

# *FX Forecast Update - Holiday edition*

## *Scandi performance to extend into Q1 21*

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Important disclosures and certifications are contained from page 16 of this report.

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# FX market overview

Note: this edition of the FX Forecast Update is in a shortened format

## Recent developments: brightening 2021 prospects but troubling near-term COVID-19 outlook

- Since our *FX Forecast Update*, 13 November, we have seen solid progress on COVID-19 vaccines but the current virus pandemic situation, in particular in the US, is worsening, with hospitalisations now at worrying levels. With Christmas around the corner, it does not bode well for the pandemic situation in early 2021, when activity may take a serious hit. Nevertheless, activity indicators continue to look decent for now and a continuation of the strong Chinese recovery is supporting the global manufacturing cycle, benefitting Europe the most. With central banks keeping to the path of easing, the ‘Rule of Law’ rift between the EU and Poland+Hungary resolved, and a fiscal support package seemingly cooking in the US, we expect fiscal and monetary policy to support economies further on both sides of the Atlantic in 2021. We consider the probability of a Brexit deal around 50-50 but the most recent comments have been more positive, suggesting, on the margin, that a deal remains more likely than not.

## FX implications: strong risk appetite and non-US performance challenge USD trend

- Overall, cross-asset performance has been characterised by strong risk appetite in late 2020, on brightening 2021 growth prospects helped by positive vaccine developments, strong Chinese tailwinds and the prospects of further and continued fiscal and monetary stimulus. In particular, value assets (Europe) have outperformed peers. The USD has faced strong headwinds on fading global risks, rising US inflation expectations and brightening global growth prospects taking EUR/USD well above 1.20 supporting more or less all other G10 currencies, notably the Scandies. Whether we are in for a (self-reinforcing) structural break of the USD regime or a return to the old ‘US (growth) outperforming peers making [the] USD [the] only place in town’ regime will be the single most important factor for FX markets in 2021 (see *FX Strategy - From 1.10 to 1.30: EUR/USD straddle of 2021*, 15 December).

## Outlook: stronger Scandies in Q1’21, higher EUR/USD near term but return towards 1.16 in H2 21

- As the near-term direction of EUR/USD remains in the hand of a declining USD, we lift our 1M forecast to 1.24. Given our view that EUR-support will fade eventually, we still see EUR/USD at 1.16 in 12M. We forecast EUR/SEK at 10.00 in 3M but as the weak inflation outlook remains a headwind to the SEK, we forecast EUR/SEK at 10.30 in 12M. We pencil in a modestly stronger NOK in 2021 and forecast EUR/NOK at 10.20 in 12M. In the event of a Brexit deal, we believe EUR/GBP will move significantly lower towards 0.86 and stay there in 1-12M.

## Key risks to our forecasts: USD-trend is the key joker in 2021

- The USD trend is the key joker in 2021. Note the discrepancy between our view and consensus.

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# EUR/USD

Forecast: 1.24 (1M), 1.22 (3M), 1.19 (6M), 1.16 (12M)



	1M	3M	6M	12M
Danske Bank	1.24	1.22	1.19	1.16
Consensus	1.22	1.21	1.22	1.23
Forward	1.23	1.23	1.23	1.24

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

- The near-term direction of EUR/USD remains in the hand of a declining USD versus all crosses and we lift our 1M forecast to 1.24 to reflect this. Among other things, we see the drivers as (1) rising Brexit deal expectations, (2) additional fiscal easing in the US seeming likely and (3) vaccines seeming to be well on track to improving the global situation.
- Looking ahead, the key tailwind from Chinese easing is fading as we go in to Q1, the European recovery remains two-paced and the US is likely more resilient towards a Chinese slowing. Hence, we continue to see EUR/USD as moving lower next year, mostly in H2. We thus keep 1.16 in 12M. Do note the large discrepancy between our view and the consensus.

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# EUR/SEK

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



	1M	3M	6M	12M
Danske Bank	10.10	10.00	10.20	10.30
Consensus	10.13	10.17	10.11	9.99
Forward	10.11	10.12	10.13	10.15

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

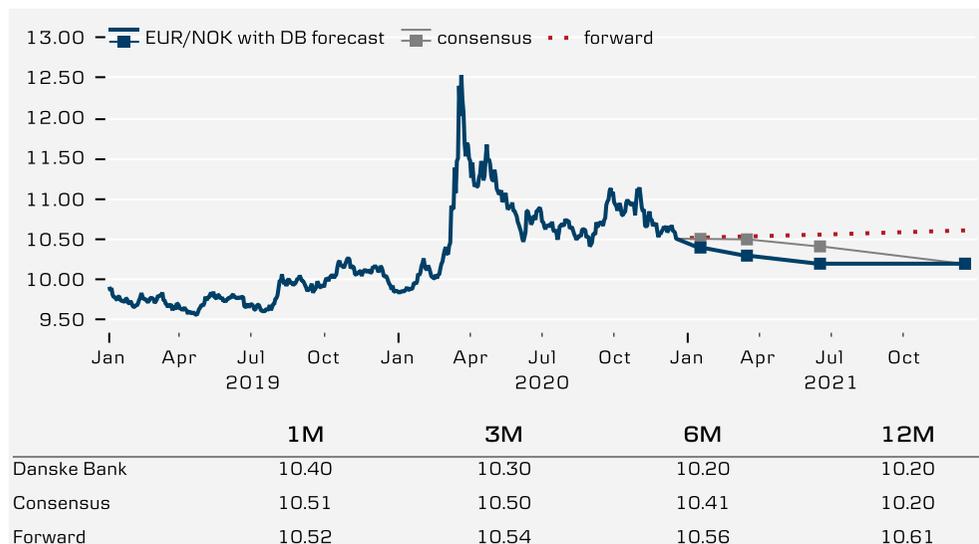
- Despite new lockdowns and signs of a global 'double-dip', risk sentiment and the SEK have held up better than we had expected amid light at the end of the tunnel. If the UK strikes a Brexit deal, that would prove a SEK tailwind. Given the worrisome inflation outlook, we believe it will be difficult for the Riksbank to accept a continuation of the multi-month SEK trend in 2021 without taking action, beyond QE. Hence, we maintain our view that the Riksbank will be a headwind for the SEK as we move into 2021. We deem the SEK as fairly valued. On balance, we twist the trajectory by lowering 1M and 3M to 10.10 and 10.00, respectively (previously 10.30) and raise 6M and 12M to 10.20 and 10.30, respectively (previously 10.10).

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# EUR/NOK

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



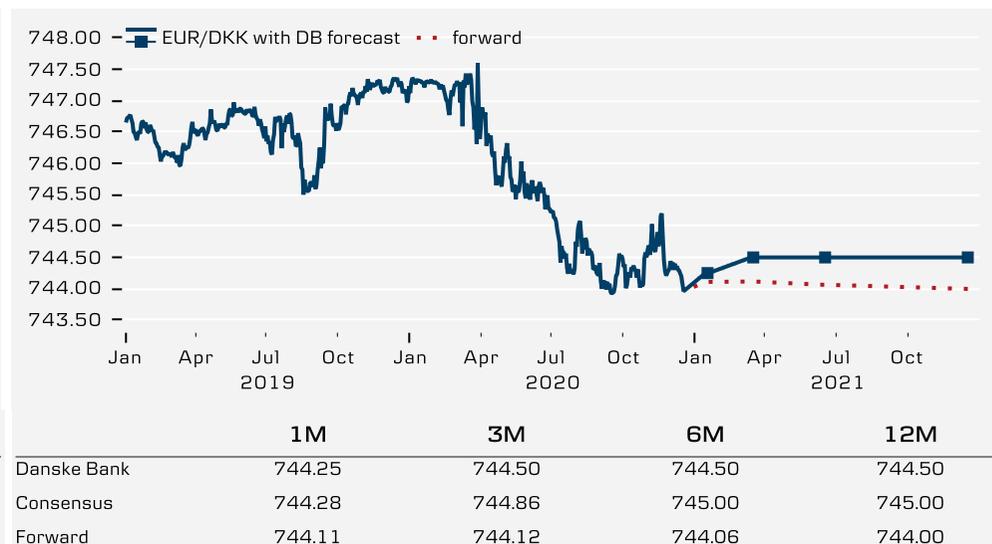
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- We pencil in a modestly stronger NOK in 2021 on the back of (1) global reflation extending on coronavirus vaccine rollouts, (2) relative growth and rates and (3) seasonal aspects. We underline that given the current levels of the terms of trade, the broad USD and unit labour costs we do not see any valuation arguments for a much stronger NOK. On the back of the recent strong NOK performance, we lower our EUR/NOK profile and now forecast the cross at 10.40 in 1M (previously 10.80), 10.30 in 3M (10.60), 10.20 in 6M (10.50) and 10.20 in 12M (10.40). The biggest risk to our call is global reflation. If it proves more forceful, we could see EUR/NOK move significantly below 10.00 in the coming years. If, however, the COVID-19 crisis turns into a lengthy economic crisis, EUR/NOK could return to 11.00.

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# EUR/DKK

Forecast: 744.25 (1M), 744.50 (3M), 744.50 (6M), 744.50 (12M)



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

- We look for EUR/DKK to trade in the 7.4425-7.4450 range in the coming year.
- Positive and negative factors are well balanced. Carry and positioning among Danish L&P funds support DKK, while payouts of vacation money and the transmission of negative rates to retail deposits weigh on the DKK.
- In our view, equity and bond market rebalancing effects have been around neutral over the past couple of months.
- We expect Danmarks Nationalbank to maintain the tight fluctuation band from 7.4325-50 to 7.4730.

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# EUR/GBP

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



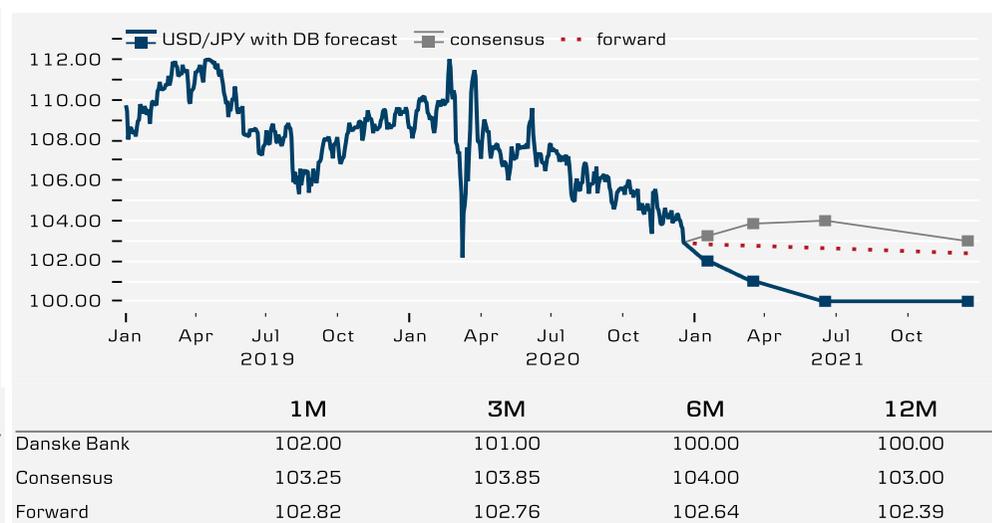
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- We expect the outcome of the ongoing Brexit negotiations to determine the fate of the GBP. We believe it is 50-50 whether or not we will get a deal but the most recent comments have been more encouraging, suggesting a deal, at least on the margin, is more likely than not.
- In the event of a deal, we believe EUR/GBP will move significantly lower towards 0.86 supported by investors pricing out the Brexit risk premium, vaccine-driven reflation and the UK outperforming the euro area. In the event of no deal, we expect EUR/GBP to move towards but remain below parity, targeting 0.97.
- We believe the new 'equilibrium' exchange rate will become clearer in the new year when we know more.

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# USD/JPY

Forecast: 102 (1M), 101 (3M), 100 (6M), 100 (12M)



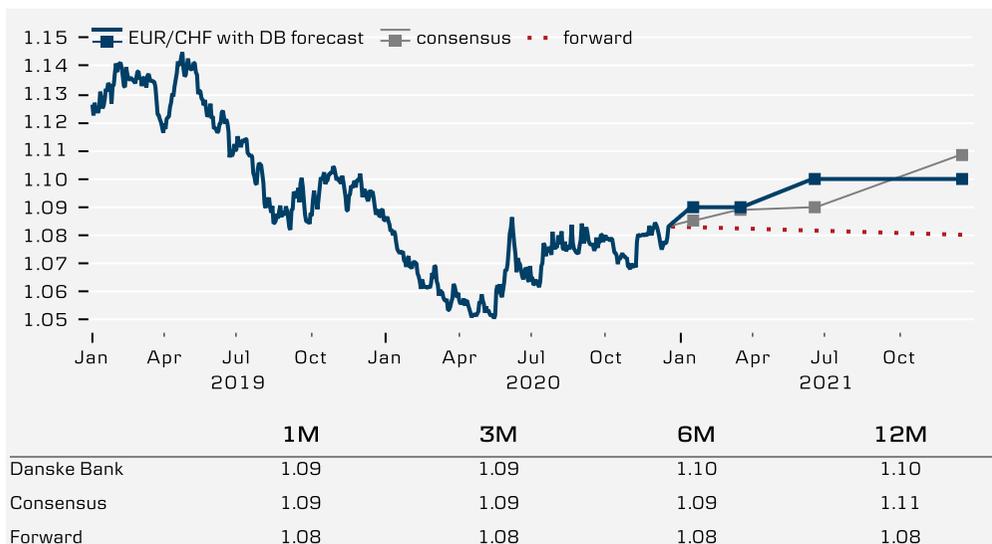
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- We have witnessed a theme of Asian outperformance given the region's fast recovery from the COVID-19 pandemic, relatively supportive Chinese credit growth and, not least, Asian equities doing well. For Asia in general, and specifically for countries with proximity to China, the lack of being commodity exporters, stable political regimes, strong productivity and low debt are a boon for a rebound in FX.
- We keep our expectations for further JPY strength on the back of the global theme of broad USD weakness and a strong regional anchor in CNH. We believe it is likely we need to see USD/CNH higher to take USD/JPY higher too.

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# EUR/CHF

Forecast: 1.09 (1M), 1.09 (3M), 1.10 (6M), 1.10 (12M)



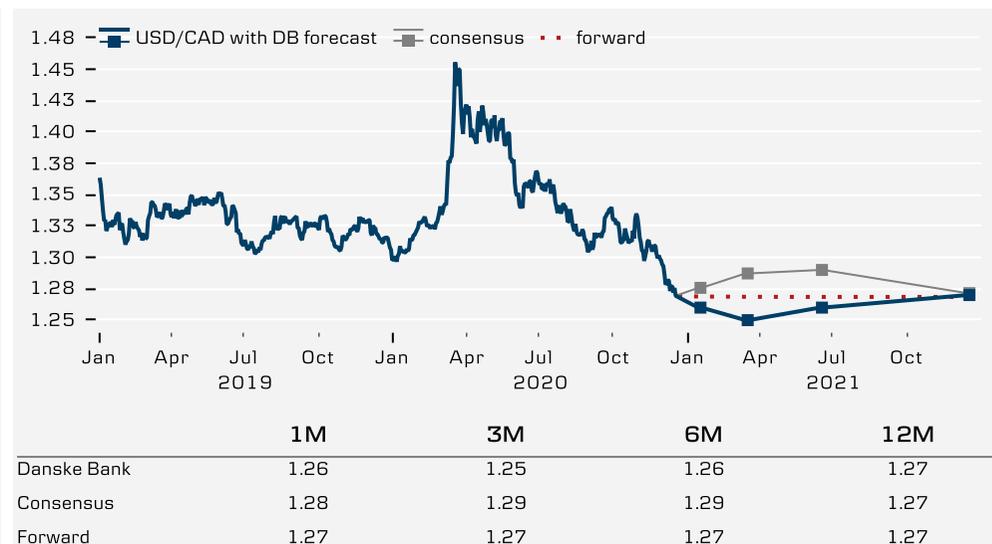
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- Following the relief rally in EUR/CHF since early summer, spot remains largely unchanged. The SNB is preparing to continue sweating out the deflationary pressure in the Swiss economy and intervention remains the key policy tool. With the ECB set to hold rates and opt for other easing tools, Swiss policy rates are also set to stay unchanged at the longstanding -0.75% for an extended period of time.
- Going into Q1, a potentially higher EUR/USD may shift EUR/CHF higher too, towards 1.09. 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. Towards Q1, our base case is another jump higher in EUR/CHF.

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# USD/CAD

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



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

- USD/CAD has been trading in close tandem with (reverse) EUR/USD over past months. We expect this pattern to continue and still regard USD/CAD as a low beta version of USD/NOK. Consequently, we expect the cross to move lower in coming quarters before modestly rebounding on renewed USD strength.
- We forecast USD/CAD at 1.26 in 1M (previously 1.30), 1.25 in 3M (was 1.27), 1.26 in 6M (was 1.27) and 1.27 in 12M (was 1.28).

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# AUD/USD

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



	1M	3M	6M	12M
Danske Bank	0.77	0.78	0.79	0.80
Consensus	0.76	0.75	0.75	0.77
Forward	0.76	0.76	0.76	0.76

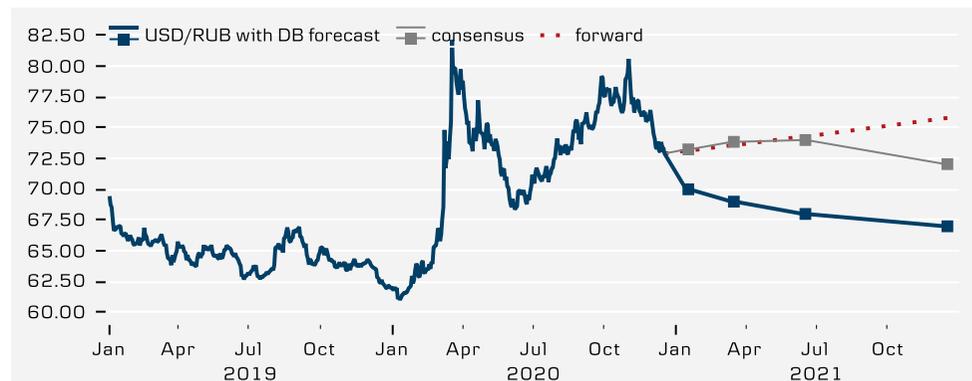
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- Since March, the AUD has rebounded strongly in line with risk sentiment and industrial and precious metals. Thus, changing terms of trade have been AUD positive.
- We lift our AUD/USD profile a few figures in as the broad USD weakness have yet to show signs of fading. The key indicators to watch for a reversal lower in AUD/USD remains the usual: Chinese credit data, USD/CNH, prices of metals as well as the general risk sentiment towards commodity currencies. We expect AUD to stay strong and probably strengthen further as we enter Q1.

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# USD/RUB

Forecast: 70.00 (1M), 69.00 (3M), 68.00 (6M), 67.00 (12M)



	1M	3M	6M	12M
Danske Bank	70.00	69.00	68.00	67.00
Consensus	73.24	73.85	74.00	72.05
Forward	73.14	73.58	74.29	75.77

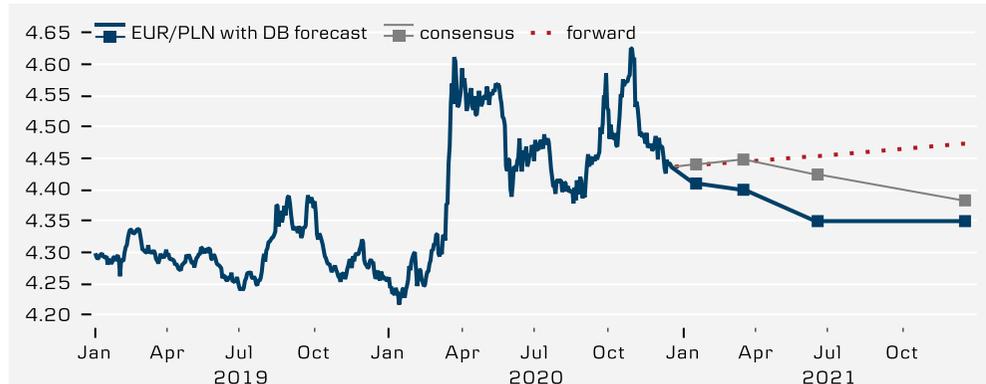
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- The possibility of more RUB strength lies with upside for oil prices, fading sanction risks and stronger-than-expected global demand. We move our RUB-bullish forecast to the present day, from expecting a largely unchanged RUB.
- While we had expected the RUB to strengthen in 2021, this has started a bit faster than we previously expected. However, amid USD weakness, we see USD/RUB as still being elevated. The pace at which we see further RUB strength will be highly dependent on whether or not we see a continued push higher in oil prices into the early part of the new year. Inflation remains muted and thus general risk sentiment is the key driver of USD/RUB.

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# EUR/PLN

Forecast: 4.41 (1M), 4.40 (3M), 4.35 (6M), 4.35 (12M)



	1M	3M	6M	12M
Danske Bank	4.41	4.40	4.35	4.35
Consensus	4.44	4.45	4.42	4.38
Forward	4.44	4.44	4.45	4.47

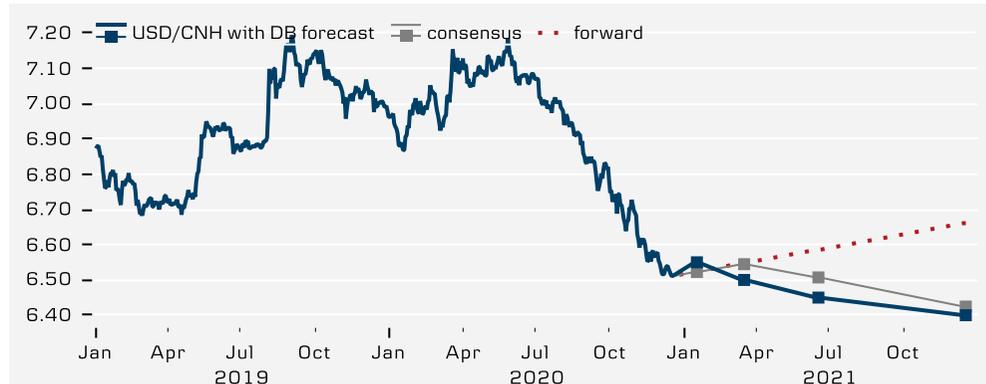
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- The combination of the approval of the EU budget, strong global risk sentiment in the wake of positive vaccine news and falling COVID-19 infection rates in Poland has acted as a tailwind to the PLN, sending EUR/PLN down to 4,43, lower than our near-term target of 4.46.
- We continue to believe in further recovery for PLN both as the domestic Polish and global economy recover during H1, as vaccines are rolled out and maintain our forecast of 4.41 in 1M, 4.40 in 3M and then 4.35 in 6-12M.

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# USD/CNY

Forecast: 6.55 (1M), 6.50 (3M), 6.45 (6M), 6.40 (12M)



	1M	3M	6M	12M
Danske Bank	6.55	6.50	6.45	6.40
Consensus	6.52	6.54	6.51	6.42
Forward	6.52	6.55	6.59	6.66

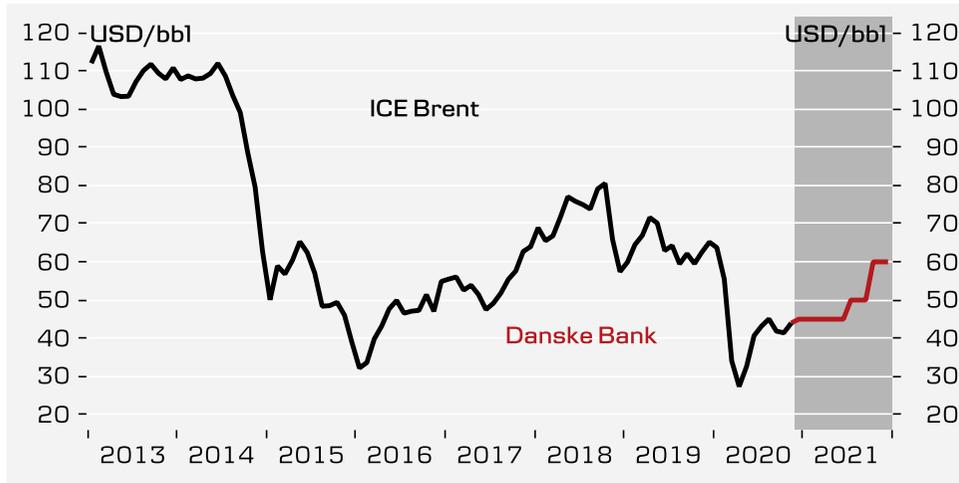
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

- USD/CNY has continued to trend lower. We look for a continuation of the move over the next six months as monetary policy is diverging with China aiming for exit, while the US still has an easing bias. Overall USD weakness also supports a decline in USD/CNY in the short term.
- The move in the cross has happened a bit faster than we expected and we have revised down our 1M forecast to 6.55 (from 6.60), 3M forecast to 6.50 (from 6.55) and 6M forecast to 6.45 (from 6.50), while keeping our 12M forecast at 6.4.
- Our forecast points to a stronger CNY than the forward market expects

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# Oil

Forecast: USD 45/bbl in Q1-Q2 21, USD50/bbl in Q3 21 and USD60/bbl in Q4 21



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

- Positive news on the COVID-19 vaccine front has brightened the outlook for oil prices. However, on the way to a rollout of vaccines and full reopening of economies, we believe the oil market will have to endure new lockdowns and work through a glut of supplies from elevated inventories, eventual normalisation of OPEC+ production levels and a slowly rising shale oil output.
- Thus, we expect oil prices to stay range bound for the rest of year. We keep our forecasts for Brent and look for Brent to average USD45/bbl in Q1 and Q2 21, USD50/bbl in Q3 21 and USD60/bbl in Q4 21.

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## Danske Bank FX forecasts vs EUR

Last Update: <a href="#">17/12/2020</a>					
G10					
	Spot	+1m	+3m	+6m	+12m
<b>Exchange rates vs EUR</b>					
EUR/USD	1.225	1.24	1.22	1.19	1.16
EUR/JPY	126.1	126	123	119	116
EUR/GBP	0.901	0.86	0.86	0.86	0.86
EUR/CHF	1.083	1.09	1.09	1.10	1.10
EUR/SEK	10.11	10.10	10.00	10.20	10.30
EUR/NOK	10.50	10.40	10.30	10.20	10.20
EUR/DKK	7.4398	7.4425	7.4450	7.4450	7.4450
EUR/AUD	1.606	1.61	1.56	1.51	1.45
EUR/NZD	1.710	1.71	1.66	1.60	1.54
EUR/CAD	1.555	1.56	1.53	1.50	1.47
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.437	4.41	4.40	4.35	4.35
EUR/HUF	355	356	358	360	370
EUR/CZK	26.2	26.0	25.7	25.5	25.3
EUR/RUB	89.4	87	84	81	78
EUR/TRY	9.49	9.9	9.9	9.9	9.8
EUR/ZAR	18.00	17.4	16.5	15.5	15.1
EUR/CNY	8.01	8.12	7.93	7.68	7.42
EUR/INR	90.0	91	88	85	82

Source: Danske Bank

Danske Bank FX forecasts vs DKK

Last Update: <a href="#">17/12/2020</a>					
G10					
	Spot	+1m	+3m	+6m	+12m
<b>Exchange rates vs DKK</b>					
USD/DKK	6.07	6.00	6.10	6.26	6.42
JPY/DKK	5.90	5.88	6.04	6.26	6.42
GBP/DKK	8.26	8.65	8.66	8.66	8.66
CHF/DKK	6.87	6.83	6.83	6.77	6.77
SEK/DKK	0.74	0.74	0.74	0.73	0.72
NOK/DKK	0.71	0.72	0.72	0.73	0.73
EUR/DKK	743.98	744.25	744.50	744.50	744.50
AUD/DKK	4.63	4.62	4.76	4.94	5.13
NZD/DKK	4.35	4.36	4.49	4.66	4.84
CAD/DKK	4.78	4.76	4.88	4.97	5.05
EM					
	Spot	+1m	+3m	+6m	+12m
PLN/DKK	1.68	1.69	1.69	1.71	1.71
HUF/DKK	2.09	2.09	2.08	2.07	2.01
CZK/DKK	0.28	0.29	0.29	0.29	0.29
RUB/DKK	8.32	8.57	8.84	9.20	9.58
TRY/DKK	0.79	0.75	0.75	0.75	0.76
ZAR/DKK	0.41	0.43	0.45	0.48	0.49
CNY/DKK	0.93	0.92	0.94	0.97	1.00
INR/DKK	0.083	0.082	0.085	0.088	0.090

Source: Danske Bank

Danske Bank FX forecasts vs SEK

G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	8.25	8.15	8.20	8.57	8.88
JPY/SEK	8.01	7.99	8.12	8.57	8.88
GBP/SEK	11.21	11.74	11.63	11.86	11.98
CHF/SEK	9.33	9.27	9.17	9.27	9.36
EUR/SEK	10.11	10.10	10.00	10.20	10.30
NOK/SEK	0.96	0.97	0.97	1.00	1.01
DKK/SEK	1.36	1.36	1.34	1.37	1.38
AUD/SEK	6.29	6.27	6.39	6.77	7.10
NZD/SEK	5.91	5.92	6.03	6.39	6.70
CAD/SEK	6.50	6.46	6.56	6.80	6.99
EM					
	Spot	+1m	+3m	+6m	+12m
PLN/SEK	2.28	2.29	2.27	2.34	2.37
HUF/SEK	2.84	2.84	2.79	2.83	2.78
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	1.07	1.02	1.01	1.03	1.05
ZAR/SEK	0.56	0.58	0.61	0.66	0.68
CNY/SEK	1.262	1.244	1.261	1.329	1.387
INR/SEK	0.112	0.112	0.114	0.120	0.125

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10					
Last Update: <a href="#">17/12/2020</a>					
	Spot	+1m	+3m	+6m	+12m
<b>Exchange rates vs NOK</b>					
USD/NOK	8.57	8.39	8.44	8.57	8.79
JPY/NOK	8.33	8.22	8.36	8.57	8.79
GBP/NOK	11.65	12.09	11.98	11.86	11.86
CHF/NOK	9.70	9.54	9.45	9.27	9.27
SEK/NOK	1.04	1.03	1.03	1.00	0.99
EUR/NOK	10.50	10.40	10.30	10.20	10.20
DKK/NOK	1.41	1.40	1.38	1.37	1.37
AUD/NOK	6.54	6.46	6.59	6.77	7.03
NZD/NOK	6.14	6.09	6.21	6.39	6.64
CAD/NOK	6.75	6.66	6.75	6.80	6.92
<b>EM</b>					
	Spot	+1m	+3m	+6m	+12m
PLN/NOK	2.37	2.36	2.34	2.34	2.34
HUF/NOK	2.96	2.92	2.88	2.83	2.76
CZK/NOK	0.40	0.40	0.40	0.40	0.40
RUB/NOK	0.12	0.12	0.12	0.13	0.13
TRY/NOK	1.11	1.05	1.04	1.03	1.04
ZAR/NOK	0.58	0.60	0.63	0.66	0.68
CNY/NOK	1.312	1.280	1.299	1.329	1.374
INR/NOK	0.117	0.115	0.117	0.120	0.124

Source: Danske Bank

Danske Bank FX forecasts vs USD

G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.2254	1.24	1.22	1.19	1.16
USD/JPY	102.9	102	101	100	100
GBP/USD	1.360	1.44	1.42	1.38	1.35
USD/CHF	0.884	0.88	0.89	0.92	0.95
USD/SEK	8.246	8.15	8.20	8.57	8.88
USD/NOK	8.570	8.39	8.44	8.57	8.79
USD/DKK	6.071	6.00	6.10	6.26	6.42
AUD/USD	0.763	0.77	0.78	0.79	0.80
NZD/USD	0.717	0.73	0.74	0.75	0.75
USD/CAD	1.269	1.26	1.25	1.26	1.27
EM					
	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.621	3.56	3.61	3.66	3.75
USD/HUF	290	292	293	303	319
USD/CZK	21.343	20.97	21.07	21.43	21.81
USD/RUB	72.949	70.00	69.00	68.00	67.00
USD/TRY	7.733	8.00	8.15	8.30	8.45
USD/ZAR	14.686	14.00	13.50	13.00	13.00
USD/CNY	6.53	6.55	6.50	6.45	6.40
USD/INR	73.59	73.00	72.00	71.50	71.00

Source: Danske Bank

Danske Bank FX forecasts vs GBP

G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs GBP					
GBP/USD	1.36	1.44	1.42	1.38	1.35
GBP/JPY	139.92	147	143	138	135
EUR/GBP	0.90	0.86	0.86	0.86	0.86
GBP/CHF	1.20	1.27	1.27	1.28	1.28
GBP/SEK	11.21	11.74	11.63	11.86	11.98
GBP/NOK	11.65	12.09	11.98	11.86	11.86
GBP/DKK	8.26	8.65	8.66	8.66	8.66
GBP/AUD	1.78	1.87	1.82	1.75	1.69
GBP/NZD	1.90	1.98	1.93	1.86	1.79
GBP/CAD	1.73	1.82	1.77	1.74	1.71
EM					
	Spot	+1m	+3m	+6m	+12m
GBP/PLN	4.92	5.13	5.12	5.06	5.06
GBP/HUF	394.20	414	416	419	430
GBP/CZK	29.02	30.23	29.88	29.65	29.42
GBP/RUB	99.19	100.93	97.88	94.09	90.37
GBP/TRY	10.53	11.53	11.56	11.48	11.40
GBP/ZAR	19.97	20.19	19.15	17.99	17.53
GBP/CNY	8.88	9.44	9.22	8.93	8.63
GBP/INR	99.86	105.26	102.14	98.94	95.77

Source: Danske Bank

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