US futures slightly in green at +0.3% and European virtually unchanged.

FI and FX: Markets shifted into a heavy risk-off mode over yesterday's session, with US Treasury and Bund yields declining significantly and OATs, BTPs and Greek government yields climbing markedly. USD and EUR swap rates moved in parallel, declining 9-12bp in the front end and shifting 5-6bp lower in the back end of the curves. The French sovereign auction passed yielding only a minor pick-up, but the 2027 budget presentation did little to calm the market. EUR FX sold off against everything else in G10 yesterday, with EUR/USD touching 1.1220 before recovering slightly overnight. Needless to say, our 12M target of 1.12 should not be seen as any kind of a floor in case the fiscal concerns continue to drive further risk-off sentiment. News reports of Trump considering escalating the war efforts

against Iran after midterms lifted oil prices, which supported CAD and NOK despite the sour risk sentiment.

Fixed income and FX markets

Majors FI

Markets shifted into a heavy risk-off mode over yesterday's session, with US Treasury and Bund yields declining significantly and OATs, BTPs and Greek government yields climbing markedly. USD and EUR swap rates moved in parallel, declining 9-12bp in the front end and shifting 5-6bp lower in the back end of the curves. A US official announced an additional aircraft carrier, and 10,000 troops are being deployed to give President Trump more options in the Middle East. Brent crude gained about 3% to USD 101/bbl and European natural gas remained steady. The Fed's Logan called for an additional 50bp worth of hikes, although she acknowledged that higher rates could help slow inflation.

The French sovereign auction passed yielding only a minor pick-up, but the 2027 budget presentation did little to calm the recent increase in OAT yields. France is targeting an issuance of EUR340bn in 2027 (net of buybacks), slightly above our expectation of EUR325bn. 2Y Bund spreads to OATs and BTPs widened about 20bp and 25bp, respectively, as EU sovereigns with high debt levels are increasingly priced at a discount to their peers.

The US September Jobs Report is set for release today. We expect NFP at +100k (cons: +80k), unemployment at 4.0% from 4.1% (cons: 4.1%) and average hourly earnings at 0.3% m/m. We expect euro area September flash HICP inflation to rise to 3.9% y/y from 3.2%. Data from the individual countries has exceeded expectations and we expect core inflation at 2.5% y/y from 2.4%. The upside surprise in headline inflation has mainly been due to energy and food prices while spillovers to core inflation remain rather low.

Majors FX

EUR FX sold off against everything else in G10 yesterday, as short-end EUR swap rates declined sharply, and OAT-Bund spread widened further. EUR/USD fell all the way down to 1.1220 - the lowest level since May 2025 - before recovering slightly overnight. Needless to say, our 12M target of 1.12 should not be seen as any kind of a floor in case the fiscal concerns continue to drive further risk-off sentiment. 1M risk reversal skew fell below the lowest level seen during the peak-oil concerns of last spring, while 1y skew is now trading close to levels seen before the US 2024 elections. To make matters worse for EUR (and other risk-sensitive currencies), the December Brent future rose to the highest level since mid-September after both the Time Magazine and WSJ reported Trump might be considering escalating the war efforts against Iran after midterms. Alongside the USD, relative winners of yesterday's session were safe-haven CHF, followed by oil-importers

CAD and NOK. If our above-consensus call for US NFP hits the mark today, EUR/USD could well face further downside pressure also from relative macro.

3M EURUSD XCCY basis widened to -5bp yesterday following the rise in credit spreads and rise in implied FX volatility. The main culprit was uncertainty about the outlook for French public finances. History suggests French political risk can drive a further widening of the basis. Although the wider basis added to the 3M EUR/USD FX forward, the FX forward curve steepened as US rates pushed higher and for the first time since early 2025, longer-dated FX forwards trade above the 3M forward.

Scandies

Broad EUR weakness was the dominant theme yesterday, pushing EUR/SEK lower despite a weak risk environment. At the same time, continued USD strength lifted USD/SEK further. In today's Reading the Markets Sweden, we outline the case for downside potential in NOK/SEK and analyze the Riksbank's SEK communication in detail. Read more here: Reading the Markets Sweden, 2 October.

The key focus for EUR/DKK today will be the release of the FX reserve for September, which will reveal whether Danmarks Nationalbank continued to intervene following the DKK5.6bn intervention in August.

NOK strengthened markedly against EUR yesterday, with EUR/NOK moving lower after reaching a high around 10.92 and ending near 10.82. The move came despite a weak global risk environment, as broad EUR weakness amid renewed concerns over French public finances and a higher oil price supported the krone.

Brent crude recovered to around USD 102/bbl, despite the front-month contract rolling lower at the turn of the month, with the December contract initially trading below USD 100/bbl. Against USD, NOK was more range-bound and volatile, as continued USD strength offset the support from higher oil prices and the NOK-positive move versus EUR. Looking ahead, NOK is likely to remain sensitive to oil prices, global risk sentiment and today's US jobs report.

Tactical views

FX

EUR/USD - On a structurally declining trend, target 1.12 in 12M

EUR/NOK - Tactically neutral. Strategically bullish

EUR/SEK - Dovish Riksbank skews risks to the topside in EUR/SEK

EUR/GBP - Tactically neutral and strategically bullish

USD/JPY - Looking for strategic selling opportunities

EUR/DKK - DN to cap EUR/DKK around the 7.4760 peak from August

USD/CNY - Tactically sell on rallies, strategically bearish

Fixed Income

Europe - Bund ASW-spreads to tighten

US - 10Y US Treasury yield at 5.20% in 12M

Sweden - Look for SEK underperformance vs EUR

Norway - Look to enter steepeners in the coming month

Denmark - Long high-coupon callables versus DGBs and swaps

Commodities

Oil - to stay elevated near-term on tight supply conditions.

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