Danske Daily - Danske Bank Research

Ella Schlüntz, Assistant Analyst

In focus today

- In Germany, we receive the Ifo indicator for October. Friday's flash PMIs still pointed to decent growth momentum at the start of Q4, although the composite fell slightly short of expectations as weaker services outweighed a positive surprise in manufacturing. We expect the Ifo to paint a similar picture, with a slight improvement in the assessment of the current situation, while expectations are likely to ease.
- In Sweden, producer prices for September will be published this morning. PPI rose broadly in August, increasing by 0.9% m/m and 6.8% y/y, with petroleum products making the largest contribution. We pay particular attention to prices for plastic and rubber products, which serve as a useful leading indicator of consumer goods prices.
- In China, industrial profits for September are released overnight. Profit growth slowed to 4.2% y/y in August, but the rebound in the manufacturing PMI and higher PPI inflation point to a recovery in profit growth in September, likely driven by raw materials and the chip sector.
- For the rest of the week, focus turns to interest rate decisions from the Fed on Wednesday, the ECB on Thursday and the Bank of Japan on Friday, where we expect all three to keep interest rates unchanged before resuming rate hikes later this year. In the UK, the 2027 budget on Wednesday could gather attention ahead of the BoE's November meeting, as inflation concerns coupled with stronger growth could trigger a hike. Data highlights include US Q3 GDP on Thursday and inflation data for the big euro area economies as well as Q3 GDP data for the whole area on Friday.

Economic and market news

What happened overnight

In commodities, Brent crude has eased to below USD115/bbl this morning after surging to near six-month highs last week. The decline reflects hopes of easing hostilities between the US and Iran, after Qatari mediators travelled to Tehran on Sunday as part of an effort to de-escalate regional tensions in coordination with the US. Trump said it is "getting to be decision time" on whether to make a deal with Tehran or resume attacks. However, he has not dispelled market expectations that strikes on Iran could follow after the midterm elections, and attacks on Saudi Arabia continued over the weekend.

In Latin America, Lula won a historic fourth term in Brazil's presidential runoff on Sunday, with 51.76% of the vote, defying polls that had given a slight lead to Flávio Bolsonaro, who

has refused to concede and said he would launch a legal challenge. Brazilian assets had rallied on the prospect of Bolsonaro's more pro-business policies, and a Brazilian real futures contract fell 10% on Sunday evening, while ETF tracking Brazilian stocks dropped nearly 15% in Japan. Lula's re-election is also to blow up US ambitions for greater influence in the region.

In Venezuela, opposition leader María Corina Machado returned from exile on Sunday, posing a challenge to the US-backed interim government led by Delcy Rodríguez, and is likely to push for new elections.

What happened over the weekend

In the euro area, the flash PMIs fell slightly more than expected in October but continue to point to decent growth at the start of Q4 despite somewhat softer momentum. The composite PMI fell to 51.9 (cons: 52.7, prior: 53.1), similar to the levels in July and August. Manufacturing declined marginally to 52.4 (cons: 52.8, prior: 52.9), while services fell significantly to 51.7 (cons: 52.5, prior: 53.0). The service price indices continued to show limited spillovers from energy prices as both output and input fell slightly in October. In manufacturing, input costs rose more strongly again, while output price growth remained stable. With growth still decent and signs of limited pass-through from energy costs to underlying inflation, the report supports the ECB's gradual hiking approach, with a stocktaking meeting on Thursday and the next hike in December.

Also in the euro area, Moody's kept France's rating unchanged at Aa3 with a negative outlook late on Friday, despite wide market expectations of a downgrade. The decision assumes that a deficit-reducing 2027 budget will be adopted and that financing costs and social tensions will abate somewhat in the coming months. Moody's expects a deficit of 5.2% of GDP next year, down from the 5.4% the government expects this year but slightly above its 5% target. The protests, which Moody's warned could constrain fiscal consolidation efforts, continued over the weekend, albeit more calmly than the week before, and unions have called for a nationwide strike on 5 November.

In the US, the S&P Global flash composite PMI declined slightly to 57.6 in October from 58.4, but overall business activity remained strong. Manufacturing came in higher than expected at 56.0 (consensus 55.5, prior: 55.9), while services declined to 57.9 (consensus 58.0, prior: 58.8), roughly as expected. Manufacturing selling prices rose at the sharpest pace since 2022, sending a somewhat concerning inflation signal, and 2Y Treasury yields rose on the release. In services, price pressures looked more contained, with output prices rising only marginally and input prices ticking down slightly from an elevated level in September. Overall, the report is not nearly enough to change our forecast for an unchanged rate decision at Wednesday's Fed meeting.

In the UK, the flash PMIs strengthened in October, with both services and manufacturing picking up. The composite rose to 53.1 from 52.0 as services increased to 53.1 from 52.1 and manufacturing edged up to 52.8 from 51.9. The details were also encouraging, with new orders growing at the fastest pace in over two years and employment returning to growth for the first time since September 2024. At the same time, input cost inflation rose to its highest level since June, mainly driven by higher energy, raw material and transport costs in manufacturing. However, part of the manufacturing gain reflected longer supplier delivery times, pointing to supply-chain disruptions rather than stronger demand. Overall, the print leans to the hawkish side for the BoE ahead of its November meeting.

In Denmark, business sentiment fell to 104.5 in October from 107.1 in September, the lowest level in four months, though still above the historical average of 100. The decline came mainly from retail, where sentiment eased from a very high level, while industry sentiment improved for a fourth consecutive month and now points to growth. Overall, this suggests the economy is growing at a more normal pace than the strong GDP figures indicate, but clearly faster than weak consumer confidence would imply.

Equities: Equities finished down on Friday, with S&P 500 -0.5% and Stoxx 600 -0.3%. Unlike Thursday's AI selloff, tech stabilized with semis and memory largely higher. Instead, it was breadth that was negative after a strong equal-weight outperformance. Tech and real estate the few sectors in green, while most sectors were in red. Consumer staples sold off the heftiest after a strong run recently, on top of higher energy prices.

FI and FX: On Friday, Moody's announced that France's rating is kept on hold at Aa3, but still retaining the negative outlook. This was surprising and could possibly help ease the pressure on French government bonds. EUR/USD seems to have taken a breather around 1.12 for now, but we expect the cross to move gradually lower from here. Last week's winner in G10 FX was, once again, the Norwegian Krone, benefitting from both higher energy prices and resilient domestic data. With EUR/SEK seemingly finding a trough around 11.10, NOK/SEK broke above 1.06 for the first time since late 2022. Looking ahead to the rest of the week, central bank decisions including the Fed, ECB and BoJ will be key market drivers.

Fixed income and FX markets

Majors FI

The big event in the European market on Friday was Moody's announcement on France. Moody's kept the rating of France on hold at Aa3, but the outlook is still negative. This was a surprise and should ease the pressure on French government bonds as well as French agency bonds. In the statement Moody's assume that the budget deficit in 2027 will be 5.2% of GDP, while the government has put forward a proposal of 5% of GDP. If the French government can deliver a credible budget deficit of 5%, then that should give some

leeway for France. In another report earlier this week, Moody's looked at French banks' exposure to the sovereign and sub-sovereign bonds. Here, Moody's find that the exposure is modest and manageable and banks have plenty of liquidity to absorb any refinancing risks. In terms of trade ideas, we stick to the front-end trade, where investors buy 2Y-3Y OATs or French covered bonds. The French Debt Office is committed on the buybacks in the front end, which increased significantly in September.

In terms of key economic data, the European PMIs surprise on the downside, but not enough to change our view of the current state of the euro area economy. Growth is still decent although at slightly lower momentum while price indices show limited passthrough of energy costs to underlying inflation. For the ECB, the report should thereby support the gradual hiking approach with a stocktaking meeting next week and the next hike in December.

The main events this week is the central bank meetings in US, Japan and Europe. We expect that all three central banks will be on hold before resuming rate hikes later this year. We expect that there will be plenty of questions on France at the ECB meeting, but we do not expect Lagarde to commit to anything regarding France. In terms of government bond auctions, then we have EU doing the usual auction on Monday, where they tap EUR 7.5bn in the 3Y, 10Y and 25Y benchmarks. Belgium will sell up to EUR 2.8bn in the 7Y, 10Y and 14Y benchmarks. Germany will sell EUR 5bn in the 2Y benchmark on Tuesday and EUR 5.5bn in the 10Y benchmark on Wednesday. Italy will tap in linkers and short-term bonds on Tuesday and medium to long-term bonds on Friday. In the Scandies, Sweden and Norway is coming to the market. Sweden will sell SEK 5bn in 6Y and 11Y benchmarks. The Debt Office at Norges Bank will announce today at 12am (local time), what they will sell on Wednesday. We believe that they will tap in the 10Y benchmark again.

Majors FX

EUR/USD opened higher above 1.12 after the weekend despite Trump's threats that 'decision time' on Iran will soon be near. Moody's decision to hold France's credit rating unchanged on Friday could contribute to some near-term EUR strength.

This week will be all about central banks. We expect the ECB, The Fed and Bank of Japan to hold rates steady, which is largely priced in by markets. Meanwhile, Bank of Canada is likely to deliver its first hike of the cycle on Wednesday, while the Reserve Bank of New Zealand (RBNZ) is set for its third hike in a row.

Even if this week's rate decisions are not expected to drive as aggressive of a repricing as the previous September round, we still expect relative monetary policy to drive EUR/USD lower over the next 6 months. We doubt the ECB will be able to continue hiking after December, while the Fed will extend its tightening cycle also into 2027. Read our previews for both the ECB and the Fed.

Scandies

NOK continued to strengthen on Friday, with EUR/NOK closing around 10.44 and USD/NOK around 9.30. The move was supported by a further rise in oil prices, with Brent crude briefly reaching USD 117 per barrel.

As noted in the recent RtM Norway report, Norway stands out positively in a market increasingly focused on balance-sheet risks. High energy prices and resilient domestic data contribute to a robust outlook for NOK, particularly amid uncertainties surrounding European fiscal risks. You can find more details about NOK and NGBs being a safe haven in our latest RtM Norway. We also keep our long in 10Y NGBs versus swaps and recommend foreign investors buying NGBs even with the high cost of the currency hedge.

The Swedish Krona traded relatively stable last week, with EUR/SEK briefly venturing below 11.10 before settling above. Despite the SEK's strong run thus far in October, it remains the worst performing G10 currency year-to-date. In our view, this underperformance is mainly due to the Riksbank's negative policy rate gap versus peers, and the geopolitical uncertainty, a view that was echoed by Riksbank Deputy Governor Per Jansson last week. We expect EUR/SEK to trough around current levels and view the cross as a buy-on-dips should we once again try for a break below 11.10.

Tactical views

FX

EUR/USD - On a structurally declining trend

EUR/NOK - Tactically neutral. Strategically bullish.

EUR/SEK - Back at our 1M target, a buy-on-dips from hereon

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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