Danske Daily - Danske Bank Research

Ella Schlüntz, Assistant Analyst

In focus today

- This morning, we launch our AI Investment Tracker, a new monthly update on the AI investment boom. The AI build-out has become one of the most important drivers for the global economy as well as for financial markets and how it develops will be key for both investors as well as companies. Current signals show continued strong AI data centre investments into 2027 but looming challenges from bottlenecks and a few cracks in the credit markets.
- On the data front, the week starts out light before focus turns to flash PMIs from all major economies. The releases will be watched for signs of whether activity continues to outperform expectations. September inflation is due from the UK on Wednesday and Japan on Friday, potentially adding further pressure on their central banks.

Economic and market news

What happened overnight

In Japan, BOJ Governor Ueda said underlying inflation is "quite close" to the 2% target, citing tight labour markets and strong global AI demand as sources of price pressure. He also warned that failing to raise rates at an appropriate pace could push long-term bond yields higher. The BOJ's next meeting concludes on 30 October 2026, where markets expect rates to stay at 1.25% but will look for signals keeping a hike to 1.5% as early as December on the table.

In commodities, Brent crude opened lower this morning, trading around USD 108/bbl after reaching around USD 109/bbl on Friday.The decline followed President Trump's waiver of key sanctions and tariffs on Russia, potentially allowing higher fuel exports. Still, supply risks remained elevated, as Ukraine struck Russian energy infrastructure on Sunday and attacks on vessels near Hormuz continued to threaten Gulf crude flows.

In China, the monthly batch of data for September was a mixed bag but overall, still pointed to weak domestic demand amid surging exports. GDP growth increased from 4.3% y/y in Q2 to 4.5% y/y (consensus 4.4% y/y) in Q3 thus staying in the low end of the 4½-5% growth target range. On a positive note, retail sales were slightly better than expected rising from 0.4% y/y to 1.1% y/y (consensus 0.5% y/y) but it was partly due to the mid-Autumn Festival falling in September this year. Home prices also showed a lower rate of decline in September with new home prices down 0.14% m/m after -0.17% m/m in August.

However, home sales looked weak again in September and property investments were down 20.6% y/y. Hence it is still too early to call the bottom in the housing market. Industrial production increased from 5.2% y/y to 5.5% y/y in line with consensus.

What happened over the weekend

In France, pressure on the government intensified after weekend protests over living costs and public services escalated into some of the worst unrest in years. Reuters reported more than 2,000 arrests, over 600 injured police officers and firefighters and widespread damage to shops and public buildings. The unrest adds to an already challenging backdrop, with the government trying to pass next year's budget, investors focused on France's deficit path and political uncertainty elevated ahead of the 2027 presidential election.

In geopolitics, the split between the EU and the US on Russia policy widened over the weekend. EU leaders meeting in Brussels vowed to maintain sanctions on Russia and sustain support for Ukraine, with von der Leyen saying no sanctions would be lifted unless Russia stops the war and that the EU is working on a 22nd sanctions package. Trump then signed an executive order on Friday waiving key Russia-related sanctions and tariffs under the Graham Act, including measures targeting Russian goods and countries buying Russian oil and gas, shortly before they were due to take effect. Secretary of State Rubio said Trump would use up to 60 days to assess the economic impact, while also defending a separate agreement for Russia to increase diesel supplies to the US and global markets. Zelenskyy criticised the waiver as "wrong", saying it would help Moscow and prolong the war. However, concerns about US support eased somewhat on Sunday after Zelenskyy said US intelligence-sharing had resumed and that he had discussed next diplomatic steps with Trump envoys, including a possible new peace meeting this week.

Transatlantic tensions were also visible in the tech space, as the US ambassador to the EU warned of "devastating" retaliation if Brussels presses ahead with proposed changes to how satellite frequencies are allocated. The proposal would reserve part of the spectrum that allows smartphones to connect directly to satellites for EU suppliers, potentially limiting access for non-EU operators such as SpaceX's Starlink. The dispute is part of a broader EU push to strengthen technological sovereignty.

In the US, September import prices rose 1.1% m/m (cons.: 0.8%, prior: 0.5%) and 8.1% y/y, remaining a key driver of US inflation. The increase is heavily linked to the rising cost of AI investment goods, with import prices in semiconductors and computer accessories both climbing sharply over the past year and no clear sign of the momentum easing. Industrial production and manufacturing output also came in above expectations, although broader quarterly momentum looked softer amid higher energy prices and supply chain disruptions from the Middle East conflict. Capacity utilisation rose to 76.9% (cons.: 76.5%) but remained below its long-run average of 79.4%.

On the wires in the US, Chicago Fed's Goolsbee called the stronger-than-expected CPI and PPI prints "discouraging", but said he still has some optimism if the drivers of inflation are ones that can go away in short order. He added that if inflation is instead driven by overheating demand from the AI build-out, that would be more disturbing and something the Fed would have to address.

In Sweden, unemployment declined to 8.6% in September from 8.9% in August. However, employment also fell following the strong August reading, which means the decline in unemployment was driven by a lower activity rate, from what had been at a record-high level. The less volatile quarterly LFS figures were also released and point to strong employment growth in Q3. Employment increased by 0.8% q/q, above our Nordic Outlook forecast of 0.5% q/q. The labour force also surprised on the upside, leaving the unemployment rate for Q3 unchanged at 8.7%, slightly above our forecast of 8.6%. Overall, the figures were broadly in line with expectations and consistent with stronger GDP readings this year.

In the euro area, the final September inflation print confirmed the flash estimates of 3.8% y/y for headline inflation and 2.5% y/y for core inflation. The details continue to point to only very modest spillover from energy prices to other goods and services. LIMI (low import intensity) inflation remains below its pre-Iran war level, while energy-sensitive inflation is even moving lower.

Equities: Friday's selloff during the US cash session reflected a further unwind of the AI trade, compounded by a rising oil price. Yet the headline indices masked a much more mixed market: most sectors and regions finished higher, while energy outperformed tech by more than 4pp on Friday alone. The SOX index nevertheless recorded its eighth consecutive decline, its longest losing streak since 2006, highlighting how heavily the recent weakness has been concentrated in the AI trade.

Friday also brought the first clearer signs of broader risk aversion, with VIX rising towards 20. Sector performance reinforced that message. Consumer staples and discretionary have often moved together this year as inflation, energy prices and rates shaped the consumer outlook. On Friday, however, staples materially outperformed discretionary, a more conventional macro slowdown pattern. Sentiment is more constructive this morning. Although Asia and European futures retain some catch-up to Friday's US weakness, US futures are materially higher, led by Nasdaq.

FI and FX: The EUR fell on a broad basis, when the FX market opened Sunday evening. EUR/USD fell below 1.12 and thus reversed the rise on Friday, EUR/JPY below 177 and EUR/CHF below 0.9250. EUR/NOK and EUR/SEK also opened the week lower. Last week, ended with flatter yield curves in US and Germany, while a main focus for the market was upwards pressure on energy prices with the price on Brent crude rising to USD109/bbl and the price on TTF natural gas to EUR88/Mwh. Brent crude opened lower overnight.

Fixed income and FX markets

Majors FI

The front Brent oil future rose sharply on Friday evening, close to the USD 110 per bbl mark, but notably, US yields traded lower during the later part of the US session and despite the higher-than-expected CPI and PPI prints last week, the 10Y UST closed 17bp lower on the week with the 2s10s curve 9bp flatter. The decline in yields during Friday's session can likely be attributed to speculation that the US Treasury might reduce long-term issuance in the upcoming QRA published 4 November, as the US Treasury sent out a survey to primary dealers. Both oil and US yields traded slightly lower during the Asian trading hours.

EUR swaps also closed lower last week in a flattening move, but to a lesser extent than in the US, with the 10Y swap 5bp lower and the 2s10s curve 3bp flatter. The 10Y OAT-Bund spread hovered around 140bp over the week. Friday's flash PMI may reveal how the developments in the bond market, but also the recent violent protests in France, have affected economic sentiment.

With the IMF meetings in Bangkok behind us, we summarize the message from GC members as being that a hike from the ECB in December is the base case, while October is deemed to be too soon, given the limited spillover effects from higher energy prices to core inflation. Wunsch said it was reasonable for markets to expect additional tightening, and Nagel said that he "can't exclude we may need to hike again". According to Simkus, the ECB will have more information in December, making it a more appropriate time for the next decision. However, members also noted that the "trade-offs for monetary policy are getting more tricky", as Kazaks put it, given the level that policy rates have now reached. The ECB is therefore increasingly considering the downside risks to growth from further hikes and noting the lack of second-round effects. A "measured response" from the ECB is therefore still the most appropriate, according to Lagarde. In our view, the comments support a pause in October and a 25bp hike in December, but not the additional 75bp worth of hikes that markets are pricing in by September 2027.

The data calendar is thin today, and in terms of issuance only Lithuania and Slovakia have scheduled supply. Tomorrow, we will see issuance from UK, Germany and Finland.

Majors FX

Broad USD weakened further on Friday, as EUR/USD traded all the way up to 1.1260 before ending the day near 1.1240. While US tech stocks continued selling off, and UST yields declined further, in FX markets it was the cyclicals (NZD, NOK) that led the gains. This supports the notion that the recent equity market jitters reflect idiosyncratic concerns related to the AI theme, rather than a macro-driven risk-off sentiment.

French fiscal concerns seem to have stabilized for now, and markets are still pricing some 4bp for the Fed's October meeting. If the FOMC remains on hold as we expect, the USD weakness could persist for the next couple of weeks. But we do not expect it to turn into a more persistent trend, as macro fundamentals still favour stronger USD in the long run. Rising energy prices pose a key downside risk to EUR/USD, as oil prices rose back to USD110/barrel and both LNG and natural gas prices reached YTD highs at the end of last week.

This week will be quiet in terms of both macro and central banks. The Fed entered blackout already on Saturday, but there's still a handful of ECB speeches scheduled before the meeting. The main event will be the October flash PMIs on Friday, which will mark the final key data release ahead of next week's rate decisions.

Scandies

The NOK strengthened sharply on Friday, gaining almost 1% against the USD and ending the week as the best-performing G10 currency, with USD/NOK closing around 9.43 and EUR/NOK around 10.59. The move was driven mainly by broad USD weakness after Fed Chair Kevin Warsh gave no new policy signals, lower US yields over the week and continued support from elevated oil prices, with Brent above USD 109 per barrel. Overall, the move appears to have been a USD-driven rally amplified by oil support rather than a response to domestic data or Norges Bank signals.

With the economic data calendar empty, the SEK will take its cues from international developments. In parliament, the quest for a new government continues. As the Social Democrats have now lost the first prime ministerial vote. Up to four votes can be held before a snap election is triggered. We do not see the difficulties in forming a government as a factor for the SEK, but should we move closer to a snap election, the market's attention to the matter may increase.

***Marketing communication**. This communication is "marketing communication" and is not intended to constitute "investment research" as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication.*

Report completed: 19 October 2026, 06:45 CEST

Report first disseminated: 19 October 2026, 07:30 CEST

