Danske Bank
Markets

FX Forecast Update

15 February 2013

More euro gains and yen-suffering in store

Arne Lohmann Rasmussen
Chief Analyst, Head of Rates, FX and Commodities Strategy

Kasper Kirkegaard
Senior Analyst

Stefan Mellin
Senior Analyst

Stanislava Pravdová-Nielsen
Analyst

Morten Helt
Senior Analyst

Lars Christensen
Chief Analyst

Christin Tuxen
Senior Analyst

Vladimir Miklashevsky
Analyst

www.danskebank.com/research

Bloomberg: DRFX <GO>

www.danskeresearch.com

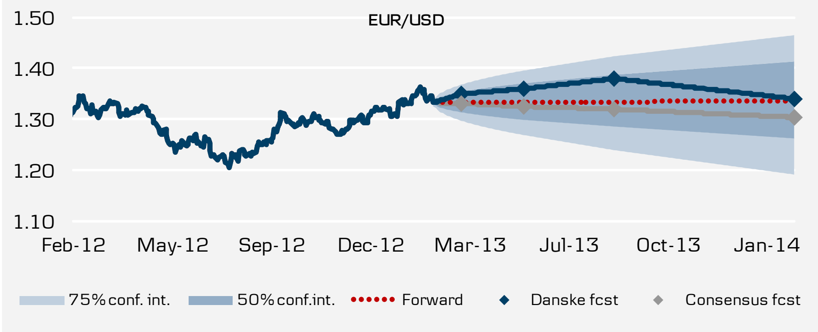
Main forecast changes

- Despite the strong euro gains seen over the past six weeks, we stick to our view that among the four major currencies, the euro will still be the top pick in H1 13. The combination of (i) fewer tail risks attached to the single currency, (ii) the ECB rejecting calls for further easing of monetary policy and higher EONIA rates due to repayment of the LTRO money, and (iii) a general strong risk sentiment are all factors pointing to further euro performance. The euro is forecast to peak on a 6M horizon reaching 1.38 (1.36) against the US dollar. On a 12M horizon, focus will turn to the Fed and when it will exit its QE programme. The 'exit' will be dollar supportive and at the same time the support to risk currencies including the euro from the global recovery should be exhausted. We forecast EUR/USD at 1.34 (1.32) on a 12M horizon.
- We continue to see USD/JPY and EUR/JPY moving higher over the next six months as a new Bank of Japan (BoJ) governor is sworn in. We have pencilled in that USD/JPY will hit 100 (96) on a 12M horizon. The Japanese economy is still forecast to look weak end-2013, which is likely to prompt new easing measures from BoJ at a time when the Fed is in 'exit mode'. Sterling is expected to continue to depreciate despite the incoming BoE governor Carney setting the 'bar for changing the flexible inflation targeting framework high'. We expect Carney to commit to keeping rates low for a prolonged period and to accept high inflation for an extended period of time. Combined with safe-haven flows returning to the eurozone, EUR/GBP is expected to rise towards 0.90 (0.85) on a 6M horizon.
- The moves in the FX market over the past three months have been quite significant and global central bankers are alert. Even though we hold the view that there is no such thing as a currency war and that monetary policies in the UK, Japan and the US are oriented towards domestic objectives (stable inflation and output growth), there is no doubt that the ECB – not least after Draghi came in charge – has become much more pragmatic. Hence, if the euro gains accelerate and it jeopardises the inflation target, the ECB will act. If EUR/USD moves significantly over 1.40 and growth falters, an ECB rate cut will be likely in our view. Hence, huge swings in EUR-crosses and rising volatility should not be ruled out in 2013.
- We still see value in Scandies and especially the SEK potential is strong. The Riksbank is now on hold and as one of the few G10 central banks Governor Ingves is not concerned about the value of his currency. We see EUR/SEK falling to 8.20 (840) in 2013. EUR/NOK is also expected to drift lower. But Norges Bank is more vigilant on the currency and the NOK potential is more limited.
- Since new year, AUD has moved consistently lower, CAD occasionally so, whereas NZD has staged a noteworthy comeback. While this is partly due to changes in central bank rhetoric, we still see limit upside in the commodity currencies despite the cyclical rebound in H1 13, as the euro rebound means that the safe-haven flows supporting these 'new' safe havens has now reversed.
- We have revised our Czech koruna forecast in a less negative direction. The CNB did not decide to intervene in the FX market to weaken the koruna as we had expected. Our new EUR/CZK forecast is 26.0, 26.2 and 26.0 in 3, 6 and 12 months respectively. It is based on the view that the CNB will sharpen its FX rhetoric once again.

EUR/USD – support from the Great Safe-Haven Escape

- **Growth:** The data flow has continued to move in favour of the euro over the past month, whereas the opposite pattern has been seen for the US notwithstanding a marked rise in the ISM manufacturing index in January.
- **Monetary policy:** With the Fed currently expanding its balance sheet significantly as a result of its open-ended QE programme and the ECB recently committing itself to react should EONIA rates rise excessively as a result of banks returning the LTRO money, we see more potential upside risk for US rates relative to EUR rates.
- **Flows**: The US current account deficit is narrowing but remains a structural dollar negative.
- **Valuation**: EUR/USD is trading around neutral levels according to long-term models (PPP estimate is 1.28).
- **Positioning**: Speculators have continued to add EUR longs recently, highlighting that a near-term correction could be more easily triggered - not least after Draghi managed to verbally anchor the short end of the curve.
- **Risks:** If banks return more of the LTRO II money than the ECB sees appropriate, a rate cut could move back on the table. The threat of the US sequester could in contrast trigger USD buying.

***Forecast:** 1.36 (3M), 1.38 (6M) and 1.34 (12M)*



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.35 (69%)	1.36 (67%)	1.38 (71%)	1.34 (49%)
Fwd. / Consensus	1.33 / 1.33	1.33 / 1.33	1.33 / 1.32	1.34 / 1.30
50% confidence int.	1.31 / 1.36	1.30 / 1.37	1.29 / 1.39	1.26 / 1.41
75% confidence int.	1.29 / 1.37	1.27 / 1.40	1.24 / 1.42	1.19 / 1.47

Source: Danske Bank Markets

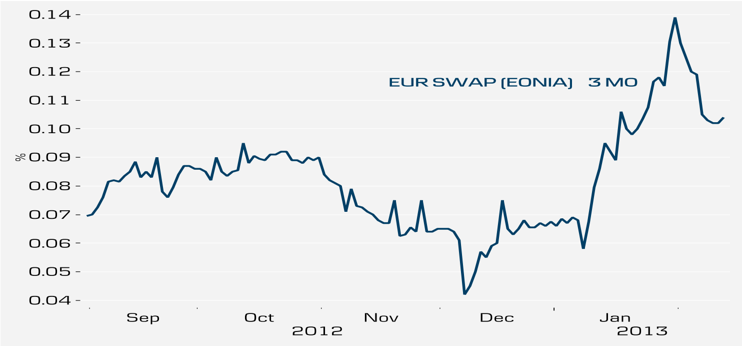
- **Conclusion**: With relative monetary policy supportive, the euro debt crisis sidelined for now and the Great Safe-Haven Escape to benefit the single currency, the underlying support to the euro is strong at present. As economic indicators continue to improve, the bar for the ECB actually acting is raised. However, if the euro climbs above 1.40 and we get signals that the recovery is losing steam, this could trigger an ECB rate cut. Dollar headwinds are expected to ease during H2 as an eventual Fed exit starts to be priced.

Christin Tuxen, Senior Analyst, tux@danskebank.dk, +45 45 12 78 67

EUR/USD – important issues to watch

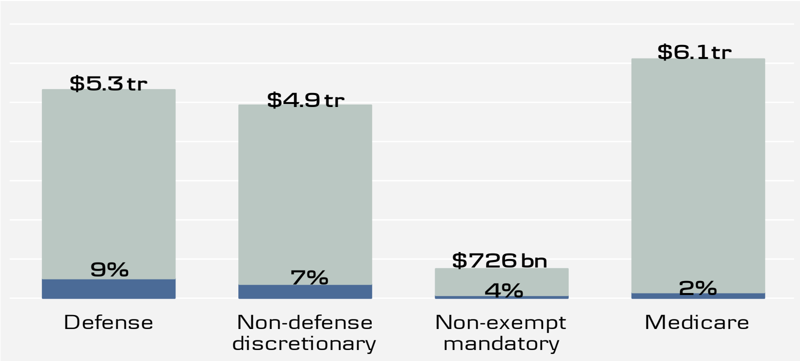
- **Will ECB's verbal intervention prove effective?**
  - At the press conference following the February ECB meeting Draghi was keen to point out that the return of LTRO money and the associated rise in the short rates reflect a rise in confidence - and that the ECB would act should rate rises prove excessive. We continue to believe that it will not be necessary for the ECB to actually act and cut rates or make new long-term liquidity provisions. This should be EUR positive.
  - In terms of relative monetary policy, during H2 focus will likely shift to Fed scaling back on asset purchases but the actual scale-back is in our view unlikely to happen until early 2014. Also it will likely happen in an environment where US growth has improved, which should lower EUR/USD downside.
- **Will the US manage to avoid the sequester?**
  - The US Congress has 'kicked the can down the road' on budget cuts and unless Congress acts the sequester will kick in by 1 March. Coupled with the threat of a potential government shutdown by 27 March, political uncertainty could stay high and support USD.

ECB taming EONIA rates through verbal intervention



Source: Macrobond, Danske Bank Markets

Spending cuts over the next 10 years related to BCA, as % of current budget



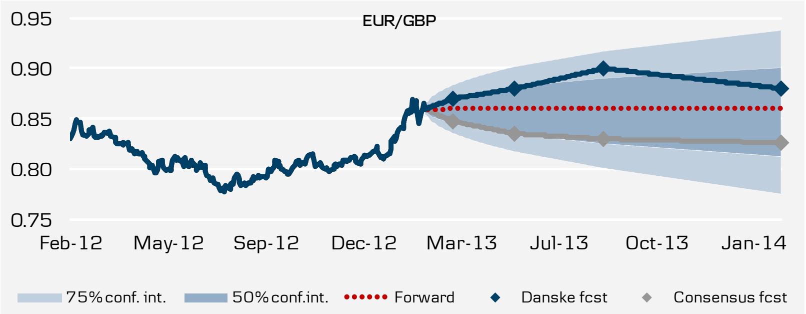
Source: Macrobond, Danske Bank Markets

Christin Tuxen, Senior Analyst, tux@danskebank.dk, +45 45 12 78 67

EUR/GBP – sterling in a perfect storm

- **Growth.** 2013 ended with negative growth with preliminary Q4 GDP at -0.3% q/q. The PMI surveys suggest the expansion will remain muted near term. While a debate about a 'triple-dip' recession has been triggered by the negative GDP in Q4, we believe the UK is set for a slow but sustained recovery in coming quarters.
- **Monetary policy.** Mark Carney last week appeared before the Treasury Committee. He hinted that a new framework for BoE is not likely to happen. Carney seems more willing to use the current framework more aggressively to support the UK recovery. King, on the other hand, was surprisingly dovish when the latest inflation report was presented. BoE expects high inflation and weak growth for a prolonged period, which is certainly not sterling positive in our view.
- **Debt risks.** S&P has put the UK on negative watch.
- **Valuation.** From a long-term perspective, sterling is undervalued (PPP around 0.77).
- **Risks.** Surprise in relative monetary policy if ECB turns dovish and BoE hawkish. GBP and USD are still highly correlated. Hence, if we are wrong on EUR/USD, we are probably also wrong on EUR/GBP.

***Forecast:** 0.88 (3M), 0.90 (6M) and 0.88 (12M)*



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.87 (69%)	0.88 (73%)	0.90 (80%)	0.88 (64%)
Fwd. / Consensus	0.86 / 0.85	0.86 / 0.84	0.86 / 0.83	0.86 / 0.83
50% confidence int.	0.84 / 0.87	0.83 / 0.88	0.83 / 0.89	0.81 / 0.90
75% confidence int.	0.83 / 0.89	0.82 / 0.90	0.80 / 0.92	0.78 / 0.94

Source: Danske Bank Markets

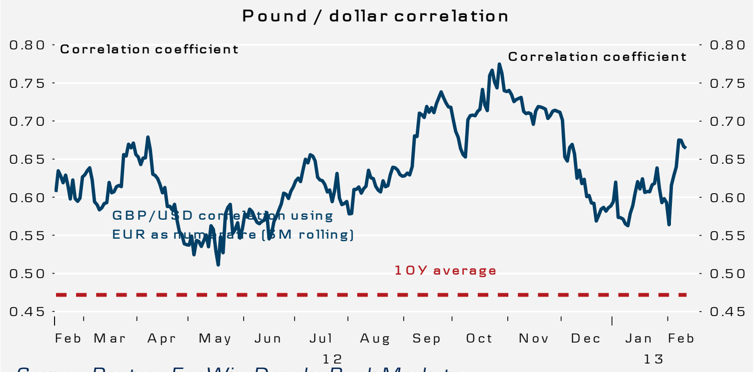
- **Conclusion.** We expect the combination of a weaker USD, risk of further easing by the BoE and a dismal growth outlook to weigh on GBP over the next six months. We also expect GBP to lose even more of its safe-haven shine as the rally in peripheral euro government bonds continues. Sterling is a perfect storm in the making the next six months.
- On a 12-month horizon we expect GBP to strengthen somewhat in line with our EUR/USD forecast.

Arne Lohmann Rasmussen, Chief Analyst, arr@danskebank.dk, +45 45 12 85 32

EUR/GBP – important issues to watch

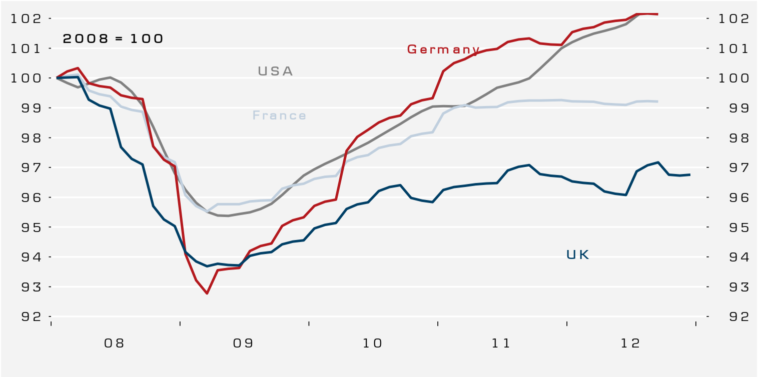
- **Carney not yet ready for nominal GDP targeting**
  - The Bank of Canada's governor, Mark Carney, has been appointed to take over from Sir Mervyn King in July 2013. Mark Carney has been openly discussing nominal GDP targeting instead of inflation targeting. Last week Carney appeared before the UK Treasury Committee. Even though he argued that 'the bar for change to any flexible inflation-targeting framework should be very high', Carney seems ready to use e.g. communication and the inflation target much more aggressively than the current governor. Hence, Carney is probably ready to accept high inflation for a prolonged period. Despite Carney playing down the possibility of a major change in UK monetary policy, the risk is still tilted in that direction.
- **USD link might fade further**
  - The correlation between GBP and USD has faded recently. However, GBP is still in the hands of USD. If the BoE surprises with further easing and the FOMC discusses a QE exit, the correlation may fall further and cable could come under renewed pressure.

Sterling still closely linked to USD



Source: Reuters EcoWin, Danske Bank Markets

UK recovery in Q3 but still lagging behind



Source: Reuters EcoWin, Danske Bank Markets

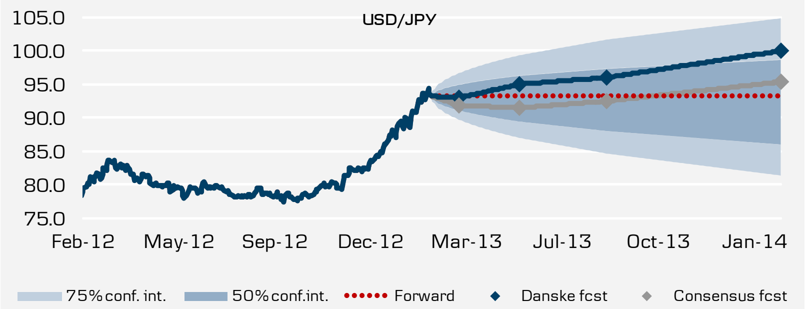
Arne Lohmann Rasmussen, Chief Analyst, arr@danskebank.dk, +45 45 12 85 32

USD/JPY – near-term momentum likely to slow down

- **Macro outlook:** The initial estimate for Q4 GDP growth showed that the economy contracted by 0.1% q/q and consequently Japan was in recession in H2 12. However, we expect it to recover relatively strongly, particularly in Q2 13 and Q3 13. Forward looking data in particular have been very positive lately, with, for example, consumer confidence rising to 43.3 in January, which is the highest level since 2007.
- **Monetary policy:** The Bank of Japan kept its asset purchase programme unchanged in February and, in our view, the board will be a lame duck until a new governor is appointed in April. Hence, the March meeting will also be a non-event, while focus will be on who the government will announce as its candidate for the position. The scope for more aggressive monetary easing could be present if one the most dovish candidates is appointed.
- **Risks:** Market positioning for a weaker JPY is stretched and the BoJ could fail to deliver the aggressive easing already discounted. On the other hand, it is still possible for the BoJ to deliver more aggressive easing than expected and focus on a possible early Fed exit from QE could also weaken the JPY further.

Morten Helt, Senior Analyst, mohel@danskebank.com, +45 45 12 85 18

***Forecast:** 95 (3M), 96 (6M) and 100 (12M)*



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	93.0 (49%)	95.0 (66%)	96.0 (69%)	100.0 (78%)
Fwd. / Consensus	93.2 / 91.8	93.2 / 91.5	93.2 / 92.5	93.2 / 95.4
50% confidence int.	91.0 / 95.1	89.4 / 96.3	88.0 / 97.3	86.0 / 98.6
75% confidence int.	89.4 / 96.9	87.0 / 99.3	84.7 / 101.6	81.4 / 104.8

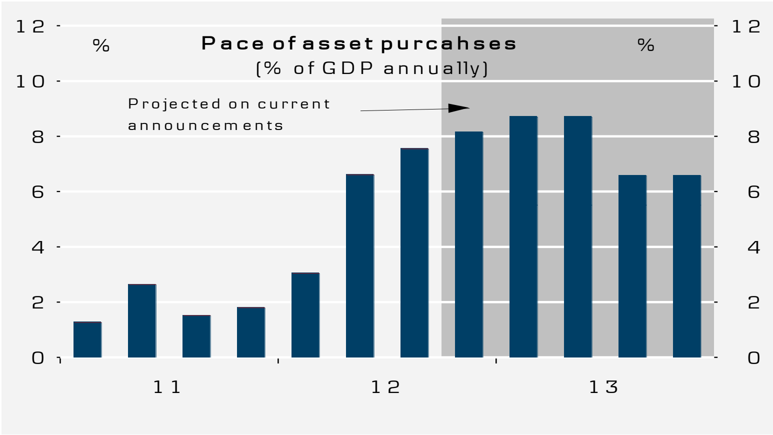
Source: Danske Bank Markets

Conclusion: A fundamental shift in monetary policy will continue to favour a weaker JPY. However, with growth expected to recover markedly in the coming quarters, momentum for a weaker JPY is likely to slow down. Our 1M forecast for USD/JPY is 93, while our 3M target is 95. In six to 12 months time, USD/JPY is likely to gain further support from relative rates as monetary policy diverge. Considerable fiscal tightening forms a risk of a new recession in Japan in 2014. This could prompt more easing measures by the BoJ at a time when the Fed is in 'exit mode'. We have raised our 12M target from 96 to 100.

USD/JPY – important issues to watch

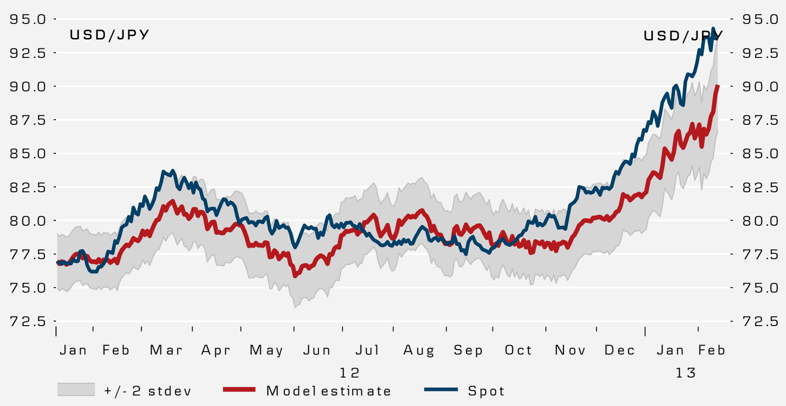
- **Who will become the new BoJ governor?**
  - The BoJ will, in our view, now be a lame duck until a new board governor and two new deputy governors are appointed on 3-4 April. Focus will be on whom will be nominated to replace board governor Shirakawa. It is a battle between the academics represented by, among others, Heizo Takeneka and Kazumasa Iwata and the bureaucrats represented by, among others, Toshiro Muto and Haruhiko Kurota.
  - It is possible that the government will announce its candidates for the governor and the two deputy governor positions on 15 February. Even though they would all be more dovish than Shirakawa, the academics in general have been arguing for more aggressive monetary easing and use of unorthodox policy tools. Hence, nomination of Takeneka or Iwata would probably be negative for JPY.
- **Investors are net short JPY and JPY oversold**
  - According to the IMM, non-commercial positioning is nearing stretched levels. Moreover, USD/JPY (and EUR/JPY as well) is significantly oversold according to our short-term financial models. JPY also looks increasingly oversold from a technical point of view. Hence, nearly all short-term indicators suggest that a near-term correction lower could be imminent or at least that price momentum is likely to slow down.

Fundamental shift in monetary policy



Source: Reuters EcoWin, Danske Bank Markets

USD/JPY significantly overbought



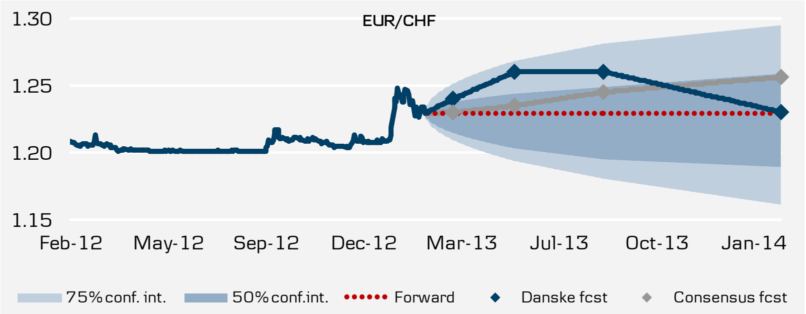
Source: Reuters EcoWin, Danske Bank Markets

Morten Helt, Senior Analyst, mohel@danskebank.com, +45 45 12 85 18

EUR/CHF – higher EONIA rates indicate upside potential

- **Growth.** Growth is slowing in Switzerland, which is, however, still outperforming the eurozone.
- **Monetary policy.** The SNB left monetary policy unchanged at its December meeting and pledged to continue to defend the 1.20 minimum target. SNB seems very committed to the target and this week SNB's Jordan said he is ready to take additional measures if needed to avoid deflation.
- **Flows.** Underlying flows (current account surplus) remain CHF supportive but unwinding of European tail-risk hedges has opened a big window for EUR/CHF upside. The SNB does not have to intervene at current levels.
- **Valuation.** The Swiss franc remains overvalued by about 10% against the euro, according to the Danske Bank General PPP model.
- **Risks.** When the SNB judges deflation risks to be history, a move back to a free-floating currency should be expected. However, this policy shift is, in our view, unlikely to take place during the coming quarters.

***Forecast:** 1.26 (3M), 1.26(6M) and 1.23 (12M)*



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.24 (75%)	1.26 (84%)	1.26 (80%)	1.23 (55%)
Fwd. / Consensus	1.23 / 1.23	1.23 / 1.23	1.23 / 1.24	1.23 / 1.26
50% confidence int.	1.21 / 1.24	1.20 / 1.24	1.19 / 1.25	1.19 / 1.26
75% confidence int.	1.20 / 1.25	1.19 / 1.27	1.18 / 1.28	1.16 / 1.29

Source: Danske Bank Markets

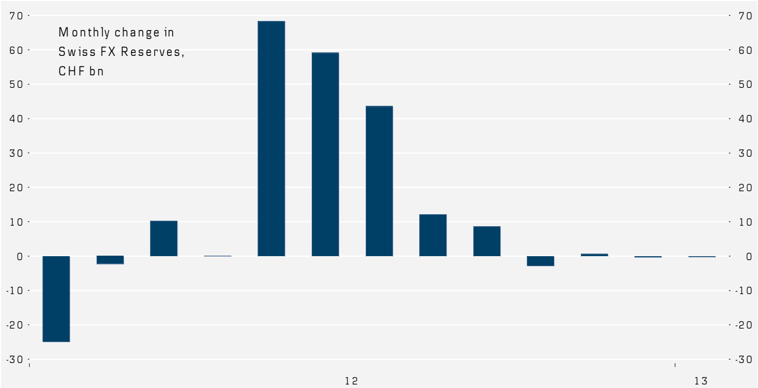
- **Conclusion**: The 1.20 minimum target is likely to remain in place for the coming quarters. We doubt that the Swiss franc will re-emerge as a global funding currency but see potential for a reduction in European tail-risk hedges (i.e. unwinding of long CHF positions) to temporarily lift EUR/CHF – and beyond the recent spike. There is a lot of money parked that could be unwound.

Kasper Kirkegaard, Senior Analyst, kaki@danskebank.com, +45 4513 70 18

EUR/CHF – important issues to watch

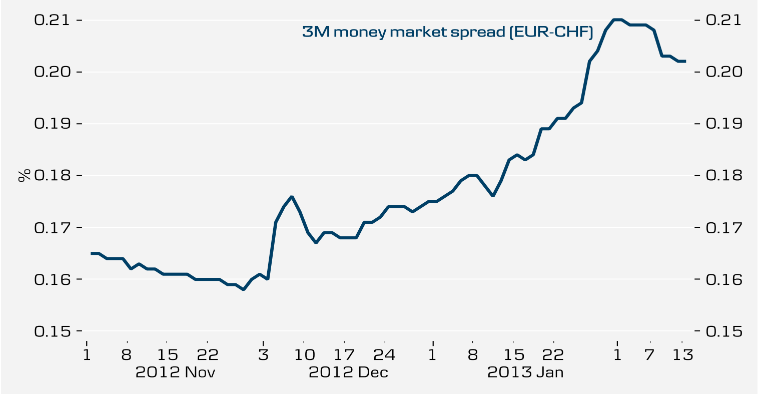
- **This is not a currency peg**
  - SNB's minimum target for EUR/CHF is technically no different from the interventions it conducted from March 2009 to mid-2010, although this time the SNB has announced the level that it will defend. It is important to note that this is not a currency peg in the traditional sense. The SNB has not expressed any view on how long it intends to keep the exchange rate floor in place, or as to whether it intends to move the target.
- **It has become more expensive to be long CHF**
  - The move higher in EONIA rates after banks have started to repay the LTRO money has made it more expensive to be short EUR/CHF. Swiss money market rates are on the other hand still very low with 1M Libor fixing close to zero. It has also been reported that Swiss banks have started to charge banks negative interest on CHF holdings.
- **Safe-haven reversal**
  - The big unknown for CHF is the money parked in Switzerland due to the eurozone debt crisis. Other safe-havens have been under pressure recently and a big move out of CHF is certainly a possibility.

No need for the SNB to intervene anymore



Source: Bloomberg, Danske Bank Markets

Relative rates have pushed EUR/CHF higher



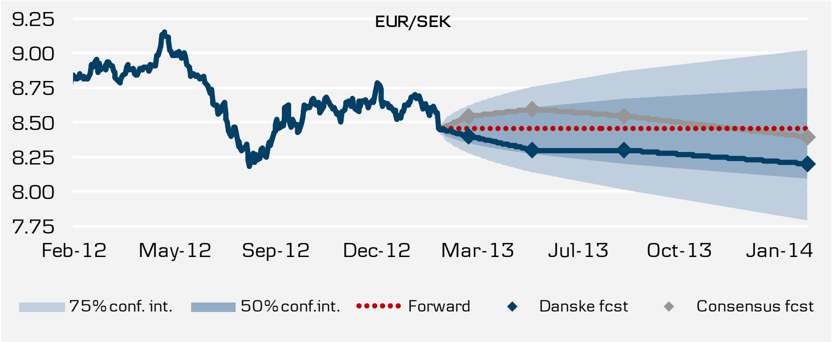
Sources: Reuters EcoWin, Danske Bank Markets

Kasper Kirkegaard, Senior Analyst, kaki@danskebank.com, +45 4513 70 18

EUR/SEK – the krona not yet overvalued

- **Growth.** 2013 is likely to be another year of sub-par growth for Sweden. However, signs of stabilisation suggest gradual improvement in the course of the year, which is likely to lend support to the pro-cyclical krona. Relative growth favours the downside in EUR/SEK.
- **Monetary policy.** We remove our April rate cut from the forecast and believe the Riksbank will keep the repo rate at 1% throughout the year and start raising rates in 2014. Relative monetary policy has become more supportive for the downside in EUR/SEK.
- **Fundamentals.** The fundamental backdrop, characterised by a huge current account surplus, relatively solid public finances and subdued inflation, suggests that SEK has potential to strengthen.
- **Flows.** Flows into 'high-quality' government bonds have partially reversed since last summer. Meanwhile equity-related inflows have risen. Commercial flows likely to cap the upside in EUR/SEK, USD/SEK and GBP/SEK.
- **Valuation.** From a long-term fundamental viewpoint the krona is NOT yet overvalued.
- **Risks.** Negative Swedish macro news. If the Riksbank contrary to our expectations lowers the repo rate further.

***Forecast:** 8.30 (3M), 8.30 (6M) and 8.20 (12M)*



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	8.40 (36%)	8.30 (28%)	8.30 (34%)	8.20 (31%)
Fwd. / Consensus	8.45 / 8.54	8.45 / 8.60	8.45 / 8.55	8.45 / 8.39
50% confidence int.	8.35 / 8.55	8.27 / 8.61	8.20 / 8.67	8.10 / 8.75
75% confidence int.	8.26 / 8.64	8.14 / 8.76	8.01 / 8.87	7.79 / 9.02

Source: Danske Bank Markets

Conclusion. While retaining our long-held bullish view on the krona, we choose to lower the forecast profile in EUR/SEK somewhat given the improved cyclical outlook for both the global and Swedish economy and given that we have revised our expectations on the Riksbank, no longer projecting a rate cut. The fundamental backdrop and thus medium-term outlook for the krona remains bullish for the krona. We set 3M to 8.30 (8.50), 6M to 8.30 (8.40) and 12M to 8.20 (8.40).

Stefan Mellin, Senior Analyst , mell@danskebank.com +46 (0)8 568 805 92

EUR/SEK – important issues to watch

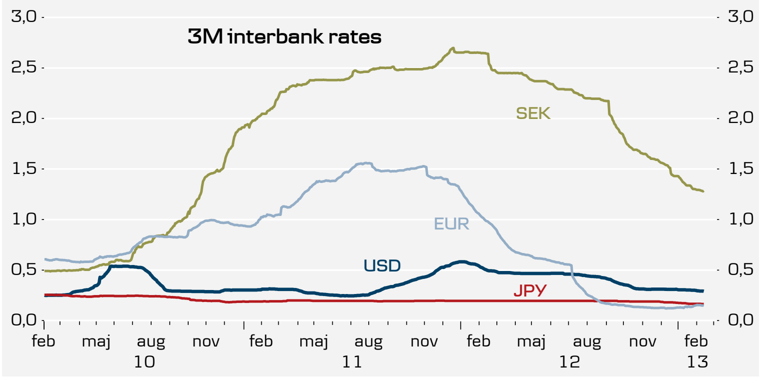
Riksbank is done cutting rates

- The Riksbank (RB) kept the 1.0% repo rate unchanged at its February meeting. It sees 'bright spots' and argues that the economy is slowly healing. Basically we agree. It is also clear that the RB will stay vigilant with respect to household debt. We have therefore removed our call for a final cut in April and see no more cuts in this cycle. The first rate hike is not imminent though but likely to materialise in 2014.
- Consequently, relative monetary policy has become more supportive for the krona. The RB stands out as 'non-dovish' and Swedish short rates offer positive carry in a zero-rate world.
- The currency is not a concern for the RB; 'current levels are fundamentally justified'. We agree and even see potential for more SEK strength going forward. Mr Ingves' comments suggest that the Riksbank will stay passive in the so-called currency war.

Foreign holdings of Swedish securities

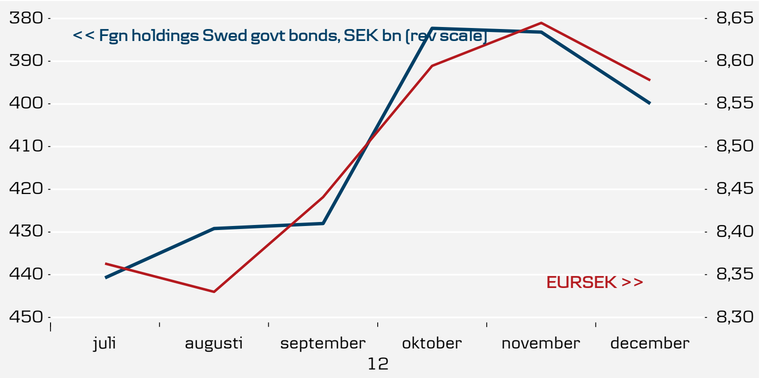
- Foreigners raised the stake in Swedish government bonds in December. The share of total outstanding rose to 55% (52.5). Appetite for Swedish quality is still there, despite reduction of euro tail risks. which supports our M/T bullish view on SEK.

SEK offers positive carry vs EUR, USD, JPY



Source: Reuters EcoWin, Danske Bank Markets

Foreigners raised stake in Swedish bonds



Source: Reuters EcoWin, Danske Bank Markets

Stefan Mellin, Senior Analyst , mell@danskebank.com +46 8 568 805 92

EUR/NOK – edging lower despite strong trade-weighted NOK

- **Growth.** Mainland GDP growth slowed to 0.3% q/q in Q4 reflecting that the Norwegian economy cooled off in the latter part of 2012. Especially, net trade was weaker than expected. Forward-looking indicators like PMI have improved and employment remains strong, which suggests that underlying demand is still healthy. Mainland GDP grew 3.5% in 2012 and we expect 3.3% growth in 2013. Oil investments will add approximately 0.8pp to mainland GDP growth in 2013.

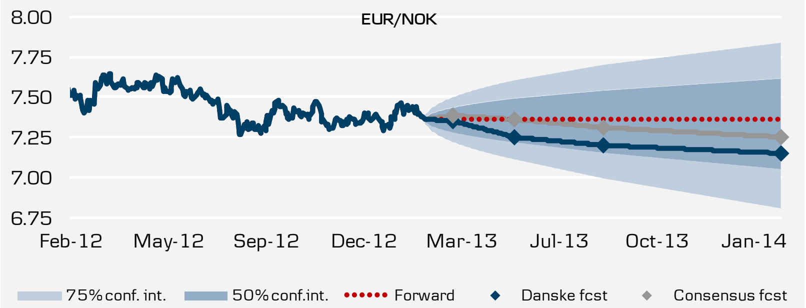
- **Monetary policy.** Norges Bank says that rates should be raised further out. We share that view and expect the first rate hike by December this year. However, very low inflation and the strong NOK point in the other direction.

- **Flows.** Norges Bank purchased a modest amount of foreign currency again in January and oil flows should be NOK positive in 2013. SNB might diversify into NOK in 2013.

- **Valuation.** NOK has become expensive with EUR/NOK PPP at 7.79 and I-44 at the lowest level ever.

- **Risks.** Norges Bank cutting rates due to a strong NOK.

***Forecast:** 7.25 (3M), 7.20 (6M) and 7.15 (12M)*



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	7.35 (47%)	7.25 (30%)	7.20 (29%)	7.15 (32%)
Fwd. / Consensus	7.36 / 7.39	7.36 / 7.36	7.36 / 7.31	7.36 / 7.25
50% confidence int.	7.28 / 7.44	7.22 / 7.49	7.16 / 7.54	7.05 / 7.62
75% confidence int.	7.22 / 7.50	7.11 / 7.60	7.00 / 7.70	6.81 / 7.84

Source: Danske Bank Markets

- **Conclusion.** We expect EUR/NOK to decline slowly towards 7.15 in 12 months supported by Norges Bank starting to hike rates, strong risk sentiment and diversification flows. We expect Norges Bank to raise rates eventually despite the strong NOK, underlining that Norwegian monetary policy is more or less out of sync with the rest of the world. 1M forecast is 7.35.

Arne Lohmann Rasmussen, Chief Analyst, arr@danskebank.com, +45 45 12 85 32

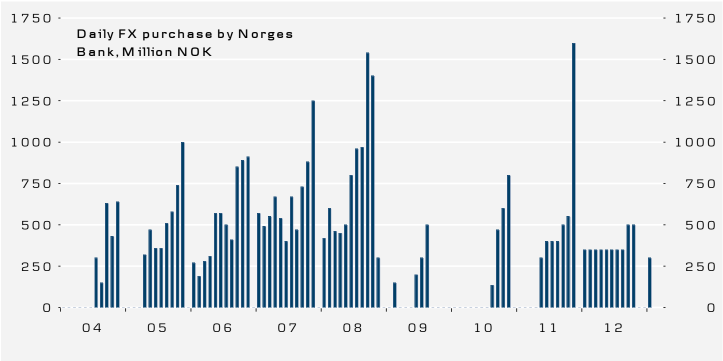
EUR/NOK – important issues to watch

- **Sentiment is currently very euro positive**
  The euro has been the big winner since the ECB said rates will not be cut and as EONIA rates have been pushed higher as banks have started to repay the LTRO money. Hence, relative rates may work for the euro in 2013, not least if contrary to our expectations Norges Bank does not hike, or even cut, rates given the low inflation and strong NOK. The trade-weighted NOK is record strong.

- **Reverse of safe-haven flows**
  There is a growing risk of a reversal of the safe-haven flows that supported NOK in 2012. If the global and euro sentiment improve further the risk of a sudden move out of NOK should not be underestimated. During the past couple of months we have e.g. seen a move out of AUD – another safe-haven light that reached a huge inflow in H1 12.

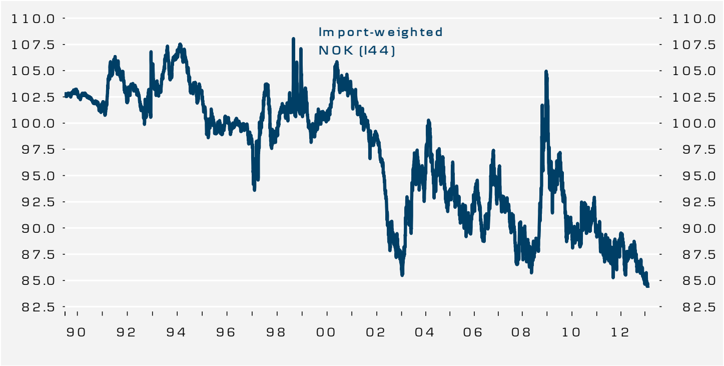
- **Norges Bank more actively targeting NOK**
  The trade-weighted NOK is record strong and inflation is very low. Hence, Norges Bank has the opportunity to target NOK more aggressively not least if the housing market cools. The latter could happen if the government introduces more new measures specifically targeting the housing market.

Modest FX purchases by NB expected in 2013



Source: Reuters EcoWin, Danske Bank Markets

Import-weighted NOK record strong

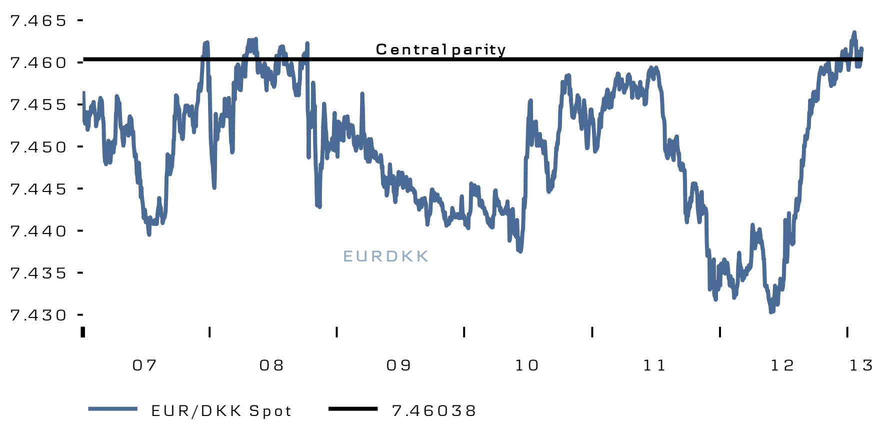


Source: Reuters EcoWin, Danske Bank Markets

EUR/DKK – to trade marginally above the central parity

- **The negative Danish deposit rate and less demand for safe-haven assets** have taken away the appreciation pressure on DKK seen in 2012 and EUR/DKK is now trading above central parity at 7.46038.
- **After the latest move higher in EUR/DKK,** Nationalbanken (NB) hiked its policy rates by 10bp on 24 January. The rate hike came after NB had intervened for DKK11.9bn in the market. Further intervention is likely at or just above the current level, which should limit the upside for EUR/DKK. Note that the intervention has been relatively modest over the past five months despite the move higher in EUR/DKK. Nationalbanken has sold foreign currency for the equivalent of DKK17,300m over the past five months.
- **The reaction function** of NB turned out - as we expected - to be fully symmetrical. Hence, first NB will intervene and subsequently policy rates will be hiked. Intervention of c.DKK10-20bn is likely to trigger a new independent Danish rate hike. The deputy governor of the Danish central bank, Per Callesen, underlined indeed in a Bloomberg interview on 2 November that the reaction function is symmetrical.

***Forecast:** 7.46 (3M), 7.46 (6M) and 7.46 (12M)*



Source: Reuters EcoWin, Danske Bank Markets

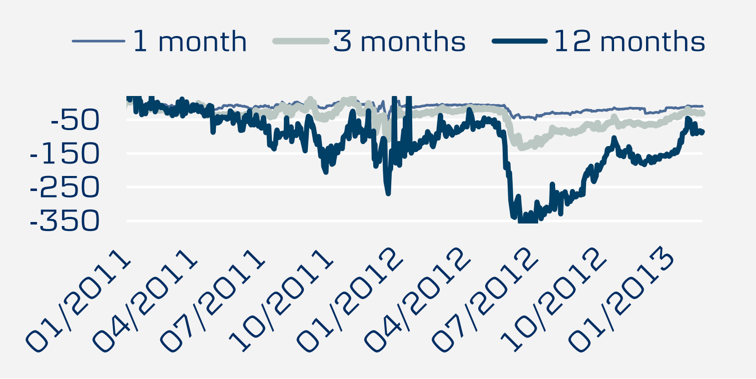
Conclusion. EUR/DKK is now trading slightly above the central parity. We think that EUR/DKK will – helped by intervention and rate hikes – be kept at the current level in 2013. Hence, the potential for further upside in EUR/DKK is limited, as we still expect NB to favour EUR/DKK very close to the central parity. We do not expect to see a strong new inflow into DKK in 2013 and a 'strong move' below 7.46 as in 2012 is not expected.

Arne Lohmann Rasmussen, Chief Analyst, arr@danskebank.dk, +45 45 12 85 32

EUR/DKK fwds – hedge EUR asset/income with long tenors

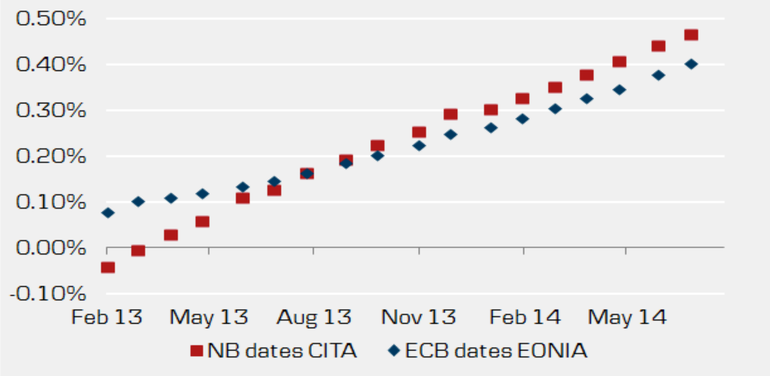
- **The forward discount** in EUR/DKK has continued to tighten this year as the market has started to price in independent Danish rate hikes and the cross-currency basis has moved less in disfavour of DKK. The market has now more or less normalised the EUR/DKK forward curve. It reflects that the market now expects that the CITA rate during 2013 will trade above corresponding EONIA rates (see graph to the right).
- We have long argued for this tightening of EUR/DKK forwards but we think the pricing of the Danish CITA forward curve has now become stretched. We strongly doubt that CITA rates will rise this rapidly relative to EONIA rates and that 1M CITA rates will move above 1M EONIA rates as early as H2 13. In DKK forwards – implications of the euro liquidity drain we recommend to hedge EUR assets/income using long EUR/DKK tenors. We see 1) a risk that Nationalbanken will not deliver the expected rate hikes, 2) it is 'cheaper' seen from a carry-perspective , 3) the forward discount might widen again in a risk-off move or due to half-year or year-end turn premium.

Fwd. discount in EUR/DKK has tightened further, pips



Source: Reuters EcoWin, Danske Bank Markets

Aggressive hike expectations in Denmark*



*Source: Danske Bank Markets. *) The graph shows an approximation of 1M CITA and 1M EONIA forward rates*

Arne Lohmann Rasmussen, Chief Analyst, arr@danskebank.dk, +45 45 12 85 32

Danske Bank Markets

USD/CAD – less hawkish BoC but still decent fundamentals

- **Growth.** Canadian data has deteriorated lately – not least relative to the US flow. Notably, Canada's inflation, employment growth and building permits have all come in weaker than projected.

- **Monetary policy.** The Bank of Canada (BoC) has maintained its overnight lending rate at 1.00% for the past two years and has indicated that rates will need to be raised at some point. However, in January, BoC adopted a less hawkish stance on the back of recent data deterioration. Carney leaving for BoE should not induce a significant change in BoC policy.

- **Flows.** Speculators have shredded CAD longs on a large scale over the past month, paving the way for new longs to be put on if newsflow improves.

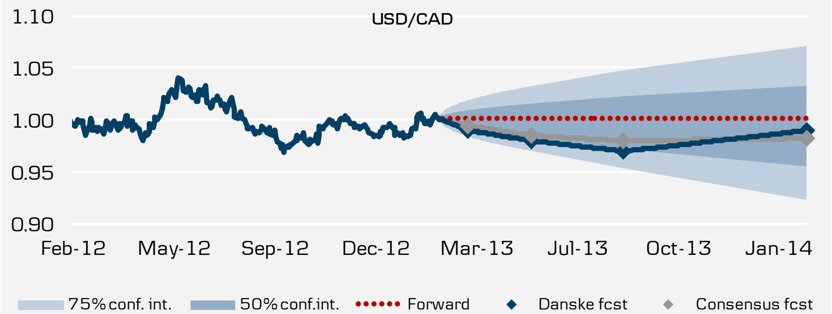
- **Valuation.** CAD is expensive on PPP measures, albeit less so than e.g. AUD.

- **Commodities.** We look for oil prices to stay elevated in the near term, supporting Canada's terms of trade, but we see weakness in oil prices at the end of 2013.

- **Risks.** The fact that the euro has moved into favour of speculators again could continue to weigh on the some of the proxy safe-haven currencies such as CAD. US fiscal uncertainty could support USD temporarily.

Christin Tuxen, Senior Analyst, tux@danskebank.dk, +45 45 13 78 67

***Forecast:** 0.98 (3M), 0.97 (6M) and 0.99 (12M)*



USD/CAD	1M	3M	6M	12M
Forecast (pct'ile)	0.99 (22%)	0.98 (21%)	0.97 (22%)	0.99 (48%)
Fwd. / Consensus	1.00 / 0.99	1.00 / 0.99	1.00 / 0.98	1.00 / 0.98
50% confidence int.	0.99 / 1.01	0.98 / 1.02	0.97 / 1.02	0.96 / 1.03
75% confidence int.	0.98 / 1.02	0.97 / 1.03	0.95 / 1.05	0.92 / 1.07

Source: Danske Bank Markets

Conclusion. Canada stands to benefit from a US recovery, which we see materialising during H1. Combined with a risk relief rally in Q1, this should be a positive environment for CAD. In addition, BoC will be a lone rider among central banks with its tightening bias despite recent softness and CAD could thus continue to attract investor interest. However, support to CAD from BoC has diminished as the housing sector is starting to cool. Later in the year the pricing of a Fed exit could support USD/CAD but at a time where BoC rate hikes should also move closer so upside limited.

AUD/USD – Chinese support but carry trade review weighs

- **Growth.** Australian data has continued to deteriorate with notably inflation and retail sales weaker than expected. But the Chinese growth rebound bodes well for H1 as evidenced by the pick-up in iron ore exports.

- **Monetary policy.** The Reserve Bank of Australia (RBA) maintained its cash target rate at 3.00% in early February despite speculation a cut may be on the cards. We still think the RBA will stay in easing mode in the near future and will deliver at least one (and probably two) more cuts on a 12M horizon.

- **Flows.** Speculative longs in AUD rose in Q4 and remain at elevated levels. Government finances are vigorous and Australia has a higher sovereign rating than e.g. New Zealand.

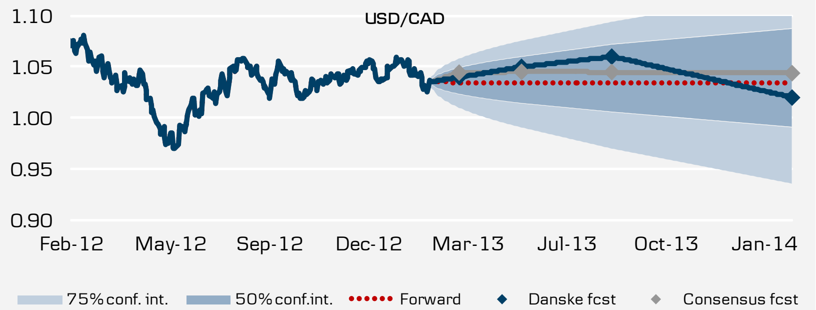
- **Valuation.** AUD/USD remains overvalued by PPP measures and an eventual end to the resource boom highlights the downside risks.

- **Commodities.** Terms of trade should stay favourable in the near term as we expect metals to be in for a rebound as China continues to recover. But the end of the structural commodities super-cycle is moving closer.

- **Risks.** Should the stabilisation in China fail to materialise, AUD is set to suffer.

Christin Tuxen, Senior Analyst, tux@danskebank.dk, +45 45 13 78 67

Forecast: *1.05 (3M), 1.06 (6M) and 1.02 (12M)*



AUD/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.04 (57%)	1.05 (63%)	1.06 (65%)	1.02 (36%)
Fwd. / Consensus	1.03 / 1.04	1.03 / 1.05	1.03 / 1.04	1.03 / 1.04
50% confidence int.	1.02 / 1.05	1.01 / 1.06	1.01 / 1.07	0.99 / 1.09
75% confidence int.	1.01 / 1.06	0.99 / 1.08	0.97 / 1.09	0.94 / 1.12

Source: Danske Bank Markets

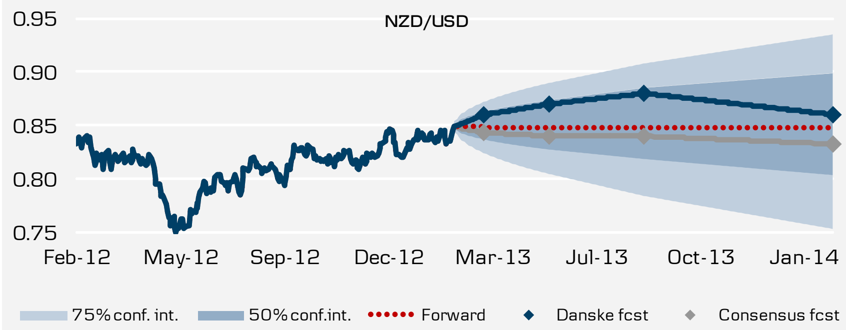
Conclusion. A stabilisation in China should prove a positive for AUD in H1. Although the RBA is in easing mode still, the current environment of major central banks easing – headed by the Fed – should stay a positive for carry trades and hence benefit AUD. Still, with the euro increasingly favoured by speculators, global carry trades are under review. This could weigh on a long-term carry favourite such as AUD. Also, H2 13 looks challenging as the risk of a structural slowdown in Asia coupled with a likely end to the decade-long commodities super-cycle looms. Thus AUD/USD could come under pressure towards the end of the year.

NZD/USD – reconstruction boom set to boost growth

- **Growth.** Economic data out of New Zealand has improved markedly in recent weeks with not least the business PMI jumping well into expansion territory. Crucially, reconstruction is set to peak at a higher level and take longer than previously.
- **Monetary policy.** The Reserve Bank of New Zealand (RNBZ) has kept rates at 2.50% since the earthquake-related cut early in 2011. The RBNZ surprised with a less dovish bias at the December meeting underlining that rate cuts are not around the corner. The new RBNZ governor Wheeler has explicitly said that he 'wishes to see a lower exchange rate'; however, the country's finance minister English has dismissed intervention as an option for now.
- **Flows.** Speculative longs have declined somewhat and are now at stretched levels.
- **Valuation.** NZD is heavily overvalued in PPP terms.
- **Commodities.** Livestock prices have surged recently as the past rise in grain prices starts to feed through.
- **Risks.** RBNZ may be looking to weaken NZD through intervention if the conditions prove favourable. Also, if RBA cuts more aggressively than we currently project, RBNZ may follow suit.

Christin Tuxen, Senior Analyst, tux@danskebank.dk, +45 45 13 78 67

***Forecast:** 0.87 (3M), 0.88 (6M) and 0.86 (12M)*



NZD/USD	1M	3M	6M	12M
Forecast (pct'ile)	0.86 (69%)	0.87 (71%)	0.88 (71%)	0.86 (53%)
Fwd. / Consensus	0.85 / 0.84	0.85 / 0.84	0.85 / 0.84	0.85 / 0.83
50% confidence int.	0.84 / 0.86	0.83 / 0.87	0.82 / 0.89	0.80 / 0.90
75% confidence int.	0.82 / 0.87	0.80 / 0.89	0.78 / 0.91	0.75 / 0.93

Source: Danske Bank Markets

Conclusion. There is increasing uncertainty regarding RBNZ policy with the new governor looking at the monetary policy toolbox with an open mind, but RBNZ policy has shifted in a more hawkish direction as the bank is alert to the inflationary effects of an extensive and prolonged reconstruction boom. NZD could benefit from carry positions and decent risk appetite in H1. Still, the threat of intervention should cap NZD strength. Relative to AUD the medium-term outlook for NZD is thus constructive as reconstruction supports NZD whereas the mining boost may cease for AUD.

EUR/PLN – weak economy weighs on zloty

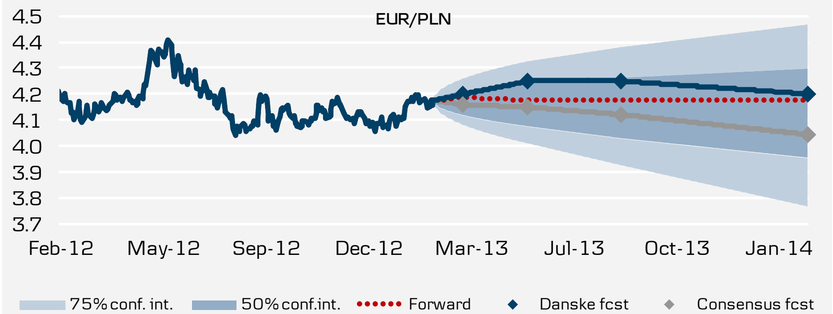
- **Growth:** Growth in the Polish economy slowed gradually in 2012. The slowdown in growth was particularly harsh in terms of domestic demand. We expect economic activity to remain subdued this year but we expect GDP growth to pick up speed in 2014 to average 2.9%.

- **Monetary policy:** The Polish central bank (NBP) has initiated an easing cycle. Despite fairly cautious communication from key NBP policymakers on the outlook for more monetary easing, we strongly believe that the relative sharp slowdown in Polish growth warrants additional rate cuts in Poland – also taking into account that we expect Polish inflation to ease further going forward. If anything, the NBP needs to do more and not less monetary easing, in our view. The realities of the Polish economy will therefore sooner or later force the NBP to continue the rate cutting cycle throughout 2013 and we expect the key policy rate to be cut to 3.00% by the end of the year.

- **Valuation**: The zloty is trading close to its fair value level, so valuation is unlikely to pose any significant hindrance to its continued near-term appreciation.

- **Risks:** The major risk is that the slowdown in the Polish economy becomes larger than currently expected by the market. That could certainly weigh on the zloty in the medium term (3-6 months).

Forecast: *4.25 (3M), 4.25 (6M) and 4.20(12M)*



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.2 (61%)	4.3 (76%)	4.3 (72%)	4.2 (61%)
Fwd. / Consensus	4.2 / 4.2	4.2 / 4.2	4.2 / 4.1	4.2 / 4.0
50% confidence int.	4.1 / 4.2	4.1 / 4.2	4.0 / 4.3	4.0 / 4.3
75% confidence int.	4.1 / 4.3	4.0 / 4.3	3.9 / 4.4	3.8 / 4.5

Source: Danske Bank Markets

Conclusion: The zloty has lost some ground against the euro recently. That mostly reflects a stronger euro rather than a weaker zloty but nonetheless there is no doubt that increased worries about the outlook for Polish growth are weighing in the zloty – despite NBP's stance of not signalling too aggressive further rate cuts. The technical picture has turned decisively more negative on the zloty recently, which is likely to continue to weigh on the currency in the near term. We therefore expect the zloty to remain 'soft' in the coming three to six months but it should regain a little ground in the medium term, six to 12 months.

Lars Christensen, Chief Analyst, larch@danskebank.com, +45 4512 85 30

EUR/HUF – monetary policy uncertainties weigh on HUF

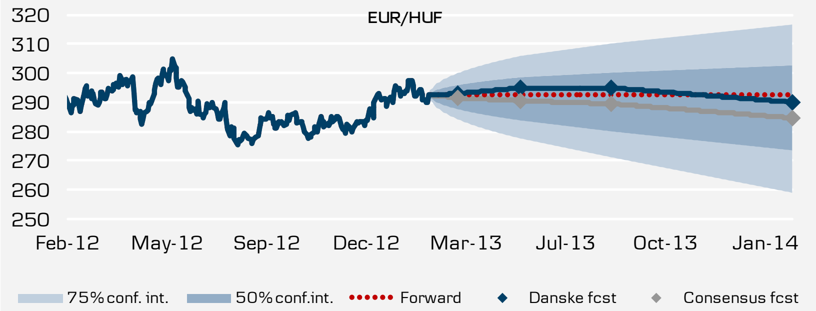
- **Growth:** Very weak domestic demand and lacklustre export growth weigh on the Hungarian economy. Continued political 'noise' is certainly not helping. In addition, the demand side of the economy is worsening at the moment. Hungarian GDP contracted by 1.6% in 2012. Looking into 2013 and 2014, we expect GDP to be more or less flat this year and to grow by 1.1% in 2014. The risk to our forecast is rather squeezed to the downside.

- **Monetary policy:** The outlook for monetary policy has become even more uncertain recently. It is clear that the doves on the Hungarian central bank's (MNB) Monetary Council – who are mostly government appointed – have taken over control of monetary policy. Additionally, very soon a new MNB governor will be appointed and he is likely to be more dovish than outgoing governor, Andras Simor. Therefore, all indications are that we will get additional rate cuts despite the fact that inflation is still above the MNB's target.

- **Valuation**: Inflation could potentially become a valuation issue in the medium term.

- **Risks:** Excessive monetary easing combined with political worries and the euro are the key risks to the forint.

Forecast: *2.95(3M), 2.95 (6M) and 2.90 (12M)*



EUR/HUF	1M	3M	6M	12M
Forecast (pct'ile)	293 (57%)	295 (64%)	295 (63%)	290 (53%)
Fwd. / Consensus	292 / 292	293 / 291	293 / 290	293 / 285
50% confidence int.	288 / 296	284 / 299	280 / 300	274 / 303
75% confidence int.	284 / 301	278 / 306	271 / 310	259 / 317

Source: Danske Bank Markets

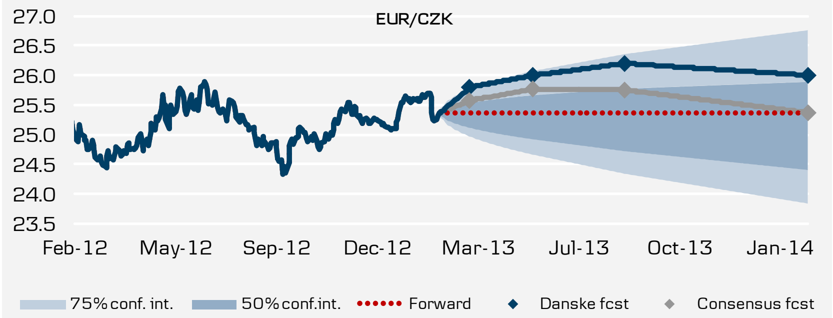
Conclusion: The forint has performed surprisingly poorly recently, reflecting investor concerns over who will be appointed new MNB governor, still lacklustre economic performance in Hungary and the general euro strengthening trend. Nonetheless, Hungarian interest rates are still relatively high – despite continued rate cuts. That makes carry trades in the forint attractive. Finally, Hungarian external balances are fairly strong. That will all help stabilise the forint in the medium term and we therefore expect that the forint will not weaken much more against the euro on a 6-12 month horizon.

Lars Christensen, Chief Analyst, larch@danskebank.com, +45 4512 85 30

EUR/CZK – verbal intervention on the agenda

- **Growth:** The outlook for the Czech economy is gloomy. It remained in recession throughout 2012, with average GDP growth contracting by 1.1%. Looking to the next three years, we believe the economy will struggle to reach sustained economic growth. In the best-case scenario economic growth in 2013 is flat (GDP growth around 0.0%) and in the worst-case scenario the economy remains in recession. According to our estimates, 2014 GDP growth will remain below 2%, or more precisely around 1.5%. We expect 2015 GDP also to be below 2%, at around 1.7%.
- **Monetary policy:** After exhausting standard monetary policy tools, the CNB said on many occasions that it will use the FX channel if further monetary easing is needed. However, at the latest monetary policy board meeting in February the governor Miroslav Singer said that further monetary easing is less urgent given the recent CZK weakening. In our view, such strong wording was a clear signal to the markets that the CNB is not as close to FX intervention as speculated.
- **Debt risks:** Debt risks are low. The Czech government forecasts the public finance deficit will be below 3% this year.
- **Valuation:** On a long-term perspective, the CZK is undervalued (fair value is around 22.2).
- **Risks**: Intervention risks in connection with further monetary easing,

Forecast: 26.0 (3M), 26.2 (6M) and 26.0 (12M)



EUR/CZK	1M	3M	6M	12M
Forecast (pct'ile)	25.8 (88%)	26.0 (85%)	26.2 (84%)	26.0 (77%)
Fwd. / Consensus	25.4 / 25.6	25.4 / 25.8	25.4 / 25.8	25.4 / 25.4
50% confidence int.	25.1 / 25.6	24.9 / 25.7	24.7 / 25.8	24.4 / 25.9
75% confidence int.	24.9 / 25.8	24.7 / 26.1	24.3 / 26.4	23.8 / 26.8

Source: Danske Bank Markets

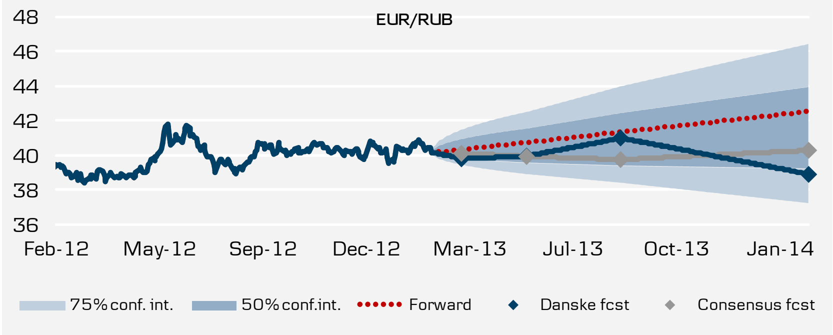
Conclusion: The Czech koruna rallied around 1.0% against the euro on the hawkish comment from the CNB governor. On the back of the hawkish CNB, we scale back our expectations of possible imminent FX intervention at this moment. That said, we expect the CNB to step up its rhetoric again quite soon and start intervening verbally to prevent the CZK from further strengthening. We maintain our bearish view on the CZK over our forecast horizon but at the same time we do not think the CNB would be that aggressive if it were to weaken the CZK though FX intervention. Therefore, we have adjusted our CZK forecast.

Stanislava Pravdová-Nielsen , Analyst, spra@danskebank.com, +45 45 12 80 71

EUR/RUB – is it a currency war?

- **Growth.** Russian economic growth continued to slow in Q4 12, bringing full-year 2012 growth to 3.4% year-on-year. Expansion slowed during the second half of the year on rising inflation, poor agricultural output and slowing private consumption growth. We expect 2013 GDP growth to remain close to the 2012 figure at 3.5% y/y.
- **Monetary policy.** Bank Rossii left its key rates unchanged on 12 February (refi rate at 8.25% as expected). Based on the comments, a rate cut in March-April is now less likely. Even though the current inflation drivers cannot be effectively tamed by high rates, Bank Rossii is trying to continue credible monetary policy to keep inflation expectations under control.
- **Flows.** Capital outflows were USD56.8bn in 2012 versus almost USD81bn in 2011 and we expect them to slow to USD55bn in 2013. We expect larger inflows in 2013 as foreign investors have got access to the local bond market.
- **Valuation.** EUR/RUB is trading below its 1M average of 40.49 and downside risk has not vanished.
- **Risks.** Strong risk-off sentiment amid escalation of eurozone problems and uncertainties about sequestration in the US in early March are the most likely factors that could shake the rouble.

***Forecast:** 39.95 (3M), 41.00 (6M) and 38.90 (12M)*



EUR/RUB	1M	3M	6M	12M
Forecast (pct'ile)	40 (25%)	40 (35%)	41 (53%)	39 (21%)
Fwd. / Consensus	40 / 40	41 / 40	41 / 40	43 / 40
50% confidence int.	40 / 41	40 / 42	39 / 42	39 / 44
75% confidence int.	39 / 41	39 / 43	38 / 44	37 / 46

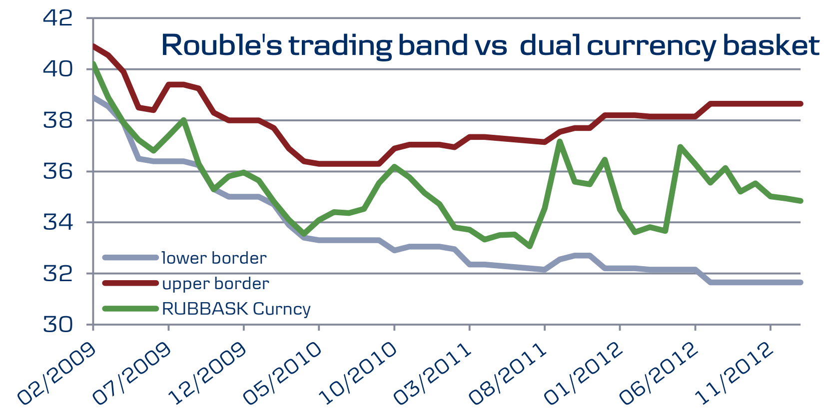
Source: Danske Bank Markets

- **Conclusion.** Bank Rossii continues to stand firmly behind its inflation targeting and it seems that the bank tries 'invisibly' to weaken the rouble through small interventions. Despite Bank Rossii's condemnation of currency wars worldwide, we suspect that it is what the central bank is doing, albeit on a tiny scale.
- Bank Rossii makes it clear that economic output is close to its potential. In addition, it continues to monitor closely credit growth and will tighten regulations to avoid further bad loan growth in the banking system.

Vladimir Miklashevsky, Economist, vlmi@danskebank.com, +358 10 546 75 22

EUR/RUB – important issues to watch

- **Better flexibility, higher volatility and local bond market liberalisation**
  - RUB's volatility is set to increase in 2013, allowing the Russian currency to depreciate more than before on global risk sentiment changes and oil price moves. The band-widening policy is likely to continue, allowing the corridor to expand by one RUB every six months. We expect the next expansion in H1 13.
  - Bank Rossii has been reducing its currency interventions and keeping a close eye on market liquidity in the uncertain global environment. However, a weaker rouble looks attractive for Russian export sectors. As globally large economies are trying to push down their currencies, Russia's central bank does not want to watch it from the sideline, intervening from time to time.
  - The local bond market is open for foreign investors: on 7 February Euroclear started OTC settlements of Russian sovereigns. In March it starts operations in the exchange. We expect RUB800bn inflows into the market during the next 12-18 months, which will be rouble supportive.



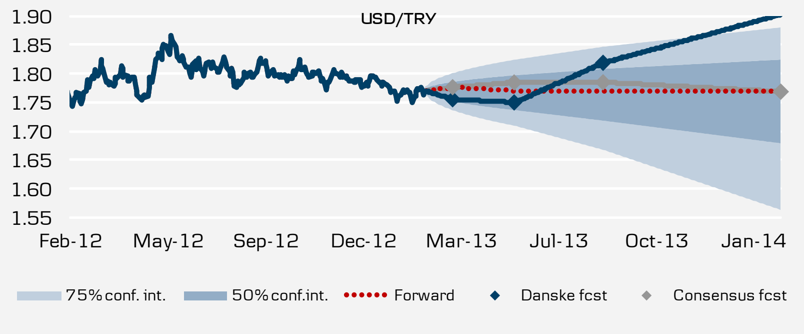
Source: Bank Rossii, Bloomberg, Danske Bank Markets

Vladimir Miklashevsky, Economist, vlmi@danskebank.com, +358 10 546 75 22

USD/TRY – a victim of uncertain macro

- **Growth.** The start of 2013 has been soft: despite a sharp fall in consumer confidence, industrial confidence has scored some points. Rising inflation is the main disappointment which may easily lead to tighter monetary stance already before summer 2013.
- **Monetary policy.** Although supportive for GDP growth, easing monetary policy is pushing prices up, which contradicts Turkey's central bank's target. The central bank expects 2013 CPI to decline to 5.3% y/y from 7.3% y/y currently. We expect the monetary authorities to stay on hold at the next meeting.
- **Flows.** The current account deficit widened to less-than-expected USD4.7bn in December 2012, which supported the TRY on the day of release.
- **Valuation.** USD/TRY is trading around the 1M average, but volatility has been increasing. In a month the TRY gained and lost 1.8% against the US dollar as macro releases are offsetting the trends.
- **Risks.** Risk-off sentiment risk persists together with a slowdown in the global economy. New escalation of euro-zone woes could trigger a run from assets in emerging markets. Downside risk for USD/TRY comes from the US sequestration uncertainties in March 2013.

***Forecast:** 1.75(3M), 1.82(6M) and 1.90(12M)*



USD/TRY	1M	3M	6M	12M
Forecast (pct'ile)	1.76 (21%)	1.75 (34%)	1.82 (79%)	1.90 (90%)
Fwd. / Consensus	1.78 / 1.78	1.77 / 1.78	1.77 / 1.79	1.77 / 1.77
50% confidence int.	1.76 / 1.79	1.74 / 1.80	1.72 / 1.81	1.68 / 1.82
75% confidence int.	1.75 / 1.80	1.71 / 1.82	1.67 / 1.85	1.56 / 1.88

Source: Danske Bank Markets

Conclusion. In late January/early February 2013, the USD/TRY has been moving around its one-month average. Stability has been reached by offsetting economic data. It seems that the same story persisted throughout 2012 We still expect the current account deficit to stay wide and external risks to keep USD/TRY under pressure in 2013.

Vladimir Miklashevsky, Economist, vlmi@danskebank.com, +358 10 546 75 22

USD/ZAR – large external imbalances weigh on ZAR

- **Growth:** Q3 12 GDP growth showed a considerable slowdown. The main drag on growth came from the mining sector due to work stoppages on the back of strikes in platinum, gold and other mines. We expect GDP growth around 2.3% in 2013. In 2014 and 2015, we believe the South African economy will also operate below its potential.

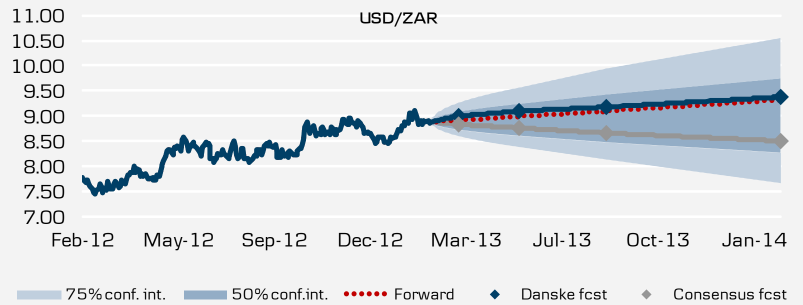
- **Monetary policy:** The South African central bank (SARB) left the key policy rate on hold at 5.0% in January. The statement was overall balanced. While the central bank still views the downside risks to the domestic economy from the global economy, persistent inflation risks remain on the upside, due mainly to wage cost pressures and the exchange rate. Considering the continued risks to the ZAR from domestic labour unrest, other upside risks to inflation and last but not least the widening of the current account deficit, we believe the door for further monetary easing has been closed. We therefore expect the SARB to stay on hold throughout 2013.

- **Debt risks:** The South African government raised the projected budget deficit to 4.8% in 2012/13 (from 4.6%). Fitch lately cut the South African credit rating on, among other things, the widening of the budget deficit.

- **Valuation**: The ZAR remains fundamentally overvalued (fair value around 9.90).

- **Risks:** Loss of investor confidence due to intensified socio-economic problems, further downgrade by the rating agencies.

***Forecast:** 9.10 (3M), 9.18 (6M) and 9.38 (12M)*



USD/ZAR	1M	3M	6M	12M
Forecast (pct'ile)	9.00 (67%)	9.10 (66%)	9.18 (64%)	9.38 (65%)
Fwd. / Consensus	8.92 / 8.83	8.99 / 8.76	9.10 / 8.66	9.32 / 8.50
50% confidence int.	8.72 / 9.06	8.61 / 9.24	8.48 / 9.43	8.28 / 9.75
75% confidence int.	8.59 / 9.23	8.39 / 9.57	8.14 / 9.95	7.67 / 10.55

Source: Danske Bank Markets

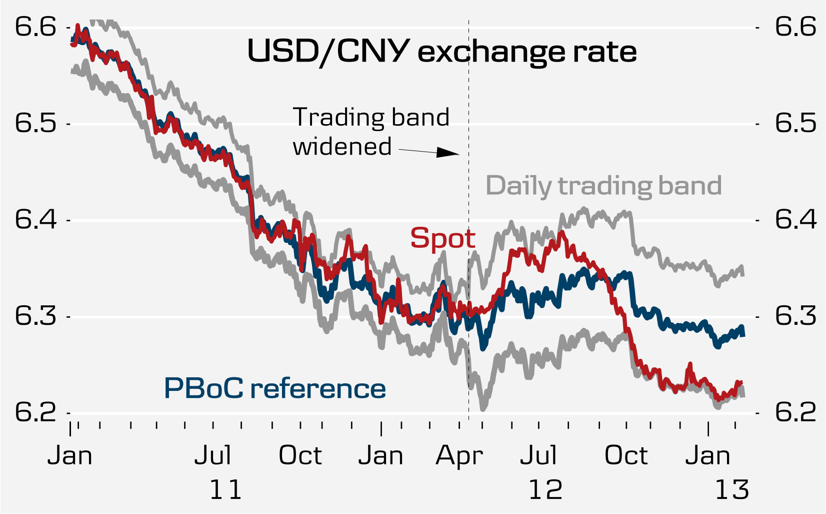
Conclusion: Even though the ZAR has experienced a relief following the strong sell-off seen at the end of January, it still remains very vulnerable to any shift in risk appetite and to domestic newsflow. Given the large external imbalances, unresolved structural problems in the economy and the ZAR's continued fundamental overvaluation, we remain bearish on the ZAR over our forecast horizon.

Stanislava Pravdová-Nielsen , Analyst, spra@danskebank.com, +45 45 12 80 71

USD/CNY – only moderate appreciation from here

- **Growth.** We expect the Chinese economy to continue to recover moderately in the coming months supported by stronger domestic demand. The property market has improved markedly since May last year and the tail risk of a collapse in the property market has declined substantially.
- **Monetary policy**. We expect inflation to increase moderately to around 3% y/y by year-end and People's Bank of China (PBoC) might move towards a tightening bias at some stage in H2 13. Signs of accelerating house prices and very strong credit growth have increased the likelihood of imminent monetary tightening.
- **FX policy**. Since the daily trading band was widened in April last year PBoC has been more reluctant to intervene in the FX market. China is quickly moving towards a floating exchange rate and convertible currency. We expect more two-way volatility in the exchange rate.
- **Valuation.** Fundamentally CNY is, in our view, now only slightly undervalued (about 7%).
- **Risks:** Liberalisation of capital flows out of China could add to depreciation pressure. Weaker JPY could also at some stage be a concern for the Chinese government.

Forecast: *6.24 (3M), 6.20 (6M) and 6.15 (12M)*



Source: Danske Bank Markets

Conclusion. Fundamentally CNY is only slightly undervalued and with more two-way volatility now allowed, USD/CNY should be less of a one-sided bet and more dependent on market flows. We still expect CNY to appreciate moderately but see a possibility of short-term weakness in Q1 when China's trade surplus is usually small and a negative impact from weaker JPY could occur.

Flemming Jegbjærg Nielsen, Senior Analyst, flemm@danskebank.com, +45 45 12 85 35

Danske Bank Markets FX forecasts

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs EUR									
USD	1.333	1.35	1.36	1.38	1.34	1.2	1.9	3.4	0.3
JPY	124.5	126	129	132	134	1.2	3.6	6.0	7.8
GBP	0.860	0.87	0.88	0.90	0.88	1.1	2.2	4.5	2.0
CHF	1.230	1.24	1.26	1.26	1.23	0.8	2.4	2.5	0.3
DKK	7.46	7.46	7.46	7.46	7.46	0.0	0.0	0.1	0.1
NOK	7.36	7.35	7.25	7.20	7.15	-0.3	-2.0	-3.1	-4.6
SEK	8.46	8.40	8.30	8.30	8.20	-0.8	-2.2	-2.4	-4.1
Exchange rates vs USD									
JPY	93.4	93	95	96	100	0.0	1.6	2.6	7.5
GBP	1.55	1.55	1.55	1.53	1.52	0.1	-0.3	-1.0	-1.6
CHF	0.92	0.92	0.93	0.91	0.92	-0.4	0.5	-0.8	0.0
DKK	5.60	5.53	5.49	5.41	5.57	-1.2	-1.9	-3.2	-0.2
NOK	5.52	5.44	5.33	5.22	5.34	-1.5	-3.8	-6.3	-4.9
SEK	6.35	6.22	6.10	6.01	6.12	-2.0	-4.0	-5.6	-4.4
CAD	1.00	0.99	0.98	0.97	0.99	-1.3	-2.4	-3.6	-2.1
AUD	1.03	1.04	1.05	1.06	1.02	0.9	2.3	3.9	1.3
NZD	0.85	0.86	0.87	0.88	0.86	1.7	3.3	5.1	4.0

Note: GBP, AUD and NZD are denominated in local currency rather than USD

Source: Danske Bank Markets

Danske Bank Markets FX forecasts vs DKK

		Forecast				Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs DKK									
EUR	7.46	7.46	7.46	7.46	7.46	0.0	0.0	0.1	0.1
USD	5.60	5.53	5.49	5.41	5.57	-1.2	-1.9	-3.2	-0.2
JPY	5.99	5.92	5.78	5.65	5.57	-1.2	-3.5	-5.7	-7.2
GBP	8.68	8.57	8.48	8.29	8.48	-1.1	-2.1	-4.2	-1.8
CHF	6.06	6.02	5.92	5.92	6.07	-0.8	-2.4	-2.4	-0.1
NOK	1.01	1.01	1.03	1.04	1.04	0.3	2.0	3.2	4.8
SEK	0.88	0.89	0.90	0.90	0.91	0.8	2.3	2.5	4.3
CAD	5.58	5.58	5.60	5.57	5.62	0.1	0.6	0.4	1.9
AUD	5.78	5.75	5.76	5.73	5.68	-0.4	0.4	0.6	1.1
NZD	4.74	4.75	4.77	4.76	4.79	0.4	1.4	1.7	3.8
PLN	1.79		1.76	1.76	1.78		-0.9	-0.1	2.4
CZK	0.29		0.29	0.28	0.29		-2.4	-3.1	-2.4
HUF	0.26		0.25	0.25	0.26		0.3	1.2	4.3
RUB	0.19		0.19	0.18	0.19		2.0	0.9	9.0

Source: Danske Bank Markets

Danske Bank Markets FX forecasts vs SEK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	8.46	8.40	8.30	8.30	8.20	-0.8	-2.2	-2.4	-4.1
USD	6.35	6.22	6.10	6.01	6.12	-2.0	-4.0	-5.6	-4.4
JPY	6.80	6.67	6.43	6.29	6.12	-2.0	-5.6	-8.0	-11.0
GBP	9.84	9.66	9.43	9.22	9.32	-2.0	-4.3	-6.6	-5.9
CHF	6.88	6.77	6.59	6.59	6.67	-1.6	-4.5	-4.8	-4.3
NOK	1.15	1.14	1.14	1.15	1.15	-0.5	-0.2	0.6	0.5
DKK	1.13	1.13	1.11	1.11	1.10	-0.8	-2.2	-2.5	-4.2
CAD	6.33	6.29	6.23	6.20	6.18	-0.8	-1.7	-2.1	-2.3
AUD	6.56	6.47	6.41	6.38	6.24	-1.2	-1.8	-1.9	-3.1
NZD	5.38	5.35	5.31	5.29	5.26	-0.4	-0.9	-0.8	-0.4
PLN	2.03		1.95	1.95	1.95		-3.1	-2.6	-1.7
CZK	0.33		0.32	0.32	0.32		-4.6	-5.5	-6.5
HUF	0.29		0.28	0.28	0.28		-1.9	-1.2	0.2
RUB	0.21		0.21	0.20	0.21		-0.2	-1.5	5.0

Source: Danske Bank Marrkets

Danske Bank Markets FX forecasts vs NOK

		Forecast				Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs NOK									
EUR	7.36	7.35	7.25	7.20	7.15	-0.3	-2.0	-3.1	-4.6
USD	5.52	5.44	5.33	5.22	5.34	-1.5	-3.8	-6.3	-4.9
JPY	5.91	5.83	5.62	5.45	5.34	-1.5			
GBP	8.56	8.45	8.24	8.00	8.13	-1.4	-4.1	-7.2	-6.4
CHF	5.98	5.93	5.75	5.71	5.81	-1.1	-4.3	-5.4	-4.8
SEK	0.87	0.88	0.87	0.87	0.87	0.5	0.2	-0.6	-0.5
DKK	0.99	0.99	0.97	0.97	0.96	-0.3	-2.0	-3.1	-4.6
CAD	5.51	5.50	5.44	5.38	5.39	-0.2	-1.4	-2.7	-2.8
AUD	5.71	5.66	5.60	5.53	5.44	-0.7	-1.6	-2.5	-3.5
NZD	4.68	4.68	4.64	4.59	4.59	0.1	-0.7	-1.4	-0.9
PLN	1.76		1.71	1.69	1.70		-2.9	-3.2	-2.2
CZK	0.29		0.28	0.27	0.28		-4.4	-6.1	-7.0
HUF	0.25		0.25	0.24	0.25		-1.7	-1.9	-0.3
RUB	0.18		0.18	0.18	0.18		0.1	-2.1	4.5

Source: Danske Bank Markets

EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	**13-Feb**	**4.15**		**3.09**		**179.7**		**203.6**		**177.4**	
	+1M	4.20	4.17	3.11	3.10	177.6		204.8	203.0	173.8	
	+3M	4.25	4.19	3.13	3.11	175.5	178.0	200.0	202.2	169.4	176.5
	+6M	4.25	4.22	3.08	3.14	175.5	176.6	197.6	201.1	168.2	175.9
	+12M	4.20	4.28	3.13	3.18	177.6	174.0	200.0	199.4	169.0	175.0
HUF	**13-Feb**	**290**		**215**		**2.57**		**2.92**		**2.54**	
	+1M	293	291.1	217	216.4	2.55		2.94	2.91	2.49	
	+3M	295	293.2	217	217.9	2.53	2.54	2.88	2.89	2.44	2.52
	+6M	295	296.0	214	219.9	2.53	2.52	2.85	2.87	2.42	2.51
	+12M	290	300.2	216	222.8	2.57	2.48	2.90	2.84	2.45	2.50
CZK	**13-Feb**	**25.3**		**18.8**		**29.4**		**33.4**		**29.1**	
	+1M	25.8	25.4	19.1	18.8	28.9		33.3	33.4	28.3	
	+3M	26.0	25.4	19.1	18.8	28.7	29.4	32.7	33.4	27.7	29.2
	+6M	26.2	25.3	19.0	18.8	28.5	29.4	32.1	33.5	27.3	29.3
	+12M	26.0	25.3	19.4	18.8	28.7	29.4	32.3	33.7	27.3	29.6
RUB	**13-Feb**	**40.42**		**30.05**		**18.46**		**20.92**		**18.22**	
	+1M	39.80	40.63	29.48	30.20	18.74		21.61	20.82	18.34	
	+3M	39.96	41.02	29.38	30.49	18.67	18.18	21.27	20.65	18.02	18.03
	+6M	41.00	41.61	29.71	30.91	18.20	17.92	20.49	20.41	17.44	17.85
	+12M	38.90	42.79	29.03	31.75	19.18	17.41	21.59	19.95	18.25	17.50
TRY	**13-Feb**	**2.37**		**1.76**		**315**		**357**		**311**	
	+1M	2.37	2.38	1.76	1.77	315		363	355	308	
	+3M	2.38	2.40	1.75	1.78	313	311	357	353	303	308
	+6M	2.51	2.43	1.82	1.80	297	307	335	350	285	306
	+12M	2.55	2.49	1.90	1.84	293	300	329	343	278	301
ZAR	**13-Feb**	**11.92**		**8.86**		**62.6**		**70.9**		**61.8**	
	+1M	12.15	11.95	9.00	8.88	61.4		70.8	70.8	60.1	
	+3M	12.38	12.05	9.10	8.96	60.3	61.9	68.7	70.3	58.2	61.4
	+6M	12.67	12.20	9.18	9.07	58.9	61.1	66.3	69.6	56.4	60.9
	+12M	12.57	12.51	9.38	9.29	59.4	59.5	66.8	68.2	56.5	59.9

Source: Danske Bank Markets

Disclosure

This presentation has been prepared by Danske Research, a division of Danske Bank A/S ('Danske Bank').

Analyst certification

Each research analyst responsible for the content of this presentation certifies that the views expressed in the presentation accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the presentation. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in this presentation.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Services Authority (UK). Details on the extent of the regulation by the Financial Services Authority are available from Danske Bank upon request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in the research policies of Danske Bank. Employees within the Danske Bank Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to the Research Management and the Compliance Department. Danske Bank Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors upon request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This presentation has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This presentation is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.