Danske Daily - Danske Bank Research

Ella Schlüntz, eschl@danskebank.com, Assistant Analyst

In focus today

- In Israel, voters head to the polls in a general election, with the final polls showing neither Prime Minister Benjamin Netanyahu's coalition nor the opposition securing a majority. Forming a new coalition could take weeks or months, with Netanyahu likely to remain prime minister in the meantime with the legal right to order military action. The election is also in focus for oil markets amid fears that strikes against Iran could resume after the Israeli election and next week's US midterms.
- In the euro area, the ECB publishes its Q3 bank lending survey, which will show how banks' credit standards changed over the quarter. The survey is one gauge of how restrictive the ECB's policy stance is, which matters for the outlook ahead of Thursday's meeting.
- In the US, the Conference Board releases consumer confidence for October. Confidence dropped notably in September to 81.9 and is expected to fall further.

Economic and market news

What happened overnight

In China, industrial profit growth picked up to 14.4% y/y in September from 4.2% in August, in line with our expectation of a recovery following the rebound in manufacturing PMI and higher PPI inflation. The sectoral divide remained pronounced, with profits in computer, communication and other electronic equipment manufacturing more than doubling over the first nine months of the year, while profits in furniture manufacturing fell by more than half.

What happened yesterday

In the US, Anthropic filed for a potentially record-breaking IPO on Nasdaq, expected before Thanksgiving, with some investors valuing the AI lab at about USD1.5tn. The filing showed revenue of more than USD33bn in the first nine months of the year, and the listing is seen as a key test of investor appetite for the AI sector. Meanwhile, Meta announced plans to raise up to USD95bn in its largest-ever equity fundraising to fund its AI expansion, after posting its first negative free cash flow in over a decade. This underscores how big tech companies are increasingly turning to debt and equity markets rather than relying on their own cash flows to finance AI investments. Separately, Microsoft offered buyout

packages to up to 60,000 staff as it tries to keep costs under control and trim its workforce while spending hundreds of billions of dollars on AI.

In Germany, the Ifo business climate was broadly as expected in October at 90.2 (cons: 89.9, prior: 89.9). The assessment of the current situation fell to 88.8 (cons: 89.8, prior: 89.5) while expectations rose to 91.6 (cons: 90.0, prior: 90.4). Despite a small decline of the current assessment, the index remains at a multi-year high level, suggesting that the economy is on a steady recovery, as also indicated by the PMIs. The recovery is likely to continue, as expectations are now at their highest level since last summer despite tighter financial conditions and higher energy costs.

In commodities, European natural gas prices climbed further to around EUR97/MWh, another EUR3/MWh increase from last week, as gas remains under pressure from tight supply conditions. Stronger wind energy production over the weekend may ease some of the pressure on gas demand from power production. Oil prices, by contrast, initially eased from Friday's high on renewed diplomatic efforts to contain the conflict, as top officials from Saudi Arabia, Turkey and Pakistan met Iranian officials in Tehran. However, Brent recovered most of its losses as attacks on Saudi Arabia continued.

In Sweden, PPI rose to 11.2% y/y in September from 6.8%, with prices increasing by 3.4% m/m. The increase was broad-based across import, export and domestic markets. Domestically, electricity trading services made the largest upward contribution, while petroleum products, basic chemicals, basic metals and district heating also added. Food prices continued to pull PPI lower, partially offsetting the increases in other categories. Prices for rubber and plastic products, a good leading indicator of consumer prices for core goods, rose substantially again in September. With September's CPI data already showing the first signs of higher core goods prices, we expect these prices to continue to rise as underlying price pressures feed through to consumer prices.

In Finland, the Ministry of Finance published an extensive list of possible budget cuts and tax increases for the next parliamentary term, including major cuts to child benefits, reforms to dividend and property taxation and freezes on index-based spending increases. The lists are not official proposals but a toolkit for addressing the deficit and are traditionally used in government forming negotiations, with election due in 2027. Parliament has already committed to EUR8-11bn of fiscal consolidation over the 2027-2031 term.

Equities: Global equities had a strong session yesterday up 0.5%, led by the AI trade. S&P500 rose 0.7% while Nasdaq rose 0.8%. At the top of the table was the AI related names across tech, industrials and consumer disc (Tesla). The catalyst was the Anthropic's filing for a Nasdaq IPO, with a reported market cap in excess of USD2trn, raising USD100bn at the IPO, but those numbers are unconfirmed from the S-1 filing. Five months ago, they were reportedly valued at USD965bn, in a private funding round. Certainly,

investors could build this on both a bullish and a bearish case for AI, yet market clearly took it as the bullish case. Overnight, Asian tech and semiconductor stocks followed higher, and this is noteworthy after the recent weakness in the AI trade. US futures are slightly higher overnight.

FI and FX: The 10Y OAT-Bund spread tightened yesterday, with spillover effect to other EGBs. Meanwhile, the flattening of both the US and German yield curves continue. Despite the slight easing of fiscal tensions, within FX the main concern remains the rise in energy prices and as such EUR/USD ventured below 1.12 again, whilst NOK also saw strong performance. Meanwhile, EUR/SEK remains close to our 1M target at 11.10 and continues to be dominated by the EUR-leg rather than Krona-specific developments.

Fixed income and FX markets

Majors FI

There was a solid rally in French government bonds yesterday on the back of the unchanged rating from Moody's on Friday last week. The 10Y OAT-Bund spread tightened some 13bp to 155bp. There was also a spillover effect to other EGBs and spreads tightened to Bunds for most of the periphery and semi-core bonds. Furthermore, German ASW-spreads tightened. However, there is still room for more convergence, but here we need more information on the budget negotiations in France.

We still like the front end of the French government curve, as well as French covered bonds, given the outright level for yields. Yesterday's French T-bill auction was also well received by the investors with a solid bid-to-cover especially in the longer-dated T-bills. The next French government bond auction will be next week, where the Debt Office is expected to tap up to EUR 14bn in long term bonds (+10Y).

The flattening of both the US and German yield curves between 2Y and 10Y continue. Hence, we keep pricing in hikes from both ECB and the Federal Reserve given high oil prices and resilient economies. Hence, there will be full focus on the direction for monetary policy and if the flattening tendency will be maintained. We are more biased towards a steepening of the curves especially in the Eurozone given there is too much priced in for ECB.

Today, Germany will tap EUR 6bn in the 2Y benchmark Schatz 3% 2028, but Netherlands has cancelled their optional bond auction today. Italy will sell EUR 1.5bn in linkers and EUR 2bn in a 2Y benchmark. The primary market is also ongoing with European SSAs such as the City of Hamburg yesterday selling a new 10Y green bond which was met solid demand and a small NIP for the investors. Today, we have another Lander as the State of Thuringia is coming with an 8Y benchmark.

The Debt Office at Norges Bank announced a NOK 2bn tap in the 3Y and 10Y benchmarks for Wednesday. Hence, the Debt Office continue to tap in the 10Y benchmark despite the solid performance in the 10Y ASW-spread. The front end of the ASW-spread curve has also performed, despite the certificates auctions, which were supposed to drain liquidity and thus make the bonds cheaper versus swaps. However, this has not happened which we attribute to the outright level in the front end of the NGB curve, which is attractive.

Majors FX

In broader cross-asset markets, Monday marked a partial reversal of the tensions seen at the end of last week. The OAT-Bund spread tightened, short-end swap rates rose on both sides of the Atlantic while tech and industrials led the recovery in equities. But in FX markets, the main concern appears to be the ever-continuing rise in energy prices. NOK, CAD and USD led the gains in G10 yesterday, and EUR/USD traded down below 1.1180.

The EUR/USD FX forward curve has inverted again during October as especially the 2-5-year tenors have declined despite the modest widening of the XCCY basis. This reflects markets pricing in relatively faster inflation in the euro area as energy prices are rising, while the real rate spread has remained essentially unchanged over the past couple of weeks. This helps explain why the seemingly EUR-positive shift in (nominal) relative rates has not provided support for the spot rate. Euro area's terms-of-trade are currently at the weakest level of the year, as natural gas prices have risen well above spring levels.

But in this week's Reading the Markets USD, we focus on the US inflation outlook. We discuss, what changes Kevin Warsh's inflation task force could deliver for US monetary policymaking over the next few months. See also our full preview for tomorrow's meeting, 22 October.

Scandies

The Norwegian krone strengthened further yesterday and has gained against all G10 currencies since Friday, most notably versus JPY and least versus USD. While there was no obvious single catalyst, the move coincided with firmer energy prices, with TTF rising to its highest level since 2022 on low storage levels, colder weather forecasts, supply disruptions in Norway and tighter LNG availability, while Brent also moved higher, albeit ending below its intraday highs. In EUR/NOK, the move may also have been helped by euro-specific concerns, including continued uncertainty around France's fiscal outlook. Overall, NOK strength appears consistent with supportive energy-related developments, some EUR softness and positioning rather than one clear domestic trigger.

EUR/DKK remained below 7.4750 yesterday amid a small relief in the EUR market after Moody's refrained from downgrading France's credit rating on Friday. The concerns around French debt and politics have contributed to easing the upwards pressure on EUR/DKK during October. If the market calms further, we see potential for EUR/DKK to rise back

towards the 7.4760 ceiling again and vice versa fall towards the recent 7.4734 low if worries reignite.

The Swedish krona started off the week by trading weaker, with EUR/SEK edging higher to a mid-afternoon peak just shy of 11.15. However, during the latter part of the session we saw a complete reversal and are now back at where we started the week. Once again, looking at across SEK-crosses, the moves in EUR/SEK seem more related to the EUR-leg rather than being an expression of the krona's outlook. With no important domestic data until Thursday, the krona will continue to trade primarily on global developments, and we expect broad SEK to linger around current levels for now.

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

***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: 27 October 2026, 06:45 CEST

Report first disseminated: 27 October 2026, 07:30 CEST

