Investment Research

Danske Bank

FX Forecast Update

USD turns cyclical, as economic gravity shift towards the US

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FX market overview

Recent developments: economic gravity will shift towards the US in 2021

- Since *FX Forecast Update*, 12 February, markets have increasingly priced in a normalisation of the economic situation and notably US real rates have moved higher helped along by an additional large US fiscal package. We expect the US economy to be above the pre-corona trend level already in Q3 this year. In addition, the Asian outperformance of 2020 has faded on the back of the Chinese slowdown and the outlook for a switch towards more service consumption post-lockdowns. EU is still significantly behind peers on vaccinations, not helped by the recent pause in the use of the AstraZeneca vaccine. Overall, economic gravity is shifting more towards US vs. EU and Asia.

FX implications: dollar turning cyclical

- EUR/USD has turned more cyclical and moved lower on US-EU relative macro surprises and higher US real rates. We see EUR/USD topside risk fading, as Fed eventually has to lean into the economic recovery and begin to talk about tapering of QE and ultimately hike rates. While a stronger USD and higher US real rates add headwinds to the reflation theme in the medium term, the reflation and commodity sensitive currencies such as NOK and AUD have tailwind from high commodity prices near-term, although metals do show signs of topping out and the OPEC+ oil supply cuts will eventually fade. The combination of higher energy prices and US yields have weighed on JPY recently, while the cyclical GBP has extended its strong performance on the strong UK vaccination process and higher growth expectations. SEK seems to have topped out for now also facing headwinds from weak domestic inflations dynamics.

Outlook: slightly lower EUR/USD profile; Scandies turning south in 3-6M; GBP strength to continue

- We lower our EUR/USD forecast a tad to take in to account a high likelihood of a very strong US recovery vis-à-vis EU. In addition, Chinese slowing is a drag on the EUR-leg. We now see EUR/USD in 1.19 in 1M and 1.15 in 12M. We see EUR/SEK in 10.10 in 1-3M, before a move to 10.40 in 12M on the medium-term inflation challenges that faces the Riksbank. Near-term, NOK remains supported by OPEC+, reopenings, Norges Bank's NOK buying and the Fed support to reflation sensitive assets incl. NOK. We forecast EUR/NOK at 10.00 in 1M. As all these drivers are set to lose steam over the next 3M, we remain (modestly) bearish on a medium to long term horizon and forecast EUR/NOK at 10.30 in 12M. We expect GBP can strengthen further this year, but we will not be surprised if EUR/GBP takes a breather near-term in the 0.850-0.865 range. We lower our 1-3M forecasts on EUR/GBP to 0.85 and expect a move to 0.83 in 12M. USD/JPY has further to go; we forecast 112 in 12M.

Key risks to our forecasts: US recovery could bring USD strength faster, but EU could surprise positively

- A stronger and faster US recovery may bring more USD strength faster than we anticipate, while an EU growth surprise, a US recovery slowdown or a US-China trade deal removing tariffs are upside risks to EUR/USD.

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EUR/USD – US real rates to rise further supporting the dollar

- **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, Biden now holds a slim majority. This has increased expectations to a strong US economic recovery as fiscal policy has been eased and US rates are starting 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.** We are more optimistic than Fed on both growth and employment and expect the Fed to start talking about tapering in Q4 21 and announce the actual start of tapering at the January 2022 meeting. Meanwhile, ECB is unlikely to change any parameters. There is a risk the European recovery proves stronger than anticipated but divergence in expectations to the path of future policy rates is USD positive for now.
- **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 in EU relative to US. A valuation reversal (lower EUR/USD) could come from rising US real rates, fading EU optimism, or Chinese slowdown.
- **Positioning.** Speculators have tapered longs in EUR/USD.

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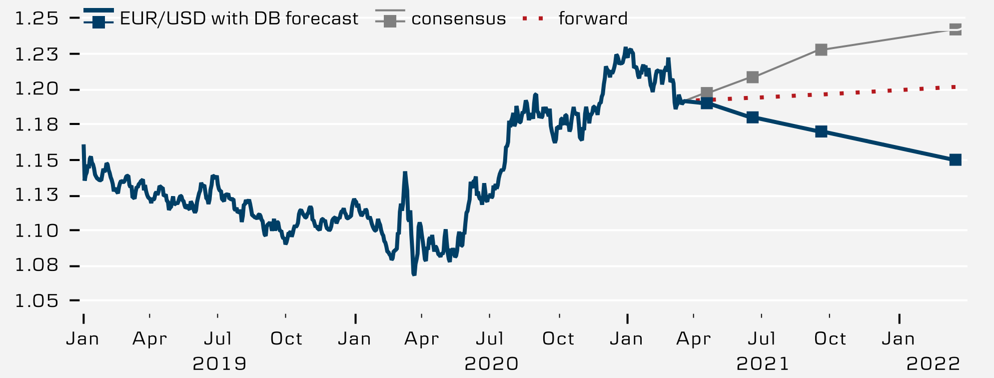
Forecast: 1.19 (1M), 1.18 (3M), 1.17 (6M), 1.15 (12M)



	1M	3M	6M	12M
Danske Bank	1.19	1.18	1.17	1.15
Consensus	1.20	1.21	1.23	1.24
Forward	1.19	1.19	1.20	1.20

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

- **Risks.** Upside risks to take spot above 1.24 include the EU proving to be an engine of world growth and/or a slow jobs recovery in the US in H2, fuelling further broad USD decline. Further, should we see a new US-China trade deal; such could encompass removal of tariffs and thus be a drag on USD.
- **Conclusion.** We lower our EUR/USD forecast a tad to take in to account a high likelihood of a very strong US recovery vis-à-vis EU. In addition, Chinese slowing is a drag on the EUR-leg. The key risks to watch are 1) the expectations to US recovery must be met, 2) questioning if EU can surprise on the upside and/or 3) the state of the next leg in US-China tariffs. We now see EUR/USD in 1.19 (1M), 1.18 (3M), 1.17 (6M) and 1.15 (12M) from previously 1.22, 1.22, 1.19, 1.16.

EUR/SEK – Riksbank medium-term headwind

- **Cyclical outlook.** Despite a weaker-than-expected end to 2020, the Swedish economy remain ahead of the Eurozone in terms of coping with the pandemic and should avoid a double dip recession. Although recent vaccine supply disruptions posit a downside risk, we still see Swedish growth in the ballpark of 3-3.5% during 2021, closing the pandemic GDP gap already this year. The relative outperformance vs the Eurozone may weigh on EUR/SEK. However, USD/SEK will in our view be bolstered by US growth outperformance throughout 2021.
- **Monetary policy.** The Riksbank argues that inflation risks are balanced. Next two months headline will pick up (base effects). Then, however, the inflation path slopes downwards again. Our forecast suggests headline and core inflation will print well below 1% in the second half of the year, which at least for core is well below the Riksbank. If materialised it will pull 5Y Prospera expectations lower. If credibility is lost, some Board members argue that a rate cut is necessary (not our base case). At the same time, market pricing is too steep in our view, indicating small (negligible) probability for a rate cut in H2 2021 and +50bp in Q2 2024: a medium-term tailwind for EUR/SEK.
- **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 MEVA model puts medium-term fair value at around 10.30 and our financial models have short-term fair value around 10.05.
- **Risks.** If we under-estimate inflation our forecast profile is probably on the high side. If, on the other hand, Riksbank credibility is lost such that they go back to negative rates EUR/SEK could go higher than the forecast implies.

Forecast: 10.10 (1M), 10.10 (3M), 10.20 (6M), 10.40 (12M)

	1M	3M	6M	12M
Danske Bank	10.10	10.10	10.20	10.40
Consensus	10.13	10.10	10.01	9.85
Forward	10.15	10.16	10.17	10.19

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

- **Conclusion.** EUR/SEK has moved relatively close to our short-term 10.00-10.10 targets for the last couple of months. We still argue that last year's krona rally will come to a halt in the first half of 2021 as the recovery trades increasingly shift focus to medium-term inflation challenges that faces the Riksbank. While inflation risks in the next couple of months seem fairly balanced, risks to monetary policy are skewed to the downside – especially since a negative 'inflation gap' starts opening up in H2 2021. This policy asymmetry is not reflected in pricing which is too steep in our view and thus a medium-term headwind for the SEK. In all, we keep EUR/SEK 1M at 10.10 (unchanged), 3M at 10.10 (10.00), 6M at 10.20 (10.20) and 12M at 10.40 (10.30).

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EUR/NOK – bottom in sight

- **Cyclical outlook.** While Norway still stands out as one of the smallest losers from this COVID-19 crisis in GDP-metrics, the recent rise in contaminations and the implementations of tougher restrictions in the wider Oslo area will affect growth and employment negatively in the months to come. Ultimately, we still expect a sharp activity rebound for the mainland economy and the latest vaccination-schedules from the authorities point to a vaccination of the broad public by summer. The latest Regional Network Survey also shows a significant rise in optimism – especially in the hard hit service sectors. Also, investment prospects have improved substantially. Inflation rates are moving lower but remain above the 2% inflation target. We expect inflation to move lower in the coming quarters on lower capacity utilisation (compared to normal) and the recent NOK strengthening.
- **Monetary policy.** At the March meeting Norges Bank (NB) moved forward its signal for the first rate hike by signalling a 25bp hike in H2 this year. The NB rate path indicates an almost 50/50 probability split between December and September (we stick to September). The rate path also indicates 5½ hikes by end-2024. While higher NOK rates in isolation is supportive of a stronger NOK we still highlight that relative short-end rates are an inferior driver of NOK relative to the global reflation theme.
- **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 NOK 1.7bn 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: 10.00 (1M), 10.10 (3M), 10.20 (6M), 10.30 (12M)

	1M	3M	6M	12M
Danske Bank	10.00	10.10	10.20	10.30
Consensus	10.12	10.18	10.09	9.92
Forward	10.10	10.11	10.13	10.19

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.** Near-term we expect NOK to remain supported by reopening prospects, NB's NOK buying and a data following (not anticipating) Fed, which implicitly supports reflation sensitive assets incl. NOK. That said, we think all of these drivers are set to lose steam over the next 3M. In light of the recent OPEC surprise, we lower our 1M forecast to 10.00 (from 10.10) but leave the rest of the profile unchanged. Hence, we maintain our medium- to long-term (modestly) bearish view on NOK.

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EUR/DKK – DN floor the lower bound

- **Cyclical outlook.** The cyclical environment is about neutral for EUR/DKK as relative DKK-US equity prices are creeping higher and long-term bond yields are rising. 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) bought DKK0.4bn EUR in FX intervention in February, which marks the first sign of reversal of the monetary tightening from last spring, and effectively floor EUR/DKK around 7.4360 for now. DN further made a technical adjustment to policy rates cutting the current account rate to -0.50%, hiking the rate of interest on certificates of deposits to -0.50% and making permanent the repo rate at -0.35%. In the short-term, the change will not matter much, since tight liquidity is keeping rates elevated. Longer-term the change will work as a small hike. We look for DN to keep policy rates unchanged on 12M, but the chance of a 10bp cut has increased following the technical change. The FX reserve will likely 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 changed on the back of the crisis.
- **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.
- **Positioning.** Danish life & pension companies on aggregate lowered their USD and EUR hedge ratio in Q4. The EUR hedge ratio is currently in the low end historically.

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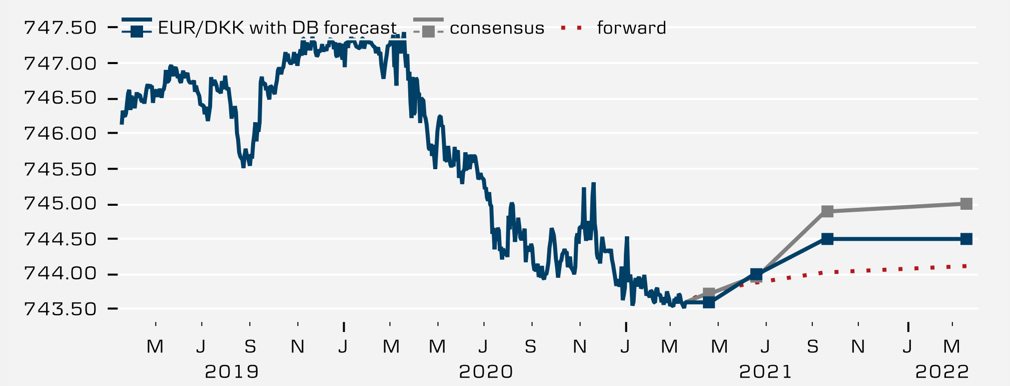
Forecast 7.4360 (1M), 7.4400 (3M), 7.4450 (6M), 7.4450 (12M)



	1M	3M	6M	12M
Danske Bank	743.60	744.00	744.50	744.50
Consensus	743.72	743.97	744.89	745.00
Forward	743.75	743.88	744.03	744.11

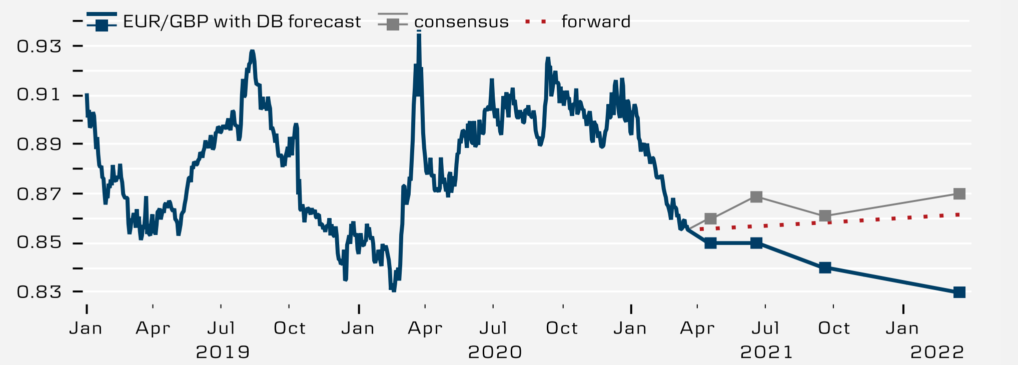
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- **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 stay tight and keep a positive carry on short EUR/DKK positions.
- **Conclusion.** We look for EUR/DKK to trade in the 7.4360-7.4450 range the coming year. DN floor the lower bound around 7.4360 using FX intervention. 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 still set to benefit from faster vaccinations

- **Cyclical outlook.** The UK is gradually reopening supported by fast vaccinations, which, combined with businesses getting used to the new EU-UK trading relationship, means that the outlook for the UK economy looks much brighter. We expect the UK economy will outperform the euro area this year.
- **Brexit.** Although EU-UK trade took a big hit in January, there are signs that businesses are getting more and more used to the new trading relationship and that goods are flowing more easily now. We are still of the view that Brexit uncertainties have declined significantly, which should support business investments in the UK this year and next. That said, we think Brexit as a theme has moved into the background now, although the EU and the UK are still fighting over the Northern Ireland protocol and are negotiating on cooperation on financial services. The former is a political risk to look out for in coming months.
- **Monetary policy.** We have seen a significant repricing of the Bank of England (BoE) in Q1. It is not long ago a negative BoE Bank Rate was a theme, but now the first 15bp rate hike is priced in already in November 2022 (a 15bp rate hike would take the Bank Rate back to 0.25%, which seems like the first step). We think this is slightly to the aggressive side, as we do not expect any hikes through 2022 at the moment. Eventually, the BoE is likely to tighten monetary policy earlier than the ECB.
- **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.

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



	1M	3M	6M	12M
Danske Bank	0.85	0.85	0.84	0.83
Consensus	0.86	0.87	0.86	0.87
Forward	0.86	0.86	0.86	0.86

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

- **Positioning.** Non-commercial positioning is somewhat stretched-long.
- **Risks.** A hit to global risk sentiment could hit GBP, just like we saw a few weeks ago.
- **Conclusion.** We expect GBP can strengthen further this year but we also recognise that it has come a long way with a lot of positivity already priced in. Positioning is somewhat stretched and hence we will not be surprised if GBP takes a breather near-term fluctuating within the 0.850-0.865 range. As EUR/GBP has moved lower faster than we projected last month, we have lowered our 1-3M forecast to 0.85. We expect EUR/GBP to move closer to 0.83 in 6-12M.

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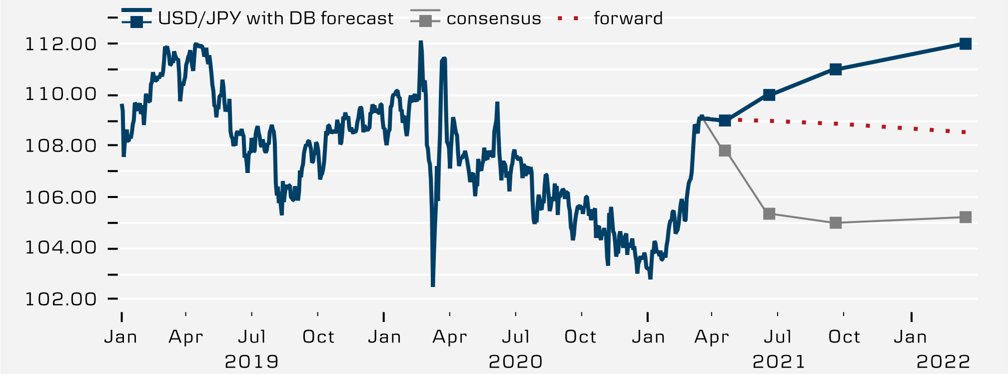
USD/JPY – Edging higher as US economy catches up with Asia

- **Cyclical outlook.** The usual suspects are back as key USD/JPY drivers, as we have seen the cross reach new highs above 109 on the back of higher US yields and commodities. Being one of the world's biggest oil importers, higher oil prices is going to keep weighing on the yen going forward. Speculation about the future for JGB yields leading up to the Bank of Japan's (BoJ) policy review have been a market mover too. The "Asia" factor seems to have faded with Asian equities no longer outperforming US, also reflected in CNH losing momentum. We expect this to remain the trend as Chinese pent-up demand wears off and the US consumer steps up on the back of reopening and big fiscal easing.
- **Monetary policy.** As expected, the policy review from the BoJ caused no revolutions to the policy framework but it came with a few adjustments. The implicit tolerance band of +/-20bps on the 10yr JGB target was increased slightly to +/-25bps, the news of which caused a short-lived decline in USD/JPY. BoJ also decided to stop intervening as frequently in equity markets and only buy exchange-traded-funds in case of market turmoil going forward. With Japan as the last of the G7 to kick-start its vaccine programme, the pandemic will weigh on domestic demand for longer than other places and it will take long before BoJ sees room to significantly withdraw stimulus. Slowly loosening the grip on the yield curve further could happen earlier as global yields continue to increase. The inflation target remains far out of reach with BoJ's preferred inflation measure at just -0.4% in February.
- **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 still not far from fair value as we emphasise the MEVA estimate as a more reasonable estimate for such.

Forecast: 109 (1M), 110 (3M), 111 (6M), 112 (12M)



	1M	3M	6M	12M
Danske Bank	109.00	110.00	111.00	112.00
Consensus	107.82	105.35	105.00	105.22
Forward	109.04	108.98	108.88	108.55

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

- **Positioning.** Speculators neutrally positioned in JPY.
- **Risks.** To take USD/JPY back towards 100, we need a change in risk sentiment causing US rates and commodities to decrease again. BoJ tolerating higher JGB yields also poses some risk but they will be very careful and only take baby steps exactly to avoid a significant strengthening of the yen.
- **Conclusion.** We think USD/JPY has further to go, as the US economy will catch up to Asia as it opens up and outpaces Asia and particularly Japan in the vaccine race, although the recent leap has capped upside potential. This will continue to press for higher US yields and BoJ will remain reluctant to let JGB yields drift much higher with inflation so far off target.

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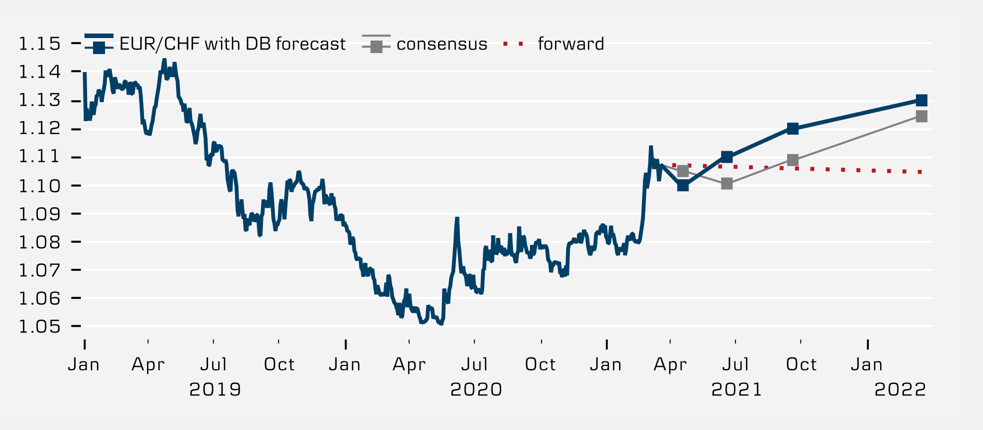
EUR/CHF

Forecast: 1.10 (1M), 1.11 (3M), 1.12 (6M), 1.13 (12M)



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

Source: Macrobond Financial, Danske Bank

- Since our last update, EUR/CHF has moved higher from 1.08 to 1.10 supported by rising long-term yields both in the US and in Europe. CHF has been hit by a negative wealth effect on the foreign bond holdings, a global sector rotation out of duration and into cyclicals as well as a further push into the lagging inflation trades.
- While rising yields may take a tactical pause near-term, we still see a case for higher global yields, especially in the second half of the year. We expect this will send EUR/CHF higher although we think most of the increases are now behind us so we expect the movements will be more gradual from here.
- 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. A setback in risk sentiment is another joker.

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USD/CAD

Forecast: 1.24 (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

- To us USD/CAD is best treated as a low beta version of USD/NOK. This is due to the common oil connection and the close connection between the US and Canadian economy which creates a close 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 higher especially on a 6M-12M horizon. Also, we pencil in a sharper rise in USD/NOK than CAD/NOK as CAD will remain more supported in an environment of broad USD strength than what is the case for NOK.
- CFTC IMM data suggests that the speculative USD/CAD positioning is absolute short albeit fairly neutral from a historical perspective.
- We forecast USD/CAD at 1.24 in 1M (from 1.26), 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), 0.76 (3M), 0.74 (6M), 0.73 (12M)

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

- Rise in industrial metal prices has supported Australian terms of trade, which in turn has been supportive for AUD during early 2021. Lately, we have seen the momentum fading with rising US yields and declining iron ore prices limiting the upside in AUD/USD.
- While Australian economy has recovered well amid the good pandemic situation, the Reserve Bank of Australia (RBA) has maintained its dovish stance on monetary policy. Following the latest rise in global yields, RBA stepped up its bond purchases, and noted that it is ready to expand its current QE programs if needed. Furthermore, as Australia is approaching winter, the seasonality in Covid-19 cases poses downside risks to the domestic economy.
- While rising US yields support broad USD in the short-term, peak in Chinese industrial cycle together with recovering supply supports the case for lower industrial metal prices over the medium term. Thus, we expect moderately lower AUD/USD throughout the forecast horizon.

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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

- 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. Policy has also been RUB-negative. We see these factors turning in to a RUB-positive narrative over the coming quarters as vaccines are rolled out.
- The possibility of more RUB strength lies with 1) fading sanction risks and 2) strengthening domestic demand amid elevated oil prices. We keep our RUB-bullish forecast. The risk scenario is a weak Russian/oil recovery amid too strong US economic performance from which US yields and dollar starts going up. However, up until now, RUB has proved resilient towards rising US rates. We expect EUR/RUB to move in to the low 80-range over the coming 6-12 months.

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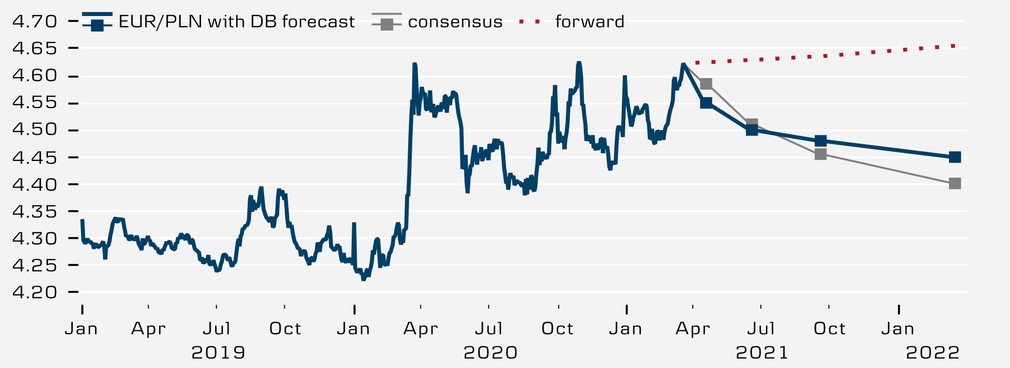
EUR/PLN – PLN hit by rise in US yields

- **Cyclical outlook.** The Polish economy is currently strained by the second wave of the coronavirus over the winter. After getting that wave under control and with restrictions slightly lifted, cases have started to rise again, and with that talks about new restrictions. At the same time, the vaccine roll-out is going rather slow with only 12% of the population having received a first vaccine dose. 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 production side of 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. On the other hand the service sector activity is still undermined by restrictions and social distancing. At its March meeting, the Polish central bank (NBP) raised its growth forecast for the Polish economy to 4.1% in 2021.
- **Monetary policy.** The Polish central bank (NBP) maintained its policy stance at its meeting in March, 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 a 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 bank's target.
- **Risks.** The balance of risk for EUR/PLN is fairly even. A further upward move can happen if US yields continue its ascent. 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: 4.55 (1M), 4.50 (3M), 4.48 (6M), 4.45 (12M)



	1M	3M	6M	12M
Danske Bank	4.55	4.50	4.48	4.45
Consensus	4.59	4.51	4.46	4.40
Forward	4.62	4.63	4.64	4.66

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

- **Conclusion.** The EUR/PLN has moved sharply higher over the past month. The upward move has in our view been driven by the rise in US yields, which affects Poland given its large fixed income market with large degree of foreign participation. When US yields rise, foreign investors pull out which hurt the PLN. Furthermore, the new rise in cases and possible renewed lockdown hurt the outlook for the Polish economy near-term. We expect that US yields may stabilise in the coming months but then move further upward in the fall. However, at that time we think the Polish economy will be recovering helping a more hawkish attitude from the NBP. But near-term we raise our EUR/PLN forecast to 4.55 (from 4.50) and 4.50 in 3M but keep our expectations of downward move in the fall. We see EUR/PLN at 4.48 in 6M and 4.45 in 12M (previously 4.45 and 4.40).

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Danske Bank

USD/CNY – Turning the corner

- **Growth.** After a strong recovery in 2020, we see signs that the Chinese economy is slowing this year. PMI's have declined the past three months and a drop in credit growth is a clear indication that fiscal stimulus is already fading. We look for growth to moderate further in 2021 on the back of a) 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. On a relative basis, the economic outperformance in 2020 of China vs. US should thus reverse this year as we look for the US economy to recover fast on the back of the rapid COVID vaccination roll-out and Biden's fiscal boost.
- **Monetary policy.** China has signalled that an exit of stimulus and de facto monetary policy has tightened for some months now with money market rates pushing higher. It 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. We look for Chinese tightening from here to increasingly take place through fiscal policy and do not see a significant increase in Chinese money market rates. On the other hand, the US will move closer to monetary tightening (tapering) and 1-2y rates will start to move higher. Hence, relative rates will shift more in favour of the US, which points to a stronger USD vs. CNY over the coming year.
- **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 not intervened much in the market.
- **Flows.** Investor flows into Chinese equities and bond market have supported CNY. 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.

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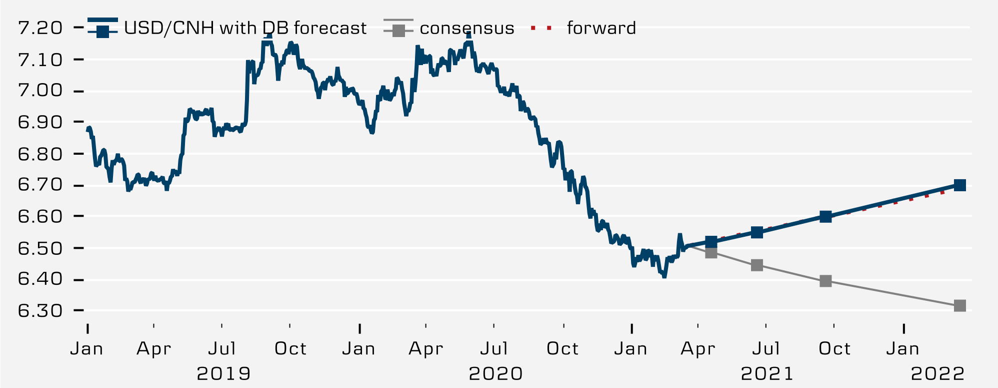
Forecast: 6.52 (1M), 6.55 (3M), 6.60 (6M), 6.70 (12M)



	1M	3M	6M	12M
Danske Bank	6.52	6.55	6.60	6.70
Consensus	6.49	6.45	6.40	6.32
Forward	6.52	6.55	6.60	6.69

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

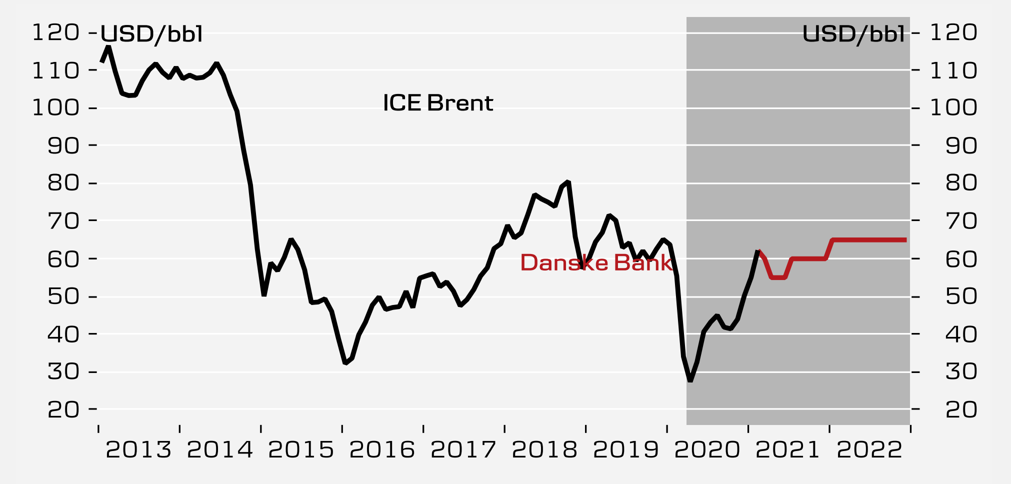
- **Conclusion.** With the recent upward revision to our US growth forecast, we now see a clearer picture of US outperformance this year vs. China. It suggests USD/CNY will turn the corner and we now look for a higher USD/CNY over the next 6-12 months. Our forecast is revised to 6.55 in 3M (previously 6.40) and 6.70 in 12M (previous 6.40).

  However, our forecasts on USD/CNY and EUR/USD still implies a strengthening of CNY vs. EUR. It reflects the historical correlation with CNY moving in tandem with the USD against the EUR. We look for EUR/CNY to decline from 7.79 to 7.71 in 12M. It compares with the forward market pricing 8.06 in 12M and we thus recommend to hedge CNY payables if you are a EUR based company or investor.
- **Risks:** Compared to our forecast, we see the risks as broadly balanced.

Oil – limited further upside

- **Macro.** Short-term, resurgence in infections in Europe (and potentially elsewhere), weighs on oil demand as it keeps lockdowns and restrictions on travel and transportation in place. It seems like policy makers are keen on keeping tight restrictions until more people are vaccinated. 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 1 April to reassess its stance, which could market a start to normalisation of oil output. Drilling activity has only slowly started to increase in the US shale oil. 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 after a year of lockdowns and other restrictions. Given the recent surge in oil prices, we could see OPEC+ uniting to start normalising output when it meets again on 1 April.
- **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 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 Q2, USD60/bbl in Q3 and USD60/bbl in Q4. We further forecast Brent to average USD65/bbl in 2022. We will reassess our forecasts after next month's OPEC+ meeting.

Forecast: 60 (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				Last Update:	19/03/2021
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.193	1.19	1.18	1.17	1.15
EUR/JPY	129.8	130	130	130	129
EUR/GBP	0.855	0.85	0.85	0.84	0.83
EUR/CHF	1.104	1.10	1.11	1.12	1.13
EUR/SEK	10.14	10.10	10.10	10.20	10.40
EUR/NOK	10.12	10.00	10.10	10.20	10.30
EUR/DKK	7.4359	7.4360	7.4400	7.4450	7.4450
EUR/AUD	1.537	1.55	1.55	1.58	1.58
EUR/NZD	1.661	1.68	1.69	1.70	1.69
EUR/CAD	1.488	1.48	1.48	1.49	1.50
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.616	4.55	4.50	4.48	4.45
EUR/HUF	368	367	370	373	375
EUR/CZK	26.1	25.8	25.7	25.5	25.3
EUR/RUB	88.4	86	83	80	77
EUR/TRY	8.68	8.4	8.6	8.9	9.0
EUR/ZAR	17.50	17.3	17.1	17.6	18.4
EUR/CNY	7.76	7.76	7.73	7.72	7.71
EUR/INR	86.5	87	85	84	82

Source: Danske Bank

Danske Bank FX forecasts vs DKK

Last Update: 19/03/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs DKK					
USD/DKK	6.23	6.25	6.31	6.36	6.47
JPY/DKK	5.73	5.73	5.73	5.73	5.78
GBP/DKK	8.70	8.75	8.75	8.86	8.97
CHF/DKK	6.73	6.76	6.70	6.65	6.59
SEK/DKK	0.73	0.74	0.74	0.73	0.72
NOK/DKK	0.73	0.74	0.74	0.73	0.72
EUR/DKK	743.59	743.60	744.00	744.50	744.50
AUD/DKK	4.84	4.81	4.79	4.71	4.73
NZD/DKK	4.48	4.44	4.41	4.39	4.40
CAD/DKK	5.00	5.04	5.04	5.01	4.98
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/DKK	1.61	1.63	1.65	1.66	1.67
HUF/DKK	2.02	2.03	2.01	2.00	1.99
CZK/DKK	0.28	0.29	0.29	0.29	0.29
RUB/DKK	8.41	8.68	9.01	9.36	9.66
TRY/DKK	0.86	0.88	0.86	0.84	0.83
ZAR/DKK	0.42	0.43	0.43	0.42	0.40
CNY/DKK	0.96	0.96	0.96	0.96	0.97
INR/DKK	0.086	0.086	0.088	0.089	0.091

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs SEK

Last Update: 19/03/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	8.50	8.49	8.56	8.72	9.04
JPY/SEK	7.81	7.79	7.78	7.85	8.07
GBP/SEK	11.86	11.88	11.88	12.14	12.53
CHF/SEK	9.18	9.18	9.10	9.11	9.20
EUR/SEK	10.14	10.10	10.10	10.20	10.40
NOK/SEK	1.00	1.01	1.00	1.00	1.01
DKK/SEK	1.36	1.36	1.36	1.37	1.40
AUD/SEK	6.60	6.54	6.51	6.45	6.60
NZD/SEK	6.10	6.03	5.99	6.02	6.15
CAD/SEK	6.81	6.84	6.85	6.86	6.96
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.20	2.22	2.24	2.28	2.34
HUF/SEK	2.76	2.75	2.73	2.73	2.77
CZK/SEK	0.39	0.39	0.39	0.40	0.41
RUB/SEK	0.11	0.12	0.12	0.13	0.13
TRY/SEK	1.17	1.20	1.17	1.15	1.16
ZAR/SEK	0.58	0.59	0.59	0.58	0.57
CNY/SEK	1.306	1.302	1.307	1.321	1.350
INR/SEK	0.117	0.116	0.119	0.122	0.127

Source: Danske Bank

Danske Bank FX forecasts vs NOK

Last Update: 19/03/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs NOK					
USD/NOK	8.48	8.40	8.56	8.72	8.96
JPY/NOK	7.80	7.71	7.78	7.85	8.00
GBP/NOK	11.84	11.76	11.88	12.14	12.41
CHF/NOK	9.17	9.09	9.10	9.11	9.12
SEK/NOK	1.00	0.99	1.00	1.00	0.99
EUR/NOK	10.12	10.00	10.10	10.20	10.30
DKK/NOK	1.36	1.34	1.36	1.37	1.38
AUD/NOK	6.59	6.47	6.51	6.45	6.54
NZD/NOK	6.09	5.97	5.99	6.02	6.09
CAD/NOK	6.81	6.78	6.85	6.86	6.89
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.19	2.20	2.24	2.28	2.31
HUF/NOK	2.75	2.72	2.73	2.73	2.75
CZK/NOK	0.39	0.39	0.39	0.40	0.41
RUB/NOK	0.11	0.12	0.12	0.13	0.13
TRY/NOK	1.17	1.18	1.17	1.15	1.15
ZAR/NOK	0.58	0.58	0.59	0.58	0.56
CNY/NOK	1.305	1.289	1.307	1.321	1.337
INR/NOK	0.117	0.115	0.119	0.122	0.126

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs USD

Last Update: 19/03/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.1932	1.19	1.18	1.17	1.15
USD/JPY	108.8	109	110	111	112
GBP/USD	1.396	1.40	1.39	1.39	1.39
USD/CHF	0.926	0.92	0.94	0.96	0.98
USD/SEK	8.496	8.49	8.56	8.72	9.04
USD/NOK	8.485	8.40	8.56	8.72	8.96
USD/DKK	6.232	6.25	6.31	6.36	6.47
AUD/USD	0.777	0.77	0.76	0.74	0.73
NZD/USD	0.718	0.71	0.70	0.69	0.68
USD/CAD	1.247	1.24	1.25	1.27	1.30
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
USD/PLN	3.869	3.82	3.81	3.83	3.87
USD/HUF	308	311	314	319	326
USD/CZK	21.882	21.68	21.78	21.79	22.00
USD/RUB	74.123	72.00	70.00	68.00	67.00
USD/TRY	7.273	7.10	7.30	7.60	7.80
USD/ZAR	14.667	14.50	14.50	15.00	16.00
USD/CNY	6.50	6.52	6.55	6.60	6.70
USD/INR	72.49	73.00	72.00	71.50	71.00

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs GBP

G10				Last Update:	19/03/2021
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs GBP					
GBP/USD	1.40	1.40	1.39	1.39	1.39
GBP/JPY	151.76	153	153	155	155
EUR/GBP	0.86	0.85	0.85	0.84	0.83
GBP/CHF	1.29	1.29	1.31	1.33	1.36
GBP/SEK	11.86	11.88	11.88	12.14	12.53
GBP/NOK	11.84	11.76	11.88	12.14	12.41
GBP/DKK	8.70	8.75	8.75	8.86	8.97
GBP/AUD	1.80	1.82	1.83	1.88	1.90
GBP/NZD	1.94	1.97	1.98	2.02	2.04
GBP/CAD	1.74	1.74	1.74	1.77	1.80
EM					
	Spot	+1m	+3m	+6m	+12m
GBP/PLN	5.40	5.35	5.29	5.33	5.36
GBP/HUF	430.11	432	435	444	452
GBP/CZK	30.53	30.35	30.24	30.36	30.48
GBP/RUB	103.43	100.80	97.18	94.71	92.83
GBP/TRY	10.15	9.94	10.13	10.59	10.81
GBP/ZAR	20.47	20.30	20.13	20.89	22.17
GBP/CNY	9.08	9.13	9.09	9.19	9.28
GBP/INR	101.14	102.20	99.95	99.59	98.37

Source: Danske Bank

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Disclosures

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