

20 September 2024

# Weekly Focus

## Fed initiating the easing cycle with 50bp cut

The main event this week was the monetary policy meeting in the US where markets prior to the meeting were historically divided between a 25bp and 50bp cut. **The Federal Reserve chose to lower the policy rate by 50bp to a new target range of 4.75-5.00%.** The larger move was motivated by a significant shift in the Fed's risk assessment. 12 out of 18 participants saw risks to unemployment rate tilted to the upside (prev. 4 participants), and the median unemployment rate forecast was revised up through 2024-2026. Despite this, Powell downplayed the probability of a recession during the press conference, as faster rate cuts are set to support growth. The updated dots signal a total of 50bp of additional cuts in 2024, 4x25bp of cuts in 2025 and 2x25bp cuts in 2026. Hence, the Fed signals a longer but more gradual rate cutting cycle compared to **our call of 25bp cuts in every meeting until June, leaving a terminal rate at 3.00-3.25% by end of 2025.**

**This week, we also had monetary policy meetings in the UK, Japan, and Norway (see p. 4).** In UK, the Bank of England left the policy rate unchanged at 5.0%. The vote-split revealed 8 members voting for an unchanged rate and one in favour of a 25bp cut. We expect the next rate cut in November and a pause in December before a pick-up in cutting pace in 2025. In Japan, the BoJ kept the policy rate unchanged as widely expected. As growth and inflation has picked up, we expect the next rate hike in December.

**China released their monthly batch of data for a wide range of areas. The data painted a picture of an economy that lost even further momentum in August.** The weak Chinese demand is contributing to the downward pressure on global commodity prices as well as Chinese export prices leaving China as a key disinflationary force in the world. China is also weighing on the recent weak global manufacturing growth.

**In Europe, domestic inflation remains strong while growth momentum weakened.** The final euro area inflation data showed that the 'LIMI' measure of domestic inflation declined to 4.2% y/y from 4.3% y/y in July. Momentum eased but the high yearly growth rate favours a cautious easing approach of the ECB. The German ZEW survey showed the weakest assessment of the economic situation since Covid, and expectations declined to a year-low, highlighting the fragility of the German economy.

**Next week focus will be on September PMIs from the US and the euro area.** On both sides of the Atlantic, we expect the weakness in manufacturing to continue and services holding up activity. Services PMIs will likely decline in the euro area as the boost from the Olympic games recorded in August fades, but excluding this growth momentum was likely unchanged. **On the central bank front, we follow a long list of Fed speakers including Powell on Thursday and rate decisions in China, Australia, and China.** We expect the Chinese central bank to ease policy to stimulate the weak economy while the RBA is expected to leave the policy rate unchanged. In Switzerland, we expect the SNB to lower the policy rate by 25bp to 1.0%.

**On Friday, we receive the US PCE inflation measure and inflation data from Spain and France ahead of the euro area print.** We expect energy prices to pull euro area inflation significantly down to 1.8% y/y while core should remain unchanged at 2.8% y/y (0.20% m/m s.a.) due to sticky services inflation. In Japan, we follow the vote for a new leader and thus prime minister of the ruling party, as it could influence financial markets.

### Key global views

- Global manufacturing cycle moving gradually higher
- Upside inflation risks have diminished, and focus has shifted to downside growth risks
- Fading uncertainty around inflation outlook allows the Fed and ECB to front-load rate cuts

### Key market movers

- Mon: **US and euro area PMI**
- Tue: German Ifo
- Wed: Riksbank rate decision, PBoC rate decision
- Thu: SNB rate decision
- Fri: **US PCE inflation, inflation in Spain and France.** Japan LDP leader election

### Selected reading from Danske Bank

- *US Election Monitor: Both candidates expected to widen the budget deficit*, 19 Sept.
- *Research US - Fed review: Going for the soft landing*, 18 Sept.
- *Bank of England Review: Gradual easing cycle supports GBP*, 19 Sept.
- *Reading the Markets Norway: Norges Bank delivers hawkish surprise for markets*, 19 Sept

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## Scandi market movers

- In **Denmark**, on Monday we get business sentiment indicators for September. Despite slightly declining sentiment in August we are optimistic about the future for the Danish economy and business activity. This is in line with businesses reporting that they expect increasing employment during this fall in the August release.

On Friday, data for retail sales in August is due for release. Retail trade has trended upwards since the early 2023. However, inflation-adjusted retail sales is still below the levels from the pandemic years and slightly lower than pre-pandemic levels. According to our own spending monitor, retail spending continued to increase moderately in September. See *Spending Monitor - Spending growth picked up slightly in August*, 10 September. Looking further into the future, we see a solid basis for rising consumption, since real wages are expected to continue growing into 2025, and both the housing market and the labour market are doing well.

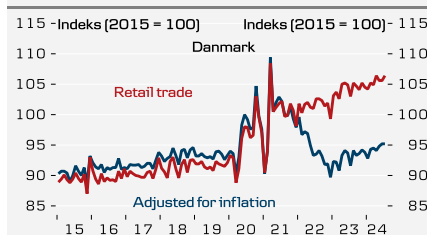
- In **Sweden**, we expect the Riksbank to announce a policy rate cut of 25bp to 3.25% on 25 September (9.30 CET). This is widely expected by markets and pricing is also rather well aligned to 25bp, leaving some probability for a larger move. In the August minutes the case for a larger cut was discussed (but also dismissed) by the Riksbank members.

We would expect that a larger cut should be up for discussion this time as well and we assign a non-negligible probability for it. The reasoning for a larger cut would simply be to faster reach a neutral level, as inflation risks have abated (and even risk to be on the low side) and concerns around the economic development may take the upper hand. This would then motivate a faster descent back to a neutral level. The Riksbank have verbally signalled that the neutral rate is likely in the lower end (or even below) the current guidance of 2.5% to 4.0%.

Our base case is however still for a 25bp cut, mainly due to: 1) aligning with previous communication 2) core inflation still in line with the June forecast. With regards to inflation, a key development since the June MPR is the clearly lower CPIF inflation, where the August print at 1.2% was substantially lower than the Riksbank's forecast of 1.7%. However, this was mainly driven by electricity prices as core inflation (CPIFxE) was in line with the Riksbank forecast of 2.2%. A continuation of low CPIF prints can however in turn influence inflation expectations, which the Riksbank may find troublesome. Hence, we find that the monthly inflation expectation survey will be key to watch over the next months (next one 7 October).

We expect the Riksbank to lower the rate path, both near-term and looking into 2025. Given that a 50bp cut was discussed in August we would assume a rather aggressive path for the coming meetings before levelling out at level around 2.3% towards the end of 2025. This indicates a rate path that is around 40bp lower compared to the June MPR.

### We see solid basis for a further rise in consumption going into 2025



Sources: Statistics Denmark, Danske Bank

### Sweden: Market is pricing a 20% probability of a 50bp Sep rate cut

RIKS Implied fr RIBAs		
02 okt	-30	-1
13 nov	-35	+0
08 jan	-25	+0
05 feb	-25	+0
26 mar	-25	+0
14 maj	-19	+0
25 jun	-9	+1
26 aug	-7	+1
Σ	-175	+1

Source: Danske Bank

- Although economic activity in **Norway** has been relatively weak over the past year, there has only been a moderate rise in unemployment. The mirror image of this development, however, is that productivity growth has continued to fall, and has become negative. This of course entails a risk that unemployment will begin to increase when this development affects the profitability of business, if economic growth does not pick up as expected. We do not think that this picture changed much in September, but that the unemployment rate increased marginally to 2.1% (seasonally adjusted). Higher real wage growth and a period without rate hikes have improved the purchasing power of households, and private consumption picked up in the summer months. The question now is whether much of the gunpowder was burned during the summer holidays, and that we will have a period of weaker consumption growth beyond the autumn. This will probably be a central premise for Norges Bank to be able to speed up the rate cuts, so the consumption figures will be important going forward.

Based on various current card statistics, we expect that the retail trade was unchanged in August.

#### Volatility in retail sales lately



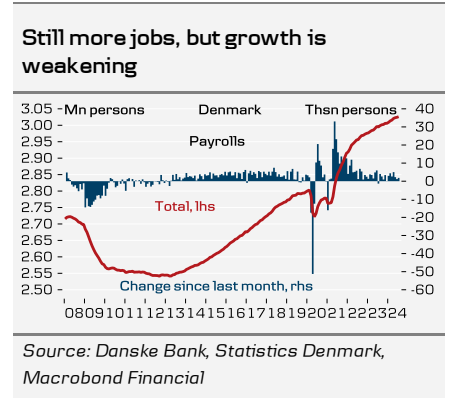
Kilde: Macrobond, Danske Bank

# Scandi Update

## Denmark – Payrolls increased in July, but signs of slowdown

Payrolls increased by 1800 persons in July compared to June. We are still not seeing the long-awaited slowdown in the labor market, although it is starting to look like the pace of job growth has slowed. It is too soon to conclude anything based on one observation but nearly unchanged job growth in the private sector could be the first sign, that we are heading towards a period where we will not see more payrolls each month.

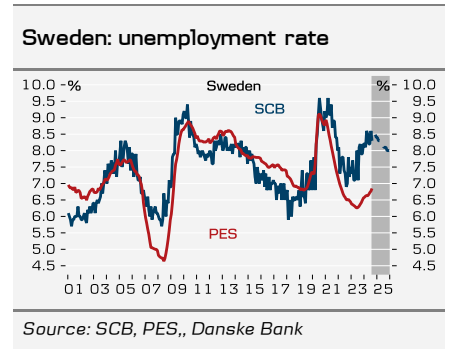
Consumer confidence increased slightly from -7.4 in August to -6.8 in September. The increase stems from households having a more positive assessment of their own financial situation compared to a year ago. Regarding their assessments of their own financial situation in one year and the general economic situation consumers became more negative compared to August. The assessment of the general economic situation in Denmark gradually increased in early 2024, but this development has stopped and now households are slightly more negative than in the spring. We expect that there are a lot of reasons to be optimistic about the Danish economy, which is why we also expect that consumer confidence will better going forward.



## Sweden – Labour market looks relatively OK

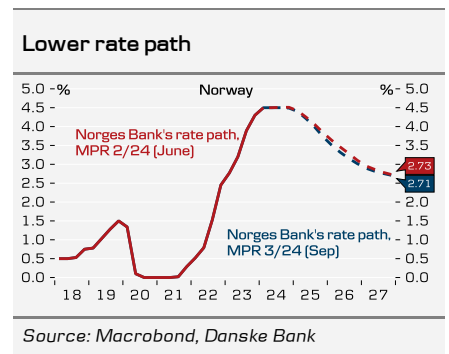
Unemployment rate dropped as expected, from 8.6% s.a to 8.3%. Employment rate increased and showed signs of having bottomed out, while hours worked on the other hand ticked slightly lower. Overall, the labour market continues to be in good condition, with hiring plans in positive territory according to monthly data from NIER. We expect the unemployment rate to peak at 8.5% coming months, turning lower during 2025 and reaching 8% by the end of next year.

This week, the government also presented the budget proposition for 2025. However, the most parts had already been presented earlier so the proposition in full did not provide much new information. The Budget Bill includes reforms totalling SEK 60bn, excluding military support to Ukraine. The government is prioritising to strengthen the household purchasing power (well needed in our opinion). Almost 23bn will of those 60 is specific to strengthen the households. This in combination with increase real wage (as inflation trending lower) and support from the monetary policy side is the reason for our relatively optimistic view on the Swedish economy from here (+1,2% in 2024 and +2,4% in 2025).



## Norway – Norges Bank on hold, signals no rate cut in 2024

As expected, Norges Bank kept the interest rate unchanged at 4.5% at the meeting this week. At the same time, the interest rate committee stated that: 'Based on the Committee's current assessment of the outlook, the policy rate will most likely be kept at that level to the end of 2024.' This is supported by the interest rate path that was published in the monetary policy report, which indicates that Norges Bank will most likely deliver the first rate cut in March, and that there is a roughly 25% probability of a cut as early as December. The rate path further indicates that rates will most likely be cut approximately three times in both 2025 and 2026, and approximately twice in 2027, so that the policy rate will remain around 2.5% at this time. The forecasts in the report are largely in line with our own estimates, where growth will pick up next year, but unemployment will still increase, and inflation and wage growth will decrease. We have not changed our forecasts in this round and still expect the first rate cut in March, and a total of four interest rate cuts in both 2025 and 2026.



# Calendar -23-27 September 2024

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Monday, September 23, 2024				Period	Danske Bank	Consensus	Previous
9:15	FRF	PMI manufacturing, preliminary	Index	Sep		44.2	43.9
9:15	FRF	PMI services, preliminary	Index	Sep		53.0	55.0
9:30	DEM	PMI manufacturing, preliminary	Index	Sep		42.1	42.4
9:30	DEM	PMI services, preliminary	Index	Sep		51.0	51.2
10:00	EUR	PMI manufacturing, preliminary	Index	Sep	45.5	45.7	45.8
10:00	EUR	PMI composite, preliminary	Index	Sep		50.6	51.0
10:00	EUR	PMI services, preliminary	Index	Sep	52.1	52.3	52.9
10:30	GBP	PMI manufacturing, preliminary	Index	Sep		52.2	52.5
10:30	GBP	PMI services, preliminary	Index	Sep		53.5	53.7
14:00	USD	Fed's Bostic speaks					
15:45	USD	Markit PMI manufacturing, preliminary	Index	Sep		48.6	47.9
15:45	USD	Markit PMI service, preliminary	Index	Sep		55.3	55.7
19:00	USD	Fed's Kashkari speaks					
Tuesday, September 24, 2024				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Sep			49.8
2:30	JPY	Markit PMI services, preliminary	Index	Sep			53.7
6:30	AUD	Reserve Bank of Australia rate decision	%		4.35%	4.35%	4.35%
9:00	CZK	Czech republic central bank rate decision	%	Sep			4.50%
10:00	DEM	IFO - business climate	Index	Sep		86.0	86.6
10:00	DEM	IFO - current assessment	Index	Sep		86.1	86.5
10:00	DEM	IFO - expectations	Index	Sep		86.5	86.8
14:00	HUF	Central Bank of Hungary rate decision	%		6.50%	6.50%	6.75%
15:00	USD	FHFA house price index	m/m	Jul		0.2%	-0.1%
16:00	USD	Conference Board consumer confidence	Index	Sep		103.0	103.3
Wednesday, September 25, 2024				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m y/y	Jul			.. -3.9%
8:00	NOK	Credit indicator (C2)	y/y	Aug			3.7%
8:00	SEK	PPI	m/m y/y	Aug			-1.4% -0.1%
8:45	FRF	Consumer confidence	Index	Sep		92.0	92.0
9:30	SEK	Riksbank, rate decision	%		3.25%	3.25%	3.50%
16:00	USD	New home sales	1000 (m/m)	Aug		693	739.0 (10.6%)
16:30	USD	DOE U.S. crude oil inventories	K				-1630
Thursday, September 26, 2024				Period	Danske Bank	Consensus	Previous
8:00	SEK	Household lending	y/y	Aug			0.7%
8:00	SEK	Trade balance	SEK bn	Aug			6.5
8:00	DEM	GfK consumer confidence	Net. Bal.	Oct		-22.5	-22
9:00	SEK	Consumer confidence	Index	Sep			96.3
9:00	SEK	Economic Tendency Survey	Index	Sep			94.7
9:00	SEK	Manufacturing confidence	Index	Sep			97.1
9:15	SEK	NIER economic forecasts					
9:30	CHF	SNB policy rate	%		1.00%	1.00%	1.25%
10:00	EUR	Money supply (M3)	y/y	Aug		2.5%	2.3%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Aug		2.5%	2.3%
10:00	EUR	ECB Publishes Economic Bulletin					
14:30	USD	Core capital goods orders, preliminary	%	Aug		0.1%	-0.1%
14:30	USD	Initial jobless claims	1000			225	219
14:30	USD	GDP, third release	q/q AR	2nd quarter		0.029	0.03
14:30	USD	PCE core	q/q AR	2nd quarter			0.028
15:20	USD	Fed chair Powell speaks					
15:25	USD	Fed's Williams speaks					
15:30	EUR	ECB's Lagarde speaks					
16:00	USD	Pending home sales	m/m y/y	Aug			-5.5% -4.6%
19:00	USD	Fed's Kashkari speaks					
Friday, September 27, 2024				Period	Danske Bank	Consensus	Previous
-	JPY	Japan LDP leadership election					
1:30	JPY	Tokyo CPI Ex-Fresh Food YoY	y/y	Sep		2.0%	2.4%
1:30	JPY	Tokyo CPI Ex-Fresh Food, Energy YoY	y/y	Sep		1.6%	1.6%
3:30	CNY	Industrial profits	y/y	Aug			4.1%
7:00	JPY	Leading economic index, final	Index	Jul			109.5
8:00	NOK	Retail sales, s.a.	m/m	Aug	0.0%		1.2%
8:00	DKK	Retail sales	m/m y/y	Aug			0.0% 3.9%
8:45	FRF	Household consumption	m/m y/y	Aug		0.0% ..	0.3% -0.6%
8:45	FRF	HICP, preliminary	m/m y/y	Sep		-0.8% 1.9%	0.6% 2.2%
9:00	ESP	HICP, preliminary	m/m y/y	Sep		-0.1% 1.8%	0.0% 2.4%
9:00	ESP	GDP, final	q/q y/y	2nd quarter		0.8% 2.9%	0.8% 2.9%
9:55	DEM	Unemployment	%	Sep		6.0%	6.0%
10:00	NOK	Unemployment	%	Sep			2.0%
11:00	EUR	Industrial confidence	Net bal.	Sep		-9.7	-9.7
11:00	EUR	Economic confidence	Index	Sep		96.5	96.6
11:00	EUR	Consumer confidence, final	Net bal.	Sep			
11:00	EUR	Service confidence	Net bal.	Sep		6.2	6.3
14:30	USD	Personal spending	m/m	Aug		0.3%	0.5%
14:30	USD	Advance goods trade balance	USD bn	Aug		-99.8	-102.8
14:30	USD	PCE headline	m/m y/y	Aug		0.1% 2.3%	0.2% 2.5%
14:30	CAD	GDP	m/m y/y	Jul			0.0% 1.2%
14:30	USD	PCE core	m/m y/y	Aug		0.2% 2.7%	0.2% 2.6%
16:00	USD	University of Michigan Confidence, final	Index	Sep		69.5	69.0

Source: Danske Bank

# Macroeconomic forecast

## Macro forecast. Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Denmark	2023	2.5	1.3	0.2	-6.6	10.4	3.7	3.3	4.1	2.8	3.3	33.6	9.8
	2024	1.8	1.0	1.7	-1.8	3.7	0.8	1.5	5.1	2.9	2.1	32.0	10.1
	2025	2.0	2.1	2.6	3.8	2.6	3.3	1.9	3.5	3.1	1.1	30.5	10.9
Sweden	2023	0.1	-2.2	1.1	-1.1	3.5	-0.8	8.6	3.8	7.7	-0.5	32.0	4.8
	2024	1.2	0.1	0.8	-1.8	2.4	0.8	2.8	3.5	8.4	-0.8	33.0	5.6
	2025	2.4	2.6	1.9	1.6	3.5	3.3	0.6	2.5	8.2	-0.2	33.0	5.7
Norway	2023	1.1	-0.8	3.4	0.0	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	0.7	1.3	2.2	4.0	3.0	1.5	3.2	5.1	2.1	-	-	-
	2025	2.0	2.9	1.8	4.0	3.0	2.0	2.0	3.8	2.4	-	-	-

## Macro forecast. Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Euro area	2023	0.5	0.8	1.2	1.1	-0.4	-0.7	5.4	5.2	6.6	-3.6	90.2	2.9
	2024	0.7	0.8	1.2	-0.5	1.3	-0.2	2.4	4.3	6.5	-3.0	90.1	2.8
	2025	1.2	1.3	0.8	1.3	3.0	3.1	2.1	3.4	6.6	-2.9	90.7	2.9
Finland	2023	-1.2	0.3	3.4	-9.0	0.2	-6.6	6.3	4.2	7.2	-2.7	77.1	-0.4
	2024	-0.4	0.2	0.5	-5.0	-1.0	-1.5	1.9	3.0	8.3	-4.1	80.3	-0.7
	2025	1.8	1.2	0.2	5.0	3.0	3.5	1.5	3.0	8.0	-3.5	81.8	-0.5

## Macro forecast. Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
USA	2023	2.5	2.2	4.1	0.6	2.6	-1.7	4.1	4.3	3.6	-6.3	122.3	-3.0
	2024	2.5	2.1	3.4	4.1	2.0	4.1	2.9	3.2	4.1	-6.7	123.1	-2.8
	2025	1.5	1.2	2.6	3.5	1.9	4.5	2.4	2.5	4.7	-6.5	125.1	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.6	1.5
	2024	4.8	4.5	-	5.0	-	-	0.3	-	5.2	-7.4	88.6	1.3
	2025	4.8	5.6	-	4.5	-	-	1.5	-	5.2	-7.6	93.0	1.4
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	1.1	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.4	-	-	-	-	-	1.9	-	4.9	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % of GDP.

# Financial forecast

## Bond and money markets

		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD*	19-Sep	5.00	-	3.44	3.31	0.90	-	6.70	10.50	10.18
	+3m	4.50	-	3.60	3.45	0.92	-	6.84	10.64	10.46
	+6m	4.25	-	3.45	3.45	0.93	-	6.90	11.02	10.83
	+12m	3.50	-	3.25	3.50	0.93	-	6.97	11.40	10.93
EUR	19-Sep	3.50	3.46	2.49	2.46	-	1.11	7.4593	11.69	11.33
	+3m	3.25	3.15	2.65	2.65	-	1.09	7.4575	11.60	11.40
	+6m	3.00	2.90	2.55	2.65	-	1.08	7.4550	11.90	11.70
	+12m	2.50	2.50	2.45	2.65	-	1.07	7.4550	12.20	11.70
JPY	19-Sep	0.25	-	-	-	0.006	0.007	4.69	7.35	7.12
	+3m	0.25	-	-	-	0.006	0.007	4.78	7.44	7.31
	+6m	0.50	-	-	-	0.007	0.007	4.93	7.87	7.74
	+12m	1.00	-	-	-	0.007	0.007	5.16	8.45	8.10
GBP*	19-Sep	5.00	-	3.89	3.56	1.19	1.07	8.88	13.92	13.49
	+3m	4.75	-	3.80	3.65	1.20	1.31	8.98	13.98	13.73
	+6m	4.50	-	3.60	3.65	1.19	1.29	8.88	14.17	13.93
	+12m	3.50	-	3.25	3.65	1.18	1.26	8.77	14.35	13.76
CHF	19-Sep	1.25	-	-	-	1.06	1.18	7.90	12.38	12.00
	+3m	0.75	-	-	-	1.04	1.14	7.77	12.08	11.88
	+6m	0.75	-	-	-	1.05	1.14	7.85	12.53	12.32
	+12m	0.75	-	-	-	1.06	1.14	7.93	12.98	12.45
DKK	19-Sep	3.10	3.34	2.58	2.60	0.134	0.149	-	1.57	1.52
	+3m	2.85	3.05	2.75	2.80	0.134	0.146	-	1.56	1.53
	+6m	2.60	2.80	2.65	2.80	0.134	0.145	-	1.60	1.57
	+12m	2.10	2.40	2.55	2.80	0.134	0.144	-	1.64	1.57
SEK	19-Sep	3.50	3.23	2.14	2.27	0.088	0.098	0.66	1.03	-
	+3m	2.75	2.82	2.30	2.60	0.088	0.096	0.65	1.02	-
	+6m	2.50	2.38	2.40	2.75	0.085	0.092	0.64	1.02	-
	+12m	2.00	2.05	2.40	2.85	0.085	0.091	0.64	1.04	-
NOK	19-Sep	4.50	4.78	3.92	3.54	0.086	0.095	0.64	-	0.97
	+3m	4.50	4.70	3.75	3.50	0.086	0.094	0.64	-	0.98
	+6m	4.50	4.45	3.65	3.55	0.084	0.091	0.63	-	0.98
	+12m	3.75	3.95	3.55	3.60	0.082	0.088	0.61	-	0.96

\*Notes: GBP swaps are SONIA, USD swaps are SOFR

## Commodities

	19-Sep	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	75	82	85	80	80	85	85	85	85	82	85

Source Danske Bank



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