Danske Daily - Danske Bank Research

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In focus today

- In the US, the main event of the week is this evening's FOMC rate decision and the following press conference. We expect the Fed to keep policy rates unchanged, in line with consensus, while markets price in a 10% probability of a hike. Most central FOMC members have signalled that they can wait until December before hiking again, although a few see more urgency, and we expect 2-3 dissenting votes in favour of a hike. We still see a need for further tightening and expect two more hikes, in December and March.
- In the UK, Chancellor John Healey presents his first Budget today at around 13.30 CET. The Office for Budget Responsibility also publishes its updated Economic and Fiscal Outlook, which will show how much fiscal headroom the Chancellor has. Healey is expected to stick to the fiscal rules introduced by his predecessor Rachel Reeves, and with little room to manoeuvre, a cautious budget is expected. Income tax, National Insurance, VAT and capital gains tax rates have been ruled out, so any new revenue is likely to come from narrower sources such as banks, gambling and property. Some targeted cost-of-living support is also expected.
- In Canada, the Bank of Canada announces its rate decision, where we expect a 25bp hike to 2.50%, the first increase since July 2023. The hike would be a pre-emptive move to stop energy-led inflation from spreading to the rest of the economy, although core inflation has eased and the economy is weakening. Focus will also be on the quarterly Monetary Policy Report, where the inflation forecast is expected to be substantially revised, and on signals of further hikes.
- In Norway, retail sales for September are due. We expect a decline of 0.7% m/m, reversing August's 0.6% increase, as the underlying trend has pointed down throughout 2026 despite monthly volatility.

Economic and market news

What happened overnight

In commodities, Brent crude is trading around USD115/bbl this morning, as markets watch the outcome of Israel's election, which could influence the course of the Middle East conflict. In his post-election speech, Netanyahu raised the prospects of renewed joint action with President Trump against Iran, while API data showed a decline in US crude inventories of around 2 million barrels last week, pointing to continued tighter supply.

In Israel, exit polls from Tuesday's general election point to a deadlock, with neither Netanyahu's bloc nor the opposition led by Gadi Eisenkot securing the 61 seats needed for the majority. Turnout was 77.7%, the highest in more than two decades. According to early results, Netanyahu's Likud was set to become the largest party, while Arab parties were projected to win a record 18-19 seats and could hold the balance of power. However, Eisenkot has largely ruled out governing with them, and the deadlock could leave Netanyahu in office as caretaker prime minister during what are likely to be prolonged coalition negotiations. Final results are expected on Thursday or Friday.

In New Zealand, the Reserve Bank of New Zealand (RBNZ) unexpectedly kept the official cash rate unchanged at 2.75%, contrary to our expectation and consensus of a 25bp hike to 3.00%. The surprise sent NZD to its biggest one-day drop since March, while two-year swap rates fell. The decision was a narrow 4-3 vote, as all members agreed on the inflation outlook but differed on the timing of the policy response, with the majority wanting more time to assess the effects of the two recent hikes. However, the committee agreed that further tightening is likely to be required, and Governor Breman said rates may need to rise more than signalled at the September meeting. RBNZ expects inflation to rise to 4.4% in Q4, and markets now price a 75% chance of a hi.ke in December

What happened yesterday

In the euro area, the ECB's Q3 Bank Lending Survey showed that banks tightened credit standards more than expected, although the net share reporting a tightening remained low from a historical perspective and was mainly driven by banks in France. This suggests that ECB's tightening has so far only led to a modest tightening of credit standards and should not in itself stop the ECB from tightening further as the pass-through remains relatively smooth. Separate data on credit growth for September showed that momentum has continued to rise and is now at the highest level since 2022, signalling that the euro area economy can handle higher interest rates surprisingly well, although lower loan demand should dampen credit growth going forward.

In France, budget talks are making little progress, as negotiations on the revenue side of the state budget resumed with more than 2,800 amendments out of 3,400 still to be examined. The lack of progress and sharp division in the parliament make adoption before year-end through the "normal" legislative procedure less likely, increasing the risk that the government will have to resort to article 49.3 and face a no-confidence vote. The next key date is the vote on the state budget's revenue side next Tuesday.

In geopolitics, the leaders of Finland and Norway held a rare call with Vladimir Putin yesterday ahead of planned US-brokered talks between Ukraine and Russia in Abu Dhabi in November, underscoring Europe's attempt to secure a role in a process increasingly driven by Washington. The call was coordinated with Kyiv, but the Kremlin showed no sign

of compromise, while Russia's foreign minister Sergei Lavrov said the war was likely to continue and escalate.

In Brazil, defeated presidential candidate Flávio Bolsonaro has landed in the US after fleeing the country. He is under investigation for alleged corruption and money laundering, which he denies, and his passports were cancelled after he failed to comply with a Supreme Court order to surrender them. The US State Department will grant visas to him and his family and President Trump said he approves of Bolsonaro coming to the US. The move is likely to worsen already strained relations between Brazil and the US.

In the US, consumer confidence rebounded in October, with the Conference Board's Consumer Confidence Index rising to 91.7, well above consensus expectations of 81.0 and the revised September reading of 84.2. Both the assessment of the current situation and expectations for the future improved. Labour market perceptions also strengthened somewhat, although from weak levels, while inflation expectations declined but remained within their recent range. Plans for major purchases were mixed, with home-buying plans increasing modestly and plans to buy cars or go on holiday declining.

In Sweden, employment rose by 0.1% m/m in August according to Statistics Sweden's less volatile Population by Labour Market Status statistics, broadly in line with expectations and consistent with the recent increase in LFS employment. The unemployment rate for the 20-64 age group was unchanged at 5.3%, although this appears to reflect composition effects, as unemployment declined among both foreign-born and Sweden-born individuals.

Equities: Equities continued their rebound on Tuesday up 0.6%, with the rally broadening beyond US megacap tech. The S&P 500 rose 0.6%, with Nasdaq rose 1.2% as semis and AI-related names again led the market higher. Importantly, the move was not confined to the largest tech stocks as the Russell 2000 also advanced 1.2%. The message from Tuesday was therefore not simply that AI was recovering, but that risk appetite was beginning to broaden again. That move has accelerated overnight, after blowout results from SK Hynix provided fresh fundamental backing for the AI trade. Asian equities are up overnight, with US futures up as well.

FI and FX: There were only modest moves in global rates yesterday, with the OAT-Bund spread widening slightly. In FX, however, we saw more action with EUR/USD trading sharply lower, closing in on year-to-date lows. Despite the dollar strength, the Scandie currencies also performed, with EUR/NOK reaching new year-to-date lows just below 10.40 and EUR/SEK briefly touching 11.05. Looking at the full G10 spectrum, yesterday's price action was most likely predominately another reflection of broad-based EUR weakness. Tonight, all eyes are on Fed, which are expected to leave rates unchanged. Nevertheless, we expect Wars to reiterate his firm commitment to bringing inflation back to target, with our base case being another two hikes in December and March.

Fixed income and FX markets

Majors FI

There have only been modest movements in bond yields with a slight widening of the OAT-Bund yield spreads. There was again a modest demand at the 2Y German auction yesterday, where they sold EUR 3.8bn in the Schatz 3% 2028 and retained EUR 1.2bn. There were bids for EUR 5.05bn, which is in line with what we have seen in previous auctions. So, despite the potential safe-haven flows into German government bonds, then we are not seeing much demand in the 2Y German government bond auctions, where there has been a steady decline in the bid-to-cover since mid-2025.

Today, the German Debt Office will sell EUR 5.5bn in the 10Y benchmark. Here we have also seen a decline in the bid-to-cover at the auctions, and it will be interesting to see if the trend continues.

The main event in the market is the FOMC meeting, where we expect the Federal Reserve to be on hold. This is in line with consensus and given that there will be limited "forward guidance" then it will be interesting to see the communication ahead of the mid-term elections. We also have central bank meeting in Canada and then we have the UK budget for 2027. Here it will be interesting to see what the new PM and the Chancellor can come up with in terms of spending cuts and increased revenue to stabilize the UK government bond market. The yield on 10Y Gilts has not seen the same decline as we have recently seen in the 10Y US Treasury bond.

Majors FX

EUR/USD traded sharply lower and below 1.1130 throughout yesterday's session without a clear trigger. EUR weakened on a broad basis against every other G10 currency with AUD and scandies leading the gains alongside the USD. NZD weakened sharply this morning after RBNZ held rates steady even when markets had almost fully priced in a hike.

Markets are pricing just 1-2bp for tonight's FOMC meeting. We agree with the consensus and do not expect monetary policy changes for now. Warsh is likely to reiterate his firm commitment to bringing inflation back to target, which should maintain December as the base case for the next hike. Markets are fully locked into the idea of quarterly hikes, with exactly 50bp priced in by March, in line with our call.

But we still see further EUR/USD downside potential stemming from the EUR-leg. Markets are starting to doubt the near-term case for ECB's rate hikes, which marks are stark shift from September, when tomorrow's meeting was priced as a nearly certain hike. Now, nothing is priced for tomorrow, and even the December hike is less than 80% certain. We still think the ECB will deliver one more hike in December, but end the tightening cycle

then. If we're right, markets are still pricing the ECB's policy rate around 45bp too high in one year's time.

While the FOMC meeting will undoubtedly be today's main event, we will also keep an eye on Bank of Canada's rate decision in the afternoon. We expect the first rate hike of the year, which is around 85% priced in. The meeting was priced as a likely hold until around 1.5 weeks ago, when Governor Macklem's hawkish remarks turned the tide. EUR/CAD is trading close to its lowest level since last March, and if today marks the beginning of a longer hiking cycle, the decline could well extend further.

Scandies

The Norwegian krone traded mixed yesterday, with EUR/NOK dipping below 10.40, marking the krone's strongest level against the euro so far this year. The move was primarily a euro weakness story rather than broad-based NOK strength, as the krone weakened against the US dollar and several higher-beta G10 currencies while gaining against the euro and the Danish krone. Euro sentiment was hit by French fiscal concerns and softer euro area credit signals. At the same time, lower oil prices, with Brent trading just below USD 114 per barrel, and a firmer US dollar ahead of the Federal Reserve decision remained headwinds for NOK more broadly.

Today, the Debt Office at Norges Bank will sell NOK2bn in the 3Y and 10Y benchmarks - NGB 1.75% 06/29 and NGB 4.125% 06/36. This is its fourth auction in October and leaves just two for November and two in December. It has scaled down the auction sizes to NOK2bn, and we expect it will continue to do just NOK2bn at the auctions in November and December as it is getting close to fulfilling the issuance target for 2026 of NOK107-110bn.

The NGBs have become expensive versus swaps, both in the 3Y and 10Y benchmarks, but the outright level is still very attractive in the front end of the NGB curve. Part of the explanation for the move in the ASW-spread in the 10Y segment is likely to be the slowdown in NOK-den. issuance from foreign issuers such as SPIRE etc. which dampens demand for NOK swaps. We still like the 10Y versus swaps but also against EU peers. The 3Y looks attractive from an outright perspective. See more in NGB preiew - Norges Bank to sell NOK2bn in the 3Y and 10Y benchmarks, 27 October.

The SEK had a constructive session yesterday, with EUR/SEK trading lower towards 11.05, before reversing some of the move towards end-of-day. With no apparent domestic trigger, and looking at other SEK-crosses, the most likely explanation is that it was once again predominately EUR weakness driven the cross, with some modest follow-through in other SEK-crosses.

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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FED
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$111,70
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