





# Alternative EUR/USD scenarios

## Capacity restraints, inflation and US monetary policy

Overview

Rates

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PLN

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### EUR/USD towards 1.25: more capacity than expected?

- We see clear indications of capacity restraints during the reopening of the US economy, which has fuelled upward inflationary pressure. Meanwhile, the Fed has begun discussions on the timing of rate hikes and tapering of asset purchases. Both will probably tend to weaken economic activity and cause a global economic slowdown. In such a setting, we have historically seen downward pressure on EUR/USD, which is a key component of our baseline scenario of a stronger USD.
- However, should the capacity restraints be resolved sooner than anticipated, the global economy would probably not lose that much momentum. In such a scenario, we could experience both accelerating growth and easing inflationary pressures, which would not necessarily call for monetary tightening. That would prompt renewed optimism in global markets and probably weaken the USD significantly.
- An alternative, ugly and slightly less likely scenario is one in which US inflation spirals out of control but where the Fed gives priority to growth rather than to easing inflationary pressures. Persistent and higher inflation than in Europe could push EUR/USD towards 1.25.

### EUR/USD towards 1.07: Full speed ahead, also for the US

- If the global economy continues to run at full steam (see 'the good scenario' on page 5) from a starting point at which US production is back at its trend level, markets would quickly start to focus on the risk of overheating.
- In that scenario, we would in particular expect the Fed to move policy tightening forward, including both tapering of asset purchases and early rate hikes.
- In our view, the potential for rate hikes is somewhat greater in the US than in Europe, which would tend to be USD-supportive, even amid stronger global GDP growth. Should this scenario unfold, it would be one of many in which EUR/USD drops back towards 1.07.
- Another scenario of strong USD appreciation would be the ugly alternative to the scenario on the left-hand side, but one in which the Fed gives priority to combating accelerating US inflation (omitting to support economic activity) despite the severely negative impact rate hikes would have on GDP growth. In this scenario, weaker global risk appetite would also be USD-supportive.

# EUR/GBP: sterling could strengthen further

Forecast: 0.85 (1M), 0.84 (3M), 0.84 (6M), 0.83 (12M), 0.83 (end-2022)



## Macro: recovery set to continue

- The UK economy has now fully reopened and although GDP has not yet returned to pre-crisis levels, the recovery is well underway. We expect the economy to keep improving, as very positive vaccine sentiment probably means Britain can avoid introducing harsh restrictions. Companies are increasingly adjusting to the EU-UK free trade agreement, although it poses certain difficulties.

## FX: stronger pound

- We continue to expect the GBP to strengthen, although at a more moderate pace than at the start of 2021. The UK economy appears to be growing faster than the Euro zone, the Bank of England has come closer to the start of the hiking cycle and sterling is set to benefit from general investment sentiment, with the USD strengthening on Fed policy tightening and a peaking industrial cycle.

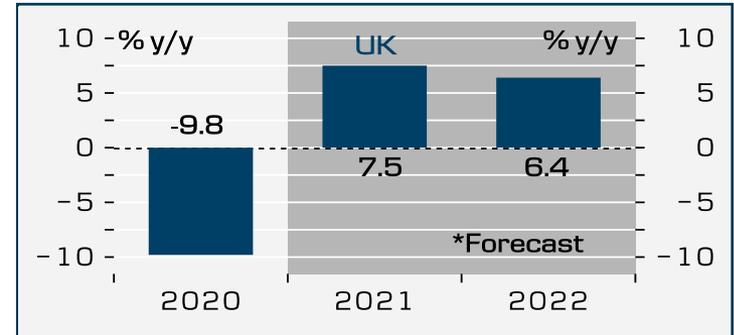
## Risks: renewed risk-off sentiment would hurt GBP

- Sterling would be exposed to a scenario of growing market pessimism and/or the UK economy underperforming expectations. Increasing political EU-UK tensions over the Northern Ireland protocol could also weaken the GBP - and so could a second referendum on Scottish independence.

## Hedging recommendations

- Income:** Sell GBP via participating forwards.
- Expenses:** Purchase GBP via forwards.

GDP forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

FX forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

# EUR/NOK: headwinds to persist into 2022

Forecast: 10.30 (1M), 10.40 (3M), 10.60 (6M), 10.50 (12M), 10.50 (end-2022)



## Macro: strong recovery

- Mainland activity continues to improve amid the reopening of the economy. Soft indicators show a sharply accelerating growth outlook across sectors with an improved outlook for investments and employment with some signs of bottlenecks. Norges Bank is set to begin hiking rates already this year. However, we highlight that relative rates are an inferior driver of NOK FX compared to the global investment environment.

## FX: global investment environment is key

- In line with our expectations, NOK has since April suffered a sharp setback as markets have priced in 'peak reflation' with both growth and inflation rates set to ease. Looking ahead NOK could find some near-term support from higher NOK rates as Norges Bank initiates its hiking cycle. That said, we still struggle to see a catalyst for a much stronger NOK and given our expectations for slower growth and a stronger USD we see the balance of risk skewed towards a modestly weaker NOK also in 2022.

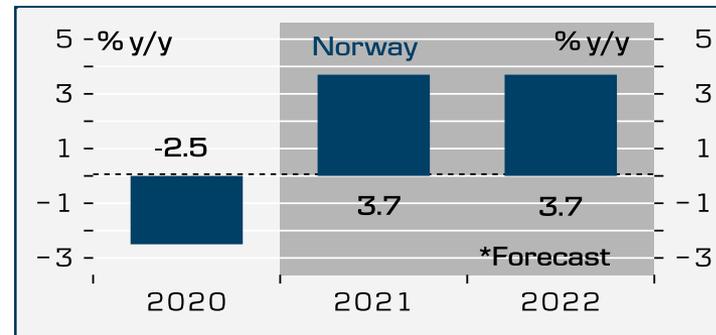
## Risks: global reflation (in either direction)

- The biggest risk factors lie in the global reflation theme and thereby not least USD real rates, risk appetite, oil and delta/vaccine-news. Better news and/or a more patient Fed than in our baseline would support reflation underpinning a stronger NOK. On the other hand, marked risk-off could trigger a sharper setback

## Hedging recommendations

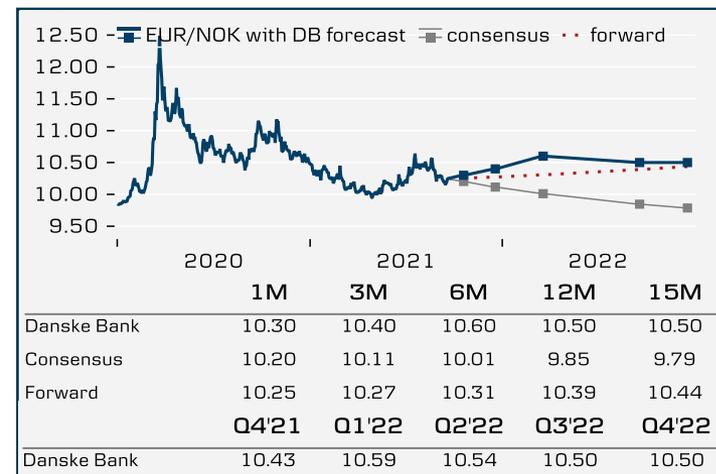
- Income:** Sell NOK via forwards.
- Expenses:** Purchase NOK via risk reversals.

### GDP forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

### FX forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank



# EUR/SEK: Slow and steady decline

Forecast: 10.20 (1M), 10.20 (3M), 10.30 (6M), 10.40 (12M), 10.40 (end-2022)



## Macro: solid Swedish recovery nearing its peak

- The Swedish economy is in the midst of a solid recovery and we foresee 2021 GDP growth in the ballpark of 3.5-4%. However, a somewhat softer global growth momentum during H2 may indicate that growth in the export-oriented Swedish economy is nearing its peak. For 2022, we see growth slightly lower at 3.4%. The Riksbank will keep policy soft for the foreseeable future.

## FX: gradual weakening of the SEK to be continued

- Near-term, global risk sentiment remains the prominent driver of the Swedish krona. The SEK has gradually weakened year to date and we expect this trend to continue well into 2022 as the USD continues to strengthen. As for SEK-specific factors, pricing on the Riksbank has adjusted on the downside which helps explain the weaker SEK. But given our call for multi-years of sub-Riksbank inflation, this might still weigh on the SEK in coming years..

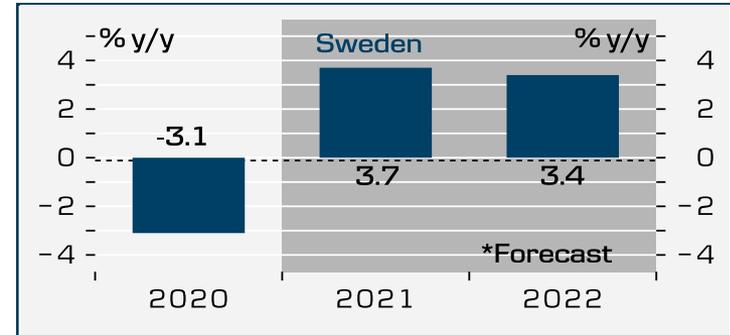
## Risks: global factors dominates in the near-term

- A weaker USD than forecasted, and more benign risk sentiment on the back of this, could help the SEK recover some ground. On the other hand, an even softer stance from the Riksbank in light on weak price pressures would in turn weigh even further on the SEK.

## Hedging recommendations

- Income:** Sell SEK via forwards.
- Expenses:** Purchase SEK via risk reversals

GDP forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

FX forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

# EUR/PLN: European recovery and inflation supporting PLN



Forecast: 4.54 (1M), 4.48 (3M), 4.42 (6M), 4.45 (12M), 4.45 (end-2022)



## Macro: strong recovery from coronavirus shock

- The Polish economy has recovered fairly well from the COVID-19 shock. Consumer spending is supported by rising employment and wages, and industrial production is solid. Strong inflationary pressures are driven by higher energy and goods prices. Monetary policy remains accommodative, but several members of the monetary policy committee are advocating a tighter stance.

## FX: tighter Polish monetary policy to support PLN

- The Polish central bank will probably be forced to hike rates to dampen higher inflationary pressures. Combined with Poland's relatively strong external balances, we expect PLN to gradually strengthen, even though markets are already pricing several rate hikes over the next year. However, higher inflation in Poland is likely to push EUR/PLN slightly higher in the longer term.

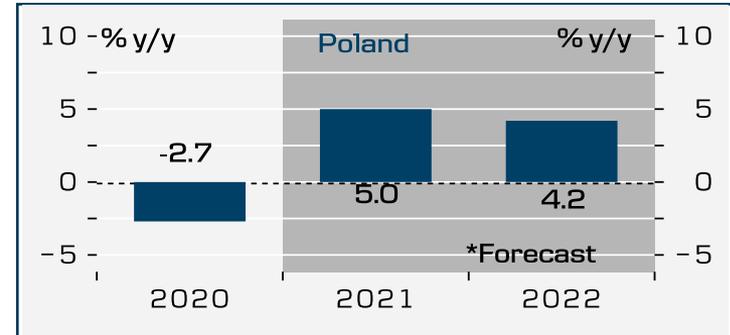
## Risks: early Fed policy tightening could weigh on PLN

- A stronger USD resulting from earlier Fed policy tightening and/or global economic headwinds could weaken PLN. More aggressive policy tightening by the Polish central bank than in our baseline could strengthen PLN significantly.

## Hedging recommendations

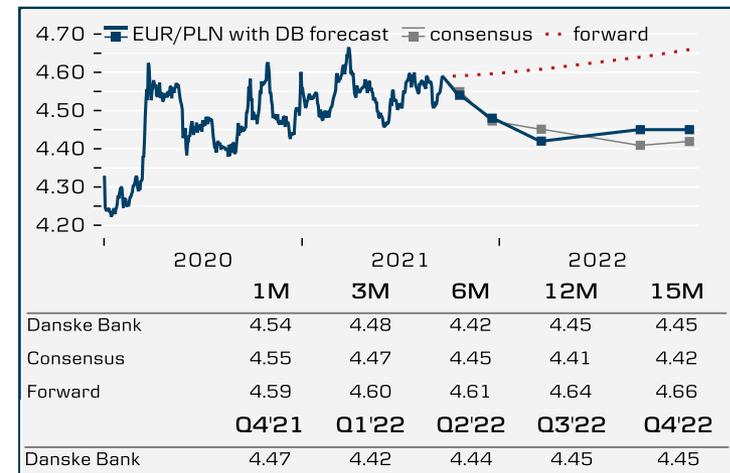
- Income:** Sell PLN via KI forwards
- Expenses:** Sell PLN via forwards.

GDP forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

FX forecasts



Source: Macrobond Financial, Bloomberg, Danske Bank

# Hedging recommendations vs EUR

## Hedge USD income using participating forwards



EUR vs.		Spot	Forecast end-2022	Forward end-2022	Forecast-spot deviation	Income	Expenses
USD		1.17	1.13	1.18	-3.5%	Participating forwards	Forwards
GBP		0.86	0.83	0.87	-3.0%	Participating forwards	Forwards
NOK		10.24	10.50	10.43	2.5%	Forwards	Risk reversals
SEK		10.22	10.40	10.29	1.8%	Forwards	Risk reversals
PLN		4.60	4.45	4.67	-3.3%	KI-forwards	Forwards

Source: Bloomberg, Danske Bank.

# FX forecasts

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G10						
	Spot	+1m	+3m	+6m	+12m	End 2022
Last Update: <a href="#">20/09/2021</a>						
<b>Exchange rates vs EUR</b>						
EUR/USD	1.171	1.17	1.16	1.15	1.15	1.13
EUR/JPY	128.3	129	129	128	129	127
EUR/GBP	0.856	0.85	0.84	0.84	0.83	0.83
EUR/CHF	1.090	1.08	1.10	1.11	1.11	1.11
EUR/SEK	10.22	10.20	10.20	10.30	10.40	10.40
EUR/NOK	10.24	10.30	10.40	10.60	10.50	10.50
EUR/DKK	7.4359	7.4360	7.4400	7.4450	7.4450	7.4500
EUR/AUD	1.618	1.63	1.66	1.67	1.69	1.66
EUR/NZD	1.668	1.70	1.71	1.72	1.74	1.71
EUR/CAD	1.503	1.47	1.46	1.48	1.48	1.46
<b>EM</b>						
	Spot	+1m	+3m	+6m	+12m	
EUR/PLN	4.601	4.54	4.48	4.42	4.45	4.45
EUR/HUF	353	352	355	360	363	363
EUR/CZK	25.4	25.5	25.3	25.1	25.0	24.5
EUR/RUB	86.0	85	85	82	81	79
EUR/TRY	10.14	9.9	10.2	10.2	10.6	10.7
EUR/ZAR	17.33	17.6	17.4	17.8	19.0	19.2
EUR/CNY	7.57	7.61	7.60	7.59	7.71	7.68
EUR/INR	86.3	87.2	86.4	86.3	87.4	85.9