

Market Guide

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Near-term risk of higher EUR/USD

Eying the end to the global hiking cycle

The past month, central banks have increasingly signalled the end to their rate hiking cycles while pushing back on rate cut expectations. While the Fed, BoE and SNB opted for an unchanged policy rate decision in September, both the Fed and Norges Bank delivered a slightly hawkish message signalling that policy rates more likely than not will be hiked one additional time later this year. The ECB delivered a final dovish hike, implicitly closing the door to further hikes. Oil prices continue to move higher with Brent Crude now trading in the mid-90s (USD/bbl). Importantly, the rise in oil has solely been driven by a tight supply side, which marks a negative global supply shock to the global economy. The global growth outlook is increasingly weakening, but there have been tentative signs of stabilisation in manufacturing relative to services.

USD rally has continued

Over the past month, the USD rally has broadly continued supported by US growth outperformance and a relatively hawkish Fed vis-à-vis the ECB with EUR/USD now trading below the 1.07 mark. While commodity prices have risen the past month, the commodity-sensitive cluster has performed poorly, highlighting the importance of the global backdrop. EUR/SEK once again reached all-time highs with the announcement of the hedging of the FX reserve initially providing little support to SEK. CNY has broadly stabilised as China has taken more measures to stop the CNY depreciation and as stimulus measures have calmed financial crisis fears.

We maintain our strategic case for a lower EUR/USD based on relative terms of trade, real rates and relative unit labour costs. However, in the near-term, we see some potential for topside risk to the cross on the back of peak policy rates, an improving manufacturing sector backdrop relative to the service sector, and/or easing China pessimism. In the near-term we think that EUR/SEK is overbought and look for a downside correction in the coming months. Over the medium-term we remain bearish on the SEK on the back of structural headwinds from the domestic economy and a gloomy global growth outlook. We maintain a long-term bullish view on NOK although the continuously postponed global growth slowdown means that this may take considerably longer to play out than previously envisioned. For the rest of 2023 we maintain a negative NOK view.

A key assumption is that of a re-tightening of global financial conditions. Risks to this assumption primarily lie in the combination of a sharp drop in core inflation and a more resilient global economy than what we pencil in.

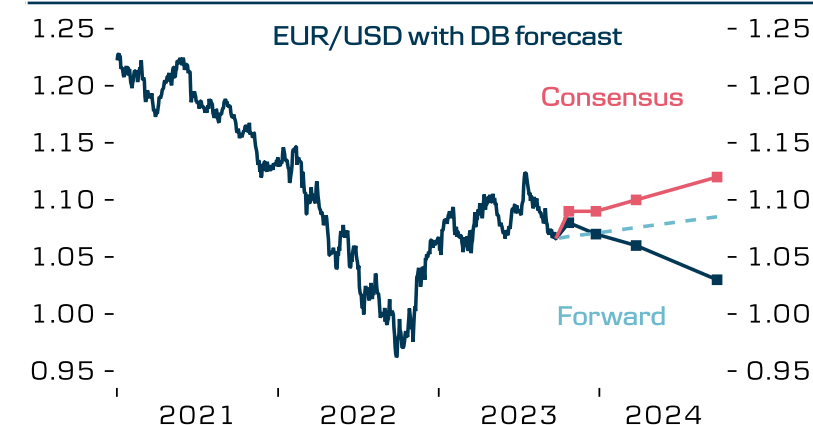


USD

Near-term risk of higher EUR/USD

- Although economic activity and inflation have been moderating, the underlying strength of the US economy has proved to be remarkably robust so far. In the euro area, growth momentum seems to be fading faster relative to the US, while inflation remains stubborn, and labour markets are still strong. We expect growth and inflation to moderate further in both regions in the remainder of the year, and we still expect the US economy to withstand the restrictive effects of monetary policy tightening relatively better than the euro area.
- We think the Fed has delivered its last hike, ending the fastest hiking cycle in four decades at a 5.50% terminal rate. The market is split around a 50% probability of another 25bp hike this year. In Q4, we expect focus to change to the timing of rate cuts from both the Fed and the ECB – we do not expect that to happen this year, barring an unexpected major shock. Similarly to the Fed, we expect no more hikes from the ECB after the dovish September hike, bringing the terminal rate to 4.00%. Hence, peak policy rates have likely been reached.
- We maintain the strategic case for a lower EUR/USD based on relative terms of trade, real rates (growth prospects) and relative unit labour costs. Hence, we maintain our 12M forecast at 1.03. However, in the near-term, we see some potential for topside risk to the cross. Peak policy rates, an improving manufacturing sector relative to the service sector, and/or easing China pessimism could add some support to EUR/USD in the near-term.
- In general, cyclical tailwinds pose risks to our long-term forecast. Additionally, substantial weakness in the US economy, such as an unexpected shock to the economy due to e.g. elevated real rates, also presents a risk to our forecast.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.08	1.07	1.06	1.03
Consensus	1.09	1.09	1.10	1.12
Forward	1.07	1.07	1.08	1.09

Hedging recommendations

Income: Sell USD via risk reversals.

Expenses: Purchase USD via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

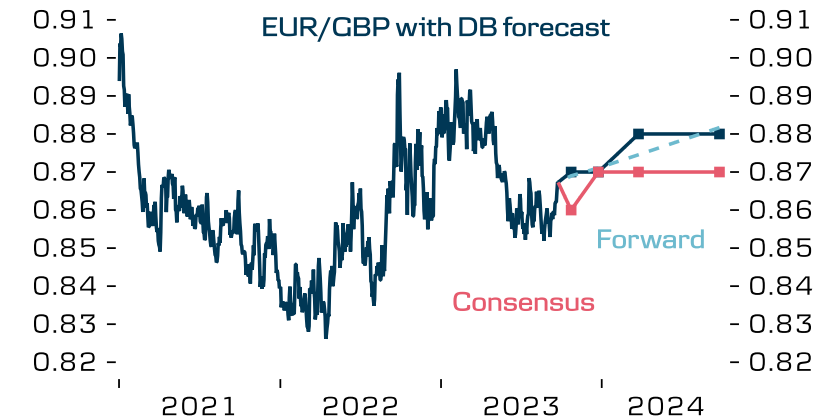


GBP

End to the hiking cycle, but not to the GBP headwinds

- Akin to peers, the UK economy has shown underlying resilience. However, signs of weakening are becoming more evident: PMI's across the board are now in contractionary territory, unemployment increased to 4.3% (up from lows of 3.5%) and GDP growth is muted. The labour market remains tight by historical standards as emphasised by wage growth, excl. bonuses, remaining elevated at 7.8% 3M/YoY although a peak in private sector wage growth has seemingly been reached. August inflation data delivered a large downside surprise both in headline, core and service inflation. Likewise, the latest Monthly Decision Maker Panel showed broad easing across the board with both 1Y and 3Y ahead inflation expectations ticking notably lower.
- The Bank of England (BoE) decided to keep the Bank Rate unchanged at 5.25% at its September meeting after hiking the Bank Rate by a total of 515bp over the past meetings. We expect this to mark the peak in the Bank Rate. This is slightly below current market pricing, which is pricing a peak at 5.45%. On balance, we continue to see relative rates as a moderate positive for EUR/GBP, although GBP has been largely decoupled from moves in relative rates the past month.
- Over the past month, EUR/GBP has moved to the upper part of recent months' trading range of 0.85-0.87. On one hand, GBP has gained support from an overall USD-positive global investment environment and higher energy prices. On the other hand, a dovish BoE and lower than expected inflation have acted as a headwind. Overall, we do not see the global investment environment nor the relative growth outlook create significant divergence between EUR and GBP. We expect the cross to move only modestly higher to 0.88 over the coming year.
- The key risk that could see EUR/GBP trade substantially above our projection is a sharp sell-off in risk where capital inflows fade and liquidity becomes scarce.

EUR/GBP



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

Hedging recommendations

Income: Sell GBP via FX forwards.

Expenses: Buy GBP via risk reversals.

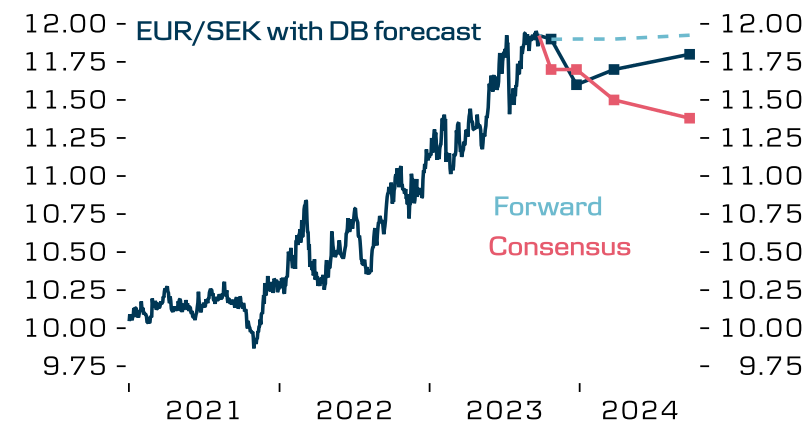
Source: Macrobond, Bloomberg, Danske Bank

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Riksbank hedging might support upside correction

- Swedish GDP declined by 0.8% q/q during Q2. Though not as bad as initially indicated by the GDP indicator, this still puts the Swedish economy in the corner compared to peers. Notably, weaker-than-expected net exports weighed on growth in Q2 and if this continues, there would be obvious downside risks to our above-consensus call of 0.0% GDP growth in 2023. Relative macro momentum is thus likely to continue to weigh on the SEK over the coming quarters.
- The disinflation trend continues and the latest print surprised on the downside of consensus estimates. However, we do not expect CPIF firmly back at 2% until mid-2024. Notably, despite otherwise broad-based declines, imported inflation has seemingly accelerated over the past 3 months, perhaps owing to the continued depreciation of the SEK. As expected, and fully discounted by the market, the Riksbank hiked by 25bp to 4% at the September meeting. The rate path was slightly to the dovish side. We expect the first cut in June 2024.
- The SEK remains under pressure and EUR/SEK has printed another new all-time-high over the past month, however, not yet breaching 12.00. A continued rise in US yields and a stronger USD have weighed on risk sentiment and by extension also the SEK. Meanwhile, relative macro momentum remains a medium-term headwind, further amplified by weak growth prospects over the coming quarters. With structural headwinds still in place, we foresee no major turnaround in the SEK over the long-term. That said, we still look for a downside correction in EUR/SEK in the coming months. The Riksbank's decision to start hedging their FX reserves should be supportive of this call. On balance, we shift our entire forecast profile for EUR/SEK slightly higher.
- Risks remain two-sided, if anything seemingly tilted to the upside short-term. Relative monetary policy remain key for the cross.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.90	11.60	11.70	11.80
Consensus	11.70	11.70	11.50	11.38
Forward	11.90	11.90	11.90	11.93

Hedging recommendations

Income: We recommend selling SEK via forwards and taking advantage of potential short-term gains in SEK to further increase hedging

Expenses: Buy SEK via risk reversals.

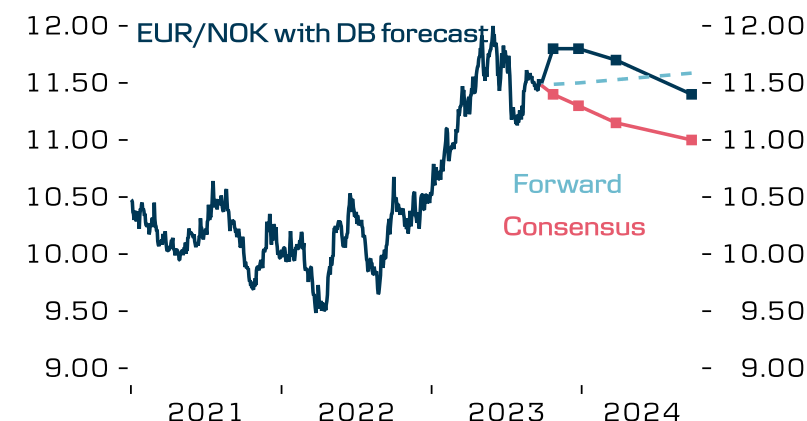
Source: Macrobond, Bloomberg, Danske Bank

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

Near-term weakness

- Recent data releases for mainland activity point to a clear growth deceleration in Norway. The latest Regional Network Survey points to close-to-zero growth in the quarters ahead with especially household services showing a sharp decline in the outlook compared to previous surveys. Alongside a weak outlook for retail, construction and non-oil manufacturing, more than counters the positive impact from still strong growth in oil and partly business services. Inflation impulses seem to ease and while elevated wage growth remains a topside risk we note how forward leading indicators for domestic food prices and imported inflation have come considerably lower.
- At the September monetary policy meeting Norges Bank (NB) hiked policy rates by 25bp to 4.25% whilst indicating a 70-80% probability of a final 25bp rate hike in December. NB indicated that rates will have to be kept at elevated levels for at least the coming year with the rate path first embedding a rate cut probability from Q3 2024. While we think it is a close call we think the peak in policy rates has now been reached. Markets are pricing roughly 17bp for December. Overall, we regard relative rates to be a negative factor for NOK looking forward.
- We maintain a negative 3-6M view on NOK as we think weaker global growth will mark a headwind for NOK in the near-term. While higher rates spreads and a higher oil price normally act as supportive factors for NOK we think they might send “false signals” at this stage. First, when growth is decelerating higher short-end rates is often a negative for a currency. Secondly, the recent rise in oil prices has been driven by tight supply and hence marks a negative global supply shock. We maintain a bullish long-term view on NOK but highlight that risks are that this view may take a lot longer to play out than previously envisioned.
- Near-term risks are closely connected to the global investment environment, global real rates, energy prices, China and the strength of the US economy.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.80	11.80	11.70	11.40
Consensus	11.40	11.30	11.15	11.00
Forward	11.49	11.50	11.53	11.59

Hedging recommendations

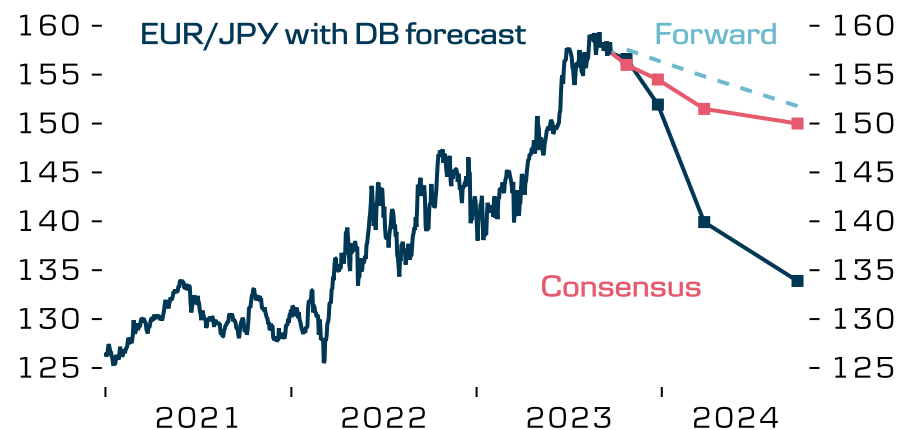
Income: Sell NOK via FX forwards for the rest of 2023. For 2024 receivables, we recommend option structures that maintain a profit potential in case of a NOK strengthening.

Expenses: Buy NOK via risk reversal.

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

Others

EUR/JPY



Hedging recommendations

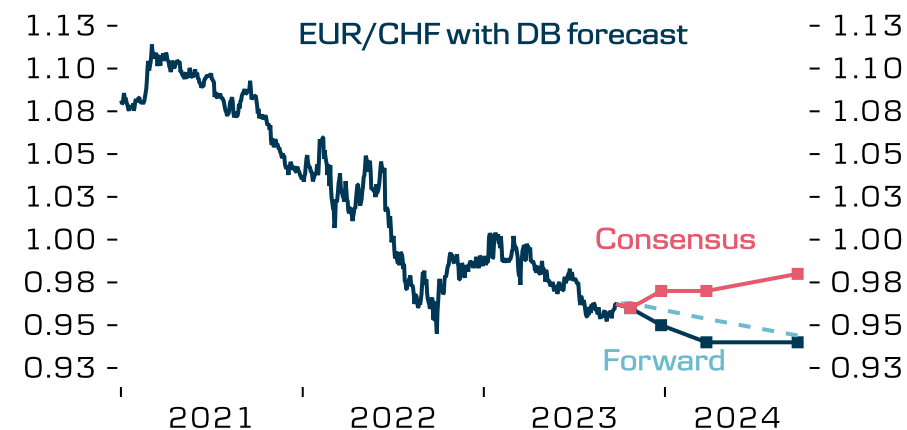
Income: Sell JPY via risk reversals.

Expenses: Buy JPY via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

EUR/CHF



Hedging recommendations

Income: Sell CHF via risk reversals.

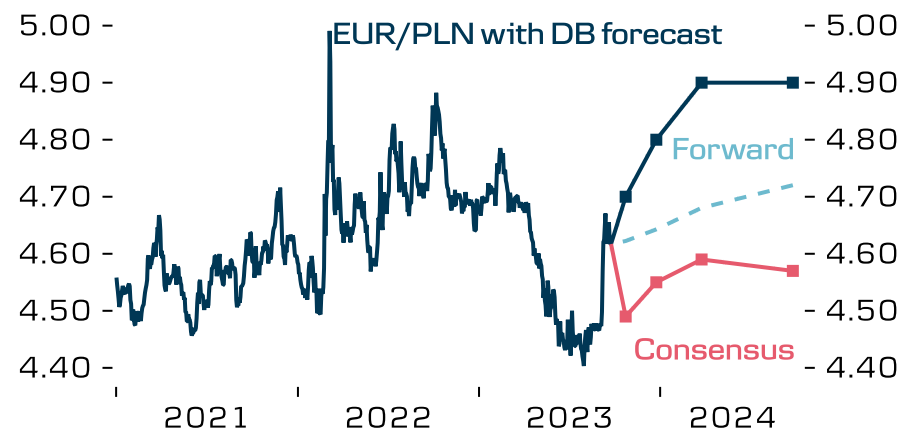
Expenses: Buy CHF via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

Others

EUR/PLN



Hedging recommendations

Income: We recommend taking advantage of the current spot and selling PLN via forwards.

Expenses: Buy PLN via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank

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

FX Forecast Table

Exchange rates vs EUR

G10 Last Update: 25/09/2023					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.06	1.08	1.07	1.06	1.03
EUR/JPY	158	157	152	140	134
EUR/GBP	0.87	0.87	0.87	0.88	0.88
EUR/CHF	0.97	0.96	0.95	0.94	0.94
EUR/SEK	11.73	11.90	11.60	11.70	11.80
EUR/NOK	11.43	11.80	11.80	11.70	11.40
EUR/DKK	7.4567	7.4500	7.4450	7.4450	7.4500
EUR/AUD	1.65	1.66	1.67	1.68	1.66
EUR/NZD	1.78	1.80	1.81	1.83	1.81
EUR/CAD	1.43	1.47	1.47	1.46	1.43
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.59	4.70	4.80	4.90	4.90
EUR/HUF	391	390	400	400	420
EUR/CZK	24.4	24.4	24.2	24.1	24.2
EUR/TRY	29.0	30.2	30.5	31.8	33.3
EUR/ZAR	19.9	20.4	20.0	19.7	18.7
EUR/CNY	7.78	7.94	8.03	8.06	7.93
EUR/INR	88.4	89.6	89.0	88.5	86.3

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