Investment Research

Danske Bank

FX Forecast Update

Markets increasingly share our view of 2021 USD strength

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FX market overview

Recent developments: markets still price a very positive H2 scenario amid vaccine roll out

- Since *FX Forecast Update,* 15 January, virus developments have generally been positive with mostly declining infection numbers, progress on vaccines and approvals with most vaccines showing sufficient impacts on mutations. Also the actual vaccination process is gaining speed in the US and UK, while EU is currently lagging behind due to delayed deliveries of vaccine doses. Nevertheless, markets continue to look through the current COVID-19 situation, although risk-off movements in late-January stirred up markets for about a week on a combination of stretched positioning and recovery-delay fears. However, risk sentiment recovered fast as markets continue to price a very positive scenario for H2 on US fiscal stimuli, rollout of vaccines, and the eventual reopening of economies.

FX implications: USD narrative has moved towards US outperformance

- EUR/USD has moved lower since the peak in early January and has briefly been below 1.20. We view this as a shift in the market narrative towards our view of US economic outperformance due to the outlook for fiscal easing, a strong US vaccination process, and potential for a fast labour market recovery, while EU is lagging behind due to a slow vaccination process and fading export tailwinds from a slowing Chinese expansion. See more in *FX strategy – USD: At full employment in 6M or not, that is the question*, 10 February. While EUR/SEK has mostly range-traded around 10.10 since New Year, the risk-off movements in late-January caused a NOK-beating. However, NOK losses have been erased by now helped along by increasing oil prices. EUR/GBP has continued to move lower helped by a fast UK vaccination process and BoE ruling out negative rates for now.

Outlook: Scandi tailwinds near-term, but we see headwinds in H2. We keep our USD profile intact

- The EUR/USD market narrative has changed towards our own view over the past month. We continue to see EUR/USD around 1.22 in 1-3M, before a move towards 1.16 in 12M on strong US economic performance in H2 and fading Chinese tailwinds to EU and the EUR. We expect the downward trend in EUR/SEK to bottom-out in 1-3M and see the cross at 10.00 in 3M before reversing to 10.30 in 12M. NOK remains highly linked to the global reflation theme and positive vaccine news, NB's NOK buying, higher NOK rates and a higher oil prices will continue to add support near-term. We now see EUR/NOK at 10.10 in 1-3M, but still see NOK headwinds further out and hence keep our 12M forecast of 10.30. Notably the fast vaccination process will continue to be a GBP-tailwind, and we now see EUR/GBP moving towards 0.85 in 6-12M, although the downward move may take breather near-term.

Key risks to our forecasts: stronger US recovery could bring USD strength sooner than later

- Ineffective vaccines against virus mutations or significant vaccine supply problems are key negative tail risks in 2021. A stronger and faster US recovery may bring USD strength faster than we anticipate.

Contents

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EUR/USD – US at full employment in 6M or not, that is the question

- **Cyclical outlook.** Since the introduction of new lockdowns in Europe, we are clearly seeing negative effects on domestic demand, thus leaving exports as the key driver of growth. Following the Georgia run-off, US President Biden now holds a slim majority. This has increased expectations for a strong US economic recovery (more fiscal easing) and US yield curve has started to price a scenario where the Fed may raise rates and taper bond purchases. Such tapering was unthinkable just a few months ago. Further, we are seeing clear signs the Chinese tailwind is slowing which will likely affect Europe more negatively than US. Thus, there is a likely scenario where the US achieves a full recovery by year-end, starting in H2.
- **Monetary policy.** The US central bank has started to discuss when/if to end asset purchases as expectations of a potentially rapid recovery in H2 are rising. Meanwhile, ECB is unlikely to change any parameters. If this divergence between expectations to the path of future policy rates continue, one should expect USD to go higher. This theme has supported USD recently.
- **External balances.** Fundamentally, the US should continue to be a high(er) interest rate market and equities continue to appeal to foreign investors. This means the US is likely to attract capital, which generally helps the USD.
- **Valuation.** We view fair value for EUR/USD to be a 1.08-1.20 range, depending on the model employed. Either way, at current levels, valuation is neutral if not an outright headwind for spot. US assets' trend performance continues to be strong relative to European counterparts and the COVID-19 pandemic has fast-forwarded the adoption of technology, favouring flows into the US. EUR/USD thus faces structural decline due to a lack of competitiveness. A valuation reversal (lower EUR/USD) could come from rising US real rates, fading EU optimism, or Chinese slowdown.
- **Positioning.** Speculators have tapered long positions in EUR/USD.

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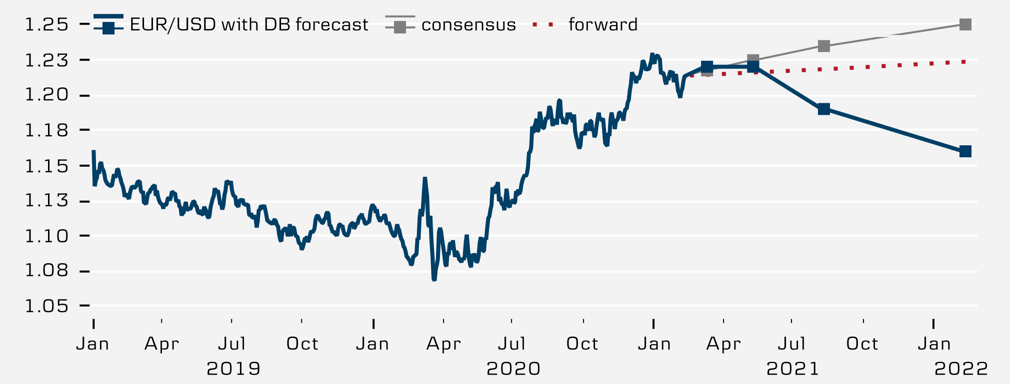
Forecast: 1.22 (1M), 1.22 (3M), 1.19 (6M), 1.16 (12M)



	1M	3M	6M	12M
Danske Bank	1.22	1.22	1.19	1.16
Consensus	1.22	1.22	1.23	1.25
Forward	1.21	1.22	1.22	1.22

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** Upside risks which can take EUR/USD above 1.24 include the EU proving to be an engine of world growth and/or the Fed strongly backtracking on the recent optimism for H2, fuelling further broad USD decline. Details on more fiscal easing will matter as we move in to Q1 vis-à-vis its impact on pricing of US policy rates and relative economic recovery.
- **Conclusion.** A strong US economy and the high likelihood of more US easing, have eased EUR/USD upside risks somewhat - although not entirely. We should indeed expect to see lower Chinese PMIs and thus fading tailwinds for global manufacturing. We keep our 1M and 3M EUR/USD at 1.22 as these events are as expected. Furthermore, we still look for a lower EUR/USD in H2 with a 12M forecast of 1.16.

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EUR/SEK – trying to find a bottom

- **Cyclical outlook.** Recent data still indicate that the Swedish economy will avoid a 'double-dip' with some margin. On top off that, we see a case for continued cyclical outperformance vs Europe when the recovery picks up steam again from Q2 and onwards (subject to vaccinations and restriction rollbacks). Thus, there is still a case for short-term cyclical tailwinds for the SEK, although this is probably to a large extent already discounted.
- **Monetary policy.** The Riksbank is set to fall behind peers in the coming monetary policy divergence, which in the end should put a lid on further appreciation pressure on the SEK. In the near-term, a rebound in inflation would be a temporary relief for the Riskbank. However, further out (H2 and onwards), chronically weak domestic inflation dynamics remains a headwind for the Riksbank, further enhanced by recent months' SEK appreciation. This also explains why we see the risks to our base case of an unchanged repo rate as predominantly tilted towards a cut. The Riksbank itself acknowledges that a deteriorated economic outlook might warrant a rate cut, expanded QE, or both.
- **External balances.** A strong rebound in Swedish exports has reversed the previous deterioration of the current account which, coupled with the positive net equity position, implies an underlying demand for SEK. The Riksbank has started selling SEK in the open market but, thus far, the market impact has been limited (as expected).
- **Valuation.** The in-house MEVA model puts EUR/SEK close to medium-term 'fair value' and the Riksbank agrees. Our short-term financial models indicate only limited downside potential in the cross near term.
- **Risks.** If, contrary to what we believe, inflation picks up and inflation expectations move towards 2% in 2021, alongside the projected recovery, our forecast profile is probably on the high side. If these factors turn for the worse, EUR/SEK could go higher than expected. Apart from fundamental arguments, there is always risk sentiment.

Forecast: 10.10 (1M), 10.00 (3M), 10.20 (6M), 10.30 (12M)

	1M	3M	6M	12M
Danske Bank	10.10	10.00	10.20	10.30
Consensus	10.10	10.05	9.95	9.84
Forward	10.09	10.10	10.11	10.13

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Conclusion.** Last year's trend decline in EUR/SEK has faded over the last couple of weeks, supporting our narrative that 2021 will be less friendly to the SEK. We expect to see markets starting to price in monetary policy divergence (to some extent they already have), although we do not believe it will be a straight line. At the end of the day, we expect the Fed to be a relative frontrunner, leaving the Riksbank way behind. In our opinion, there is room for pricing in a slightly higher probability of a rate cut in Sweden while we see US yields moving higher in 2021. We keep our forecast profile intact at 1M 10.10, 3M 10.00, 6M 10.20 and 12M 10.30.

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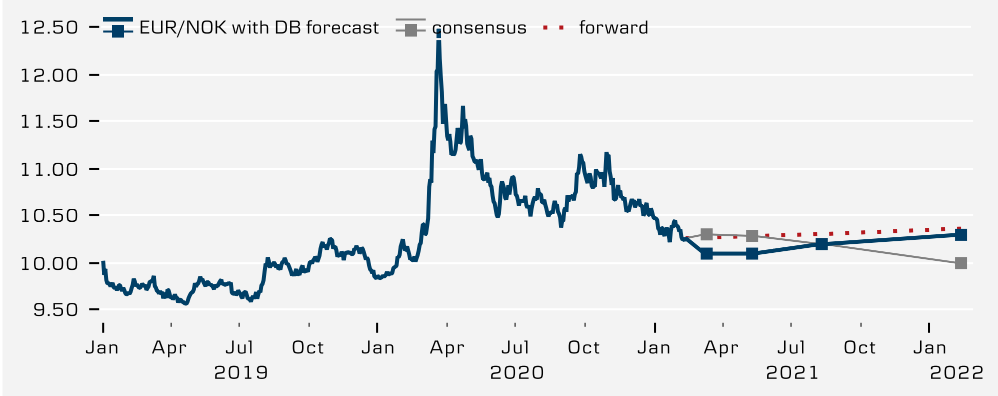
EUR/NOK – downside limited

- **Cyclical outlook.** Norway remains one of the smallest losers from the COVID-19 crisis when measured on GDP metrics. While the mainland contracted by roughly 3% in 2020 we pencil in a rebound of roughly 4% in 2021. Like in most developed countries, new restrictions have hit activity and employment levels in the early parts of this year. However, the total impact has still been far smaller than in March/April 2020, which alongside encouraging vaccine news leave room for a quick and sharp recovery. So far, the guidance from the authorities is that the majority of the broad public will have been vaccinated by late summer. The housing market remains hot, which alongside elevated private debt growth is likely to accelerate the normalisation of monetary policy. At 2.7% core inflation remains above the 2% monetary policy target - yet we expect inflation to decline during 2021 on lower wage growth and currency strength.
- **Monetary policy.** At the December meeting Norges Bank (NB) moved forward its signal for the first rate hike by signalling a roughly 75% probability that the first 25bp rate will be delivered in March 2022. The central bank also indicated roughly 4 hikes until the end of 2023. As we are slightly more upbeat on capacity utilisation and the vaccine rollout we now forecast the first hike to come already in September this year - 6 months earlier than indicated by Governor Olsen.
- **External balances.** The 2020 energy price collapse weakened Norway's terms of trade. Meanwhile, the COVID-19 induced fiscal spending is funded via the oil fund, which entails a direct 1:1 buying of NOK conducted by NB. NB currently buys NOK1.7bn every trading session.
- **Valuation.** We deem the NOK to be fairly in line with long-term valuation metrics that incorporate relative unit labour cost levels between Norway and Norway's closest trading partners.
- **Positioning.** We regard speculative NOK positioning to be absolute long – albeit not yet stretched long from a historical perspective.

Forecast: 10.10 (1M), 10.10 (3M), 10.20 (6M), 10.30 (12M)



	1M	3M	6M	12M
Danske Bank	10.10	10.10	10.20	10.30
Consensus	10.30	10.29	10.20	10.00
Forward	10.27	10.29	10.31	10.36

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Risks.** The biggest risk factors to our forecasts lie in the global recovery, risk appetite, oil prices and vaccine developments – all of which are interconnected. Better news than in our baseline would drive a reflationary global investment environment underpinning a sharper NOK come-back. On the other hand, vaccine/risk-off could trigger sizeable setbacks.
- **Conclusion.** NOK remains a high beta derivative of the global reflation theme and near-term vaccine news, NB's NOK buying, higher NOK rates and high oil price to add support. Meanwhile, further out the potential is limited by a turn in the industrial cycle, a stronger USD and US shale oil re-entering the market. Key to watch is the impact on risk appetite from higher USD real rates. We now project EUR/NOK at 10.10 in 1M (from 10.20), 10.10 in 3M (unchanged), 10.20 in 6M (unchanged) and 10.30 in 12M (unchanged).

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EUR/DKK – range trading close to FX intervention levels

- **Cyclical outlook.** The cyclical environment is broadly neutral for EUR/DKK as relative DKK-US equity prices and long-term bond yields remain broadly stable. Development in US and in USD/DKK will be important for the earnings potential in the Danish economy in light of the significant net exports of in particular pharmaceuticals, but also the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank (DN) sold DKK65bn EUR in FX intervention during the first half of March 2020, before hiking policy rates 15bp. Tighter liquidity and the rate hike has created positive carry on short EUR/DKK positions. We look for DN to keep policy rates unchanged on 12M. We expect DN to maintain the tight fluctuation band of 7.4325-50 and 7.4730. The FX reserve has started to fall due to redemptions on the government's extraordinary issuance of foreign commercial paper last year. We expect the government to fully wind down its commercial paper programme this year.
- **External balances.** Denmark continues to run a large current account surplus, which materialises in a large investment need abroad. Strong Danish fundamentals have not change on the back of the crisis.

  In February, there is typically inflow to DKK from foreign bond investors and outflow in March due to the 'dividend effect'.
- **Valuation.** The strong Danish external balances keep a 'DKK appreciation risk premium' vis-à-vis EUR in the FX forward curve. This in turn forces DN to keep policy rates lower than the ECB over the long term, resulting in the EUR/DKK forward discount.
- **Positioning.** Danish life & pension companies on aggregate kept their USD hedge ratio unchanged in Q3 and lowered slightly their EUR hedge ratio. The EUR hedge ratio is currently in the low end historically.

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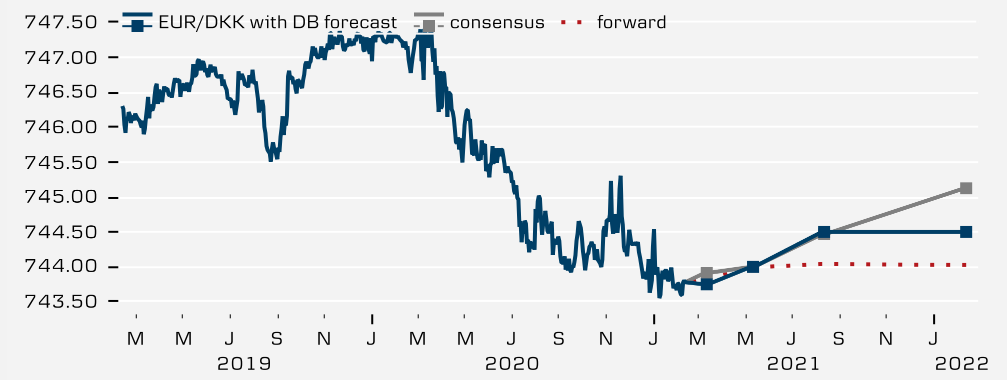
Forecast: 7.4375 (1M), 7.4400 (3M), 7.4450 (6M), 7.4450 (12M)



	1M	3M	6M	12M
Danske Bank	743.75	744.00	744.50	744.50
Consensus	743.91	744.00	744.47	745.12
Forward	743.82	743.99	744.04	744.03

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** EUR/DKK remains exposed to large movements in equity and fixed income markets via the FX hedge rebalancing effect. US equity outperformance will tend to push EUR/DKK lower, while higher long-term bond yields will support a higher EUR/DKK. Over the coming months, a key focus will be DKK liquidity conditions. We look for liquidity to tighten further and keep a positive carry on short EUR/DKK positions.
- **Conclusion.** We look for EUR/DKK to trade in the 7.4400-50 range the coming year, while temporarily undershooting this range near-term. Positive and negative factors are well balanced. Carry and positioning among Danish L&P funds support DKK, while payouts of vacation money and transmission of negative rates to retail deposits weigh on DKK. Equity and bond market rebalancing effects have been about neutral over the past couple of months in our view.

EUR/GBP– GBP is set to benefit from faster vaccinations

- **Cyclical outlook.** Near-term the economic outlook still looks grim amid the third national lockdown. However, the UK is vaccinating at a much faster pace than the rest of Europe, which, combined with the Brexit deal, means the UK is set to outperform the rest of Europe beyond Q1 21.
- **Brexit**. The EU and the UK reached a permanent free trade agreement (covering mostly goods) on 24 December. While companies are struggling to fill out paperwork correctly creating some frictions at the borders at the moment, we expect the Brexit deal will eventually reduce the uncertainty which has been weighing on especially UK businesses over many years now after the near-term adjustment to the new relationship is over. Some things still need to be sorted out for instance the future cooperation on financial services, talks which have begun with the ambition to reach an agreement here in Q1 21. That said, we believe Brexit has moved into the background now.
- **Monetary policy.** GBP strengthened after the recent Bank of England (BoE) meeting, where it did not sound like the BoE was about to cut rates into negative territory causing a repricing. We expect BoE to keep the Bank Rate unchanged at +0.1%. This view, however, is mostly priced by now.
- **External balances.** The UK runs a large current-account deficit, which makes the GBP vulnerable when capital flows fade like seen at the height of the COVID-19-driven risk sell-off; this keeps GBP at risk vs surplus-EUR in wake of a risk sell-off.
- **Valuation.** GBP remains fundamentally undervalued although Brexit still makes it difficult to estimate what the fair value for GBP is. Our Brexit-corrected MEVA estimate for EUR/GBP is close to 0.83; PPP estimate around 0.76.
- **Positioning.** Non-commercial positioning is neutral.

Forecast: 0.87 (1M), 0.86 (3M), 0.85 (6M), 0.85 (12M)

	1M	3M	6M	12M
Danske Bank	0.87	0.86	0.85	0.85
Consensus	0.89	0.89	0.89	0.89
Forward	0.88	0.88	0.88	0.88

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Risks.** A hit to global risk sentiment could hit GBP.
- **Conclusion**. We still believe GBP will strengthen this year driven in particular by the faster vaccination process. EUR/GBP has moved much lower already this year and it may take a breather near-term. We expect the cross to remain in the 0.87-0.88 range for now. We expect the cross to move lower when it gets more clear that the UK will exit the pandemic as one of the first countries, benefitting from its “first dose first” strategy. We have lowered our projections and are now forecasting 0.86 in 3M and 0.85 in 6-12M.

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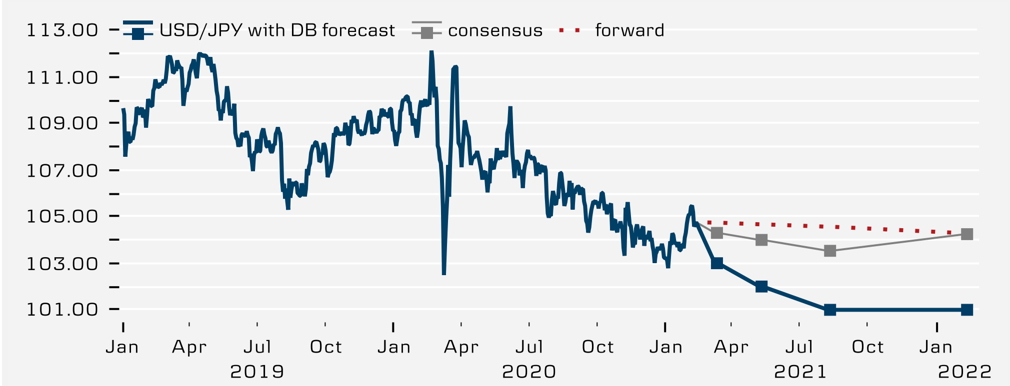
Overview | USD | SEK | NOK | DKK | GBP | JPY | CHF | CAD | AUD | RUB | PLN | CNY | Oil | Tables

USD/JPY – may be bottoming out over coming months

- **Cyclical outlook.** USD/JPY has been thrown back and forth by moves in global risk aversion, commodities and domestic fiscal response. USD/JPY have been largely unresponsive to changes in the traditional drivers such as US yields, credit spreads and oil. In turn, the 'Asia factor' and the decline in real rates, which has been USD negative, has kept JPY strong. These factors are thus USD/JPY negative. Recently, rising real rates have led USD/JPY to go from 103 to 104. We may have seen the bottom in USD/JPY.
- We are still witnessing a theme of Asian outperformance given the region's fast recovery from the COVID-19 pandemic, relatively supportive Chinese credit growth and Asian equities are doing well. For Asia in general, it position as commodity importers, having stable political regimes, strong productivity and low debt have been a boon for FX. In this environment, USD/JPY reflects CNH and other Asian cyclicals.
- **Monetary policy.** There is plenty of flexibility within the QE programme and we think it is unlikely the BoJ will cut rates further, as they have arguably reached reversal rate levels. That said, there has been sources out saying they might clarify to markets they have room to deepen negative interest rates at the March meeting where the policy review will be released. We should not expect revolutions to monetary policy like we saw it in 2016 when yield curve control was introduced but the bank has surprised before and it is going to have to come up with something to regain some credibility with regards to the inflation target. It is a fine balance, though, because policies need to remain sustainable.
- **External balances.** Japan runs a current account surplus.
- **Valuation.** Our PPP estimate is around 80, i.e. suggesting an undervalued JPY, while our medium-term valuation model (MEVA) stands at 99. In our view, USD/JPY is close to fair value as we emphasise the MEVA estimate as a more reasonable estimate for such.

Forecast: 103 (1M), 102 (3M), 101 (6M), 101 (12M)



	1M	3M	6M	12M
Danske Bank	103.00	102.00	101.00	101.00
Consensus	104.30	104.00	103.53	104.25
Forward	104.74	104.67	104.57	104.29

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **Positioning.** Speculators are stretched long positioned in JPY.
- **Risks.** To take USD/JPY towards 110, we would need a material change in US nominal rates and/or global commodity prices. More importantly though, we likely need to see USD/CNH going higher, not lower.
- **Conclusion.** We still expect further JPY strength. This strength is not due to a negative view on global risk sentiment but rather that we expect Asian outperformance to help JPY versus USD. Thus, the key risk to our forecast are sudden steepening of the US yield curve and/or sharply higher oil prices and/or substantial USD strength. On the back of this, we see little upside risk for EUR/JPY.

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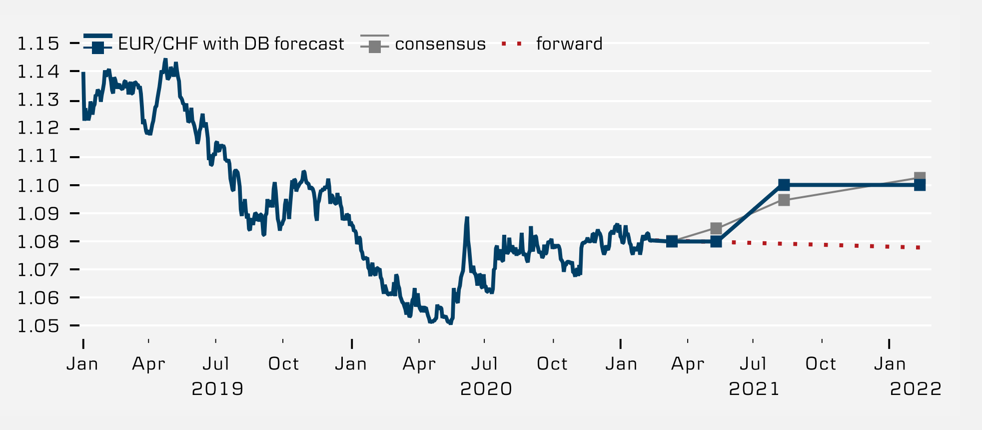
EUR/CHF

Forecast: 1.08 (1M), 1.08 (3M), 1.10 (6M), 1.10 (12M)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- Following the relief rally since early summer, EUR/CHF has been largely unchanged and intervention remains the key policy tool. With the ECB set to hold rates, Swiss policy rates are also set to stay unchanged at the longstanding -0.75% for an extended period of time.
- Going into Q1, EUR/USD have taken a step lower and with it, EUR/CHF too. At the moment, upside risk to European inflation and demand seems very limited (due to lockdowns). In turn, the near-term potential for a weaker CHF also appears limited. We see balanced risks to EUR/CHF near-term. If EUR/CHF is to move higher, it will likely come in tandem with re-opening of the European economy from H2 and onwards.
- The key for the pair is if global macro becomes so good in Europe that markets start talking about ECB rate hikes. Today, such a scenario is not in play.

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USD/CAD

Forecast: 1.26 (1M), 1.25 (3M), 1.27 (6M), 1.30 (12M)

Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- We still regard USD/CAD as a low beta version of USD/NOK as the close connection between the US and Canadian economy creates a closer connection between CAD and USD. On the back of our call for a lower EUR/USD in the medium- to long term, we expect USD/CAD to move lower in coming quarter before rebounding as we approach the summer months. We pencil in a sharper rise in USD/NOK than CAD/NOK.
- CFTC IMM data suggests that the speculative USD/CAD positioning is absolute long albeit fairly neutral from a historical perspective.
- We forecast USD/CAD at 1.26 in 1M (unchanged), 1.25 in 3M (unchanged), 1.27 in 6M (unchanged) and 1.30 in 12M (unchanged).

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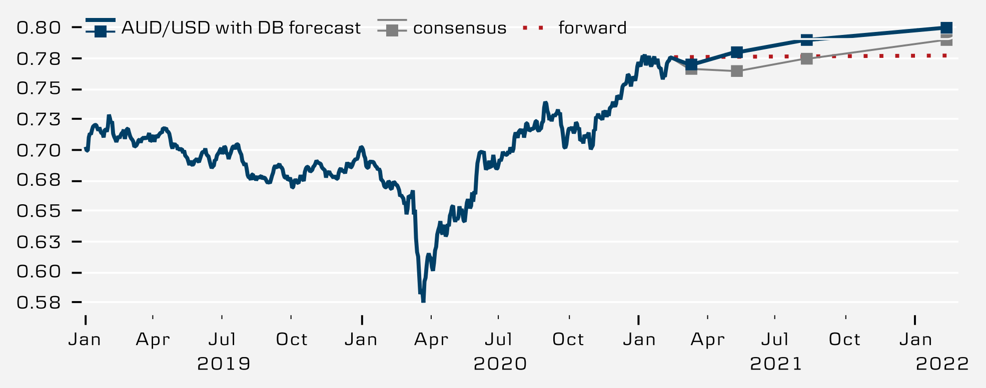
AUD/USD

Forecast: 0.77 (1M), 0.78 (3M), 0.79 (6M), 0.80 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- Since March, the AUD has rebounded strongly in line with risk sentiment as well as prices of industrial and precious metals. Thus, changing terms of trade have been strongly AUD positive.
- Australian labour markets have strongly recovered since seeing the worst crisis in 20 years. In fact, the labour market is more or less back to pre-COVID employment level. Activity indicators also suggest continued improvement.
- We keep our upbeat AUD/USD profile. The key indicators to watch for a reversal lower in AUD/USD remains the usual: Chinese credit data, USD/CNH, prices of metals as well as the general risk sentiment towards commodity currencies. We expect AUD to stay strong and probably strengthen further as we move through Q1, in line with the above, supported also by the domestic rebound.

USD/RUB

Forecast: 72.00 (1M), 70.00 (3M), 68.00 (6M), 67.00 (12M)

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- The possibility of more RUB strength relates to the upside potential for oil prices, fading sanction risks and stronger-than-expected global demand. We keep our RUB-bullish forecast.
- RUB has faced a number of headwinds since mid-2020: inflation has come up (due to prior currency weakness), oil prices have been low and amid lockdowns, activity has remained weak. In turn, we have not seen a strong improvement in activity, such as seen in Australia or Sweden. Foreign policy has also been RUB-negative. We see these factors possibly turning in to a RUB-positive narrative over the coming quarters as vaccines are rolled out.
- The risk scenario is a weak Russian/oil recovery amid too strong US economic performance from which US yields and dollar starts going up.
- The pace at which we see further RUB strength will be highly dependent on a continued push higher in oil prices. We expect EUR/RUB to move in to the low 80-range over the coming 6-12 months.

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Danske Bank

EUR/PLN – NBP holds the hand under EUR/PLN for now

- **Cyclical outlook.** The Polish economy is currently strained by the second wave of the coronavirus. However, there are signs that restrictions on economic activity is working as the number of new cases have come down quite a lot over the past weeks. The government has started a cautious re-opening of the economy, but we expect that the vaccinations process need to be further enhanced before a full opening of the economy can be completed, possibly sometimes in Q2. However, the economy has held up quite well despite the restrictions in place over the winter as both retail sales and industrial production did not contract as much as expected in December. As a whole, the flash GDP estimate for 2020 showed a fall in GDP last year of 2.8%, which is much smaller than many western European peers. The sizable stimulus certainly helped in this regard and we think the Polish economy should see a considerable recovery in 2021 notably from the middle of the year an onwards as the service sector benefits from more activity.

- **Monetary policy.** The Polish central bank (NBP) maintained its policy stance at its meeting in early February, which implicitly targets the exchange rate around current levels amid concerns about the economic growth outlook for the Polish economy. We think they will maintain the current stance unless there is sudden sharp plunge in economic activity. In contrast we think they will drop the exchange rate focus as the Polish economy recovers in full over the summer. Meanwhile inflation pressures continue to be notable with core inflation remaining at 3.7% well above the central banks target.

- **Risks.** The balance of risk for EUR/PLN is fairly even. While there are current downward pressure on the cross amid strong global risk sentiment, the NBP will hold a hand under the cross for now. A global shock if vaccines are found to be ineffective could trigger an upward move near-term, while over Q2, the central bank could allow a decline if the economic recovery and vaccine roll-out are faster than expected.

Forecast: 4.50 (1M), 4.50 (3M), 4.45 (6M), 4.40 (12M)

	1M	3M	6M	12M
Danske Bank	4.50	4.50	4.45	4.40
Consensus	4.50	4.49	4.45	4.38
Forward	4.50	4.51	4.51	4.53

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- Conclusion. The FX intervention announced before Christmas, more explicit mentioning of the level for EUR/PLN (4.50 was mentioned by one of the MPC members) together with dovish signals from the governor and other members of the NBP policy committee before new year sent EUR/PLN to 4.60. It has since retracted to around 4.50 as we expected. Going forward, we believe the central bank will stick to its new signal and prevent a sharp strengthening of the exchange rate in the short term. In our view, EUR/PLN will trade in a range of 4.48-4.60 in coming months. However, as we expect the recovery in Poland and globally to strengthen in the spring, we believe the central bank will be more open to letting the PLN strengthen and, therefore, we see the EUR/PLN falling to 4.45 in 6M and 4.40 in 12M.

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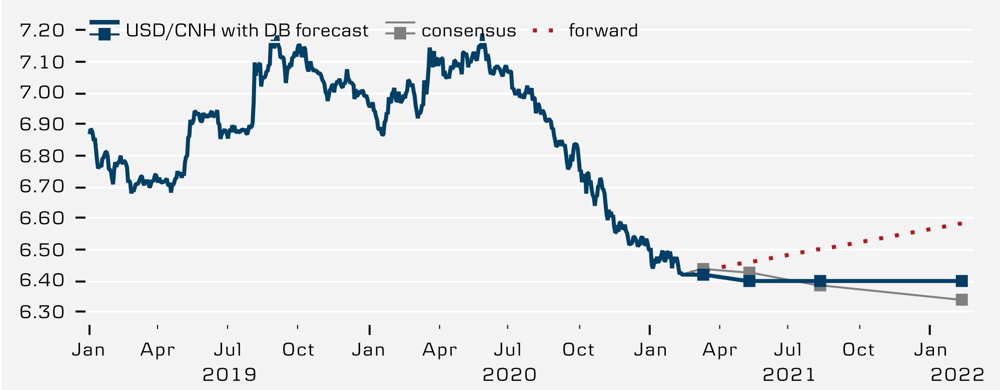
USD/CNY – Decline to fade as Chinese cycle slows while the US recovers

- **Growth.** The Chinese economy saw a strong recovery in 2020 following the collapse in Q1. We still look for growth to move lower during 2021with PMI peaking in Q1 on the back of 1) fading stimulus, 2) lower export growth of goods to US and Europe as service demand takes over in H2 and 3) an end to the 'catch-up effect' related to the normalisation of the economy. We see the first signs of a growth moderation in lower PMI data and falling momentum in total credit over the past three months.
- **Monetary policy.** China has signalled that an exit of stimulus is close and de facto monetary policy has tightened for some months now with money market rates pushing higher. It has led to a widening of the China-US 12-month money market spread, which is an important driver of the USD/CNY. However, the spread has stabilized as US rates have moved sideways and Chinese declined slightly. A stabilization indicates that the majority of the CNY appreciation versus USD is behind us.
- **FX policy.** CNY continues to be a 'managed peg' against a basket of currencies. Since 2016 the PBoC increasingly let the market determine the CNY rate and has almost not intervened in the market. At the end of 2020, the reserve requirement ratio on selling CNY forward was lowered from 20% to zero and the counter-cyclical factor in the daily fixing was removed. Both tools have been used to dampen CNY depreciation, but this is no longer an issue after the recent appreciation.
- **Flows.** Investor flows into Chinese equities and bond market have supported CNY strength. In addition, the trade surplus has increased.
- **Valuation.** We see the CNY as close to long-term fair value. China's current account surplus has declined from the peak of 10% of GDP in 2007 to around 1% of GDP in 2020.

Forecast: 6.42 (1M), 6.40 (3M), 6.40 (6M), 6.40 (12M)



	1M	3M	6M	12M
Danske Bank	6.42	6.40	6.40	6.40
Consensus	6.44	6.43	6.39	6.34
Forward	6.43	6.46	6.50	6.58

Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Conclusion.** The move lower in USD/CNY has been faster than we expected mirroring the rapid depreciation of the USD. While relative rates still favour CNY, we believe the majority of the decline in USD/CNY is behind us as we look for the USD cycle to turn stronger on a 12-month horizon and the Chinese cycle softens. We expect a period of range trading around 6.40 over the next 12 months.

  We expect EUR/CNY to decline from 7.83 to 7.42 in 12M as CNY is expected to broadly strengthen in tandem with the USD vs. EUR.
- **Risks:** Compared to our forecast, we see the risks as broadly balanced.

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Oil – limited further upside near-term

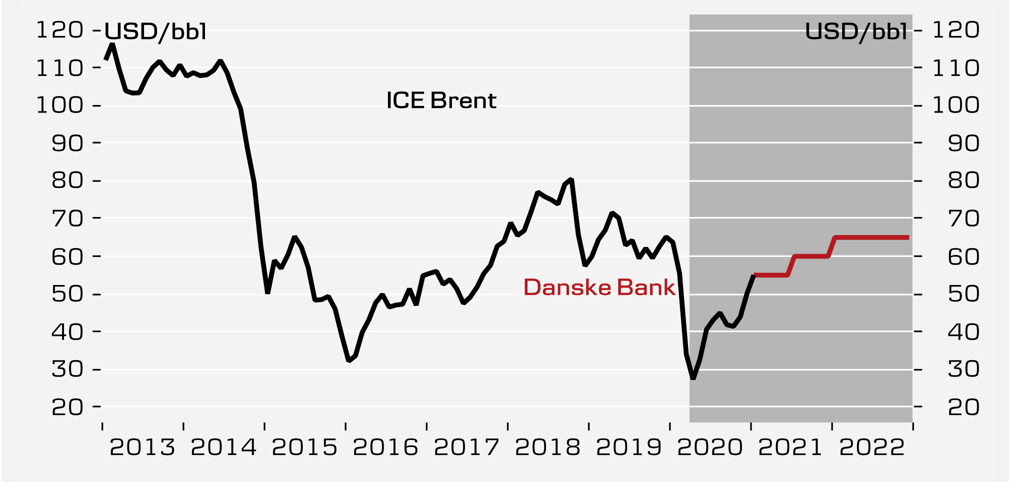
- **Macro.** Short-term, resurgence in infections in Europe and US (and potentially elsewhere), will continue to weigh on oil demand as it triggers new lockdowns and restrictions on travel and transportation. It seems like policy makers are keen on keeping tight restrictions the next 1-2M. Medium-term, the vaccine roll out provides a light at the end of the tunnel for the oil market and a basis for full reopening during Q2 and Q3.

  OPEC+ led by Saudi Arabia are keeping output tight to avoid a near-term growing surplus on the oil market balance. OPEC+ will meet again 4 March to reassess its stance. Drilling activity has slowly started to increase in the US shale oil industry. Inventory levels still have some way to go before they are normalised. On a medium to long-term horizon, current low investment activity now may result in supply shortages.

- **Risks.** The oil market remains in uncharted waters and current lockdowns in Europe and US could drag out and new lockdowns might be needed in China. Given the recent surge in oil prices, we could see more division on the strategy when OPEC+ meets again on 4 March.

- **Conclusion.** The ongoing vaccine roll out has brightened the outlook for oil prices. Together with a weak USD and output cuts from Saudi Arabia it provides a strong backdrop for the oil price. However, on the way to a rollout of vaccines and full reopening of economies, the oil market will have to endure lengthy lockdowns and work through a glut of supplies from elevated inventories, eventual normalisation of OPEC+ production levels and slowly rising shale oil output. We thus expect oil prices to stay range bound the rest of year. We keep our forecasts for Brent and look for Brent to average USD55/bbl in Q1 and Q2 and USD60/bbl in Q3 and Q4 2021. We further forecast Brent to average USD65/bbl in 2022.

Forecast: 55 (Q1 21), 55-(Q2 21), 60 (Q3 21), 60 (Q4 21) and 65 (2022)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

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Danske Bank FX forecasts vs EUR

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	12/02/2021
Exchange rates vs EUR					
EUR/USD	1.211	1.22	1.22	1.19	1.16
EUR/JPY	127.1	126	124	120	117
EUR/GBP	0.879	0.87	0.86	0.85	0.85
EUR/CHF	1.079	1.08	1.08	1.10	1.10
EUR/SEK	10.10	10.10	10.00	10.20	10.30
EUR/NOK	10.30	10.10	10.10	10.20	10.30
EUR/DKK	7.4374	7.4375	7.4400	7.4450	7.4450
EUR/AUD	1.567	1.58	1.56	1.51	1.45
EUR/NZD	1.684	1.68	1.66	1.60	1.54
EUR/CAD	1.543	1.54	1.53	1.51	1.51
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.506	4.50	4.50	4.45	4.40
EUR/HUF	359	360	365	370	373
EUR/CZK	25.8	25.8	25.7	25.5	25.3
EUR/RUB	89.8	88	85	81	78
EUR/TRY	8.51	8.5	8.5	8.7	8.8
EUR/ZAR	17.78	17.7	17.3	16.7	16.2
EUR/CNY	7.82	7.83	7.81	7.62	7.42
EUR/INR	88.2	89	88	85	82

Source: Danske Bank

Danske Bank FX forecasts vs DKK

Last Update: 12/02/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs DKK					
USD/DKK	6.14	6.10	6.10	6.26	6.42
JPY/DKK	5.85	5.92	5.98	6.19	6.35
GBP/DKK	8.47	8.55	8.65	8.76	8.76
CHF/DKK	6.89	6.89	6.89	6.77	6.77
SEK/DKK	0.74	0.74	0.74	0.73	0.72
NOK/DKK	0.72	0.74	0.74	0.73	0.72
EUR/DKK	743.74	743.75	744.00	744.50	744.50
AUD/DKK	4.75	4.69	4.76	4.94	5.13
NZD/DKK	4.42	4.43	4.49	4.66	4.84
CAD/DKK	4.82	4.84	4.88	4.93	4.94
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/DKK	1.65	1.65	1.65	1.67	1.69
HUF/DKK	2.07	2.07	2.04	2.01	2.00
CZK/DKK	0.29	0.29	0.29	0.29	0.29
RUB/DKK	8.29	8.47	8.71	9.20	9.58
TRY/DKK	0.87	0.87	0.87	0.86	0.84
ZAR/DKK	0.42	0.42	0.43	0.45	0.46
CNY/DKK	0.95	0.95	0.95	0.98	1.00
INR/DKK	0.084	0.084	0.085	0.088	0.090

Source: Danske Bank

Danske Bank FX forecasts vs SEK

G10	Spot	+1m	+3m	+6m	+12m
			Last Update:	12/02/2021	
Exchange rates vs SEK					
USD/SEK	8.34	8.28	8.20	8.57	8.88
JPY/SEK	7.94	8.04	8.04	8.49	8.79
GBP/SEK	11.49	11.61	11.63	12.00	12.12
CHF/SEK	9.35	9.35	9.26	9.27	9.36
EUR/SEK	10.10	10.10	10.00	10.20	10.30
NOK/SEK	0.98	1.00	0.99	1.00	1.00
DKK/SEK	1.36	1.36	1.34	1.37	1.38
AUD/SEK	6.44	6.37	6.39	6.77	7.10
NZD/SEK	6.00	6.01	6.03	6.39	6.70
CAD/SEK	6.54	6.57	6.56	6.75	6.83
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.24	2.24	2.22	2.29	2.34
HUF/SEK	2.81	2.81	2.74	2.76	2.76
CZK/SEK	0.39	0.39	0.39	0.40	0.41
RUB/SEK	0.11	0.11	0.12	0.13	0.13
TRY/SEK	1.19	1.18	1.17	1.17	1.17
ZAR/SEK	0.57	0.57	0.58	0.61	0.63
CNY/SEK	1.291	1.290	1.281	1.339	1.387
INR/SEK	0.115	0.113	0.114	0.120	0.125

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	12/02/2021
Exchange rates vs NOK					
USD/NOK	8.51	8.28	8.28	8.57	8.88
JPY/NOK	8.11	8.04	8.12	8.49	8.79
GBP/NOK	11.73	11.61	11.74	12.00	12.12
CHF/NOK	9.55	9.35	9.35	9.27	9.36
SEK/NOK	1.02	1.00	1.01	1.00	1.00
EUR/NOK	10.30	10.10	10.10	10.20	10.30
DKK/NOK	1.39	1.36	1.36	1.37	1.38
AUD/NOK	6.58	6.37	6.46	6.77	7.10
NZD/NOK	6.12	6.01	6.09	6.39	6.70
CAD/NOK	6.68	6.57	6.62	6.75	6.83

EM	Spot	+1m	+3m	+6m	+12m
PLN/NOK	2.29	2.24	2.24	2.29	2.34
HUF/NOK	2.87	2.81	2.77	2.76	2.76
CZK/NOK	0.40	0.39	0.39	0.40	0.41
RUB/NOK	0.11	0.11	0.12	0.13	0.13
TRY/NOK	1.21	1.18	1.18	1.17	1.17
ZAR/NOK	0.58	0.57	0.58	0.61	0.63
CNY/NOK	1.318	1.290	1.294	1.339	1.387
INR/NOK	0.117	0.113	0.115	0.120	0.125

Source: Danske Bank

Danske Bank FX forecasts vs USD

G10			Last Update:	12/02/2021	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.2105	1.22	1.22	1.19	1.16
USD/JPY	105.0	103	102	101	101
GBP/USD	1.378	1.40	1.42	1.40	1.36
USD/CHF	0.892	0.89	0.89	0.92	0.95
USD/SEK	8.340	8.28	8.20	8.57	8.88
USD/NOK	8.512	8.28	8.28	8.57	8.88
USD/DKK	6.144	6.10	6.10	6.26	6.42
AUD/USD	0.773	0.77	0.78	0.79	0.80
NZD/USD	0.719	0.73	0.74	0.75	0.75
USD/CAD	1.275	1.26	1.25	1.27	1.30
EM					
	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.723	3.69	3.69	3.74	3.79
USD/HUF	297	295	299	311	322
USD/CZK	21.286	21.15	21.07	21.43	21.81
USD/RUB	74.146	72.00	70.00	68.00	67.00
USD/TRY	7.031	7.00	7.00	7.30	7.60
USD/ZAR	14.688	14.50	14.20	14.00	14.00
USD/CNY	6.46	6.42	6.40	6.40	6.40
USD/INR	72.82	73.00	72.00	71.50	71.00

Source: Danske Bank

Danske Bank FX forecasts vs GBP

Last Update: 12/02/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs GBP					
GBP/USD	1.38	1.40	1.42	1.40	1.36
GBP/JPY	144.68	144	145	141	138
EUR/GBP	0.88	0.87	0.86	0.85	0.85
GBP/CHF	1.23	1.24	1.26	1.29	1.29
GBP/SEK	11.49	11.61	11.63	12.00	12.12
GBP/NOK	11.73	11.61	11.74	12.00	12.12
GBP/DKK	8.47	8.55	8.65	8.76	8.76
GBP/AUD	1.78	1.82	1.82	1.77	1.71
GBP/NZD	1.92	1.93	1.93	1.88	1.81
GBP/CAD	1.76	1.77	1.77	1.78	1.77

EM	Spot	+1m	+3m	+6m	+12m
GBP/PLN	5.13	5.17	5.23	5.24	5.18
GBP/HUF	408.71	414	424	435	439
GBP/CZK	29.33	29.66	29.88	30.00	29.76
GBP/RUB	102.17	100.97	99.30	95.20	91.44
GBP/TRY	9.69	9.82	9.93	10.22	10.37
GBP/ZAR	20.24	20.33	20.14	19.60	19.11
GBP/CNY	8.90	9.00	9.08	8.96	8.73
GBP/INR	100.34	102.37	102.14	100.10	96.89

Source: Danske Bank

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