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20 February 2025

<https://research.danskebank.com>



Market Guide

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Danske Bank

SEK strength likely temporary

Tariff policy takes centre stage

The dominating theme for markets has been news regarding tariff policy from President Trump. While the rhetoric on tariff-threats has been confrontational there has so far been limited news on actual implementation. This aligns with our view that Trump ultimately will underdeliver. US macro data has been stronger than expected with a resurgence in inflationary pressures and a continued strong labour market, lending support to a hawkish Fed. In commodity space, European natural gas prices have moved sharply higher due to the cold weather, increased competition for LNG cargoes and slightly below average filling levels in the European storages. Oil prices have on the other hand edged lower. Geopolitical uncertainty remains elevated with impending Russia/Ukraine-peace talks.

Over the past month, the USD has been in for a volatile ride with tariff announcements from the Trump administration taking centre stage. SEK has moved sharply higher following a higher-than-expected inflation print leading to repricing of the Riksbank. GBP has regained some lost ground after the move higher in real rates, a re-tightening of financial conditions and risk-off sentiment sent EUR/GBP higher at the beginning of the year given the UK's fragile fiscal position. The JPY has outperformed following strong data out of Japan leading to a repricing of BoJ.

Outlook: positive on the USD and negative on Scandies

We maintain a negative medium-term view on EUR/USD, expecting the pair to gradually decline towards 1.00 over a 12M horizon on the back of anticipated pro-growth and inflationary policies in the US along with our expectation of relatively stronger US growth dynamics. In the near term, direction remains uncertain, with tariff and geopolitical headlines continuing to drive price action and we expect EUR/USD to consolidate around current levels in the near term. We remain medium- to long-term negative on NOK on elevated unit labour cost, continued tightness in global monetary conditions and below-trend global growth. The medium-term headwind for the broad SEK remains intact given the scope for continued US outperformance in terms of productivity growth and US equities as the main source of Swedish investment flows.

Risks to our forecasts primarily lie in a sharper economic downturn than what we pencil in and a resurge in inflation. A much harder landing than what we pencil in would require sharp easing of global monetary conditions, which would likely entail a much weaker USD (after an initial squeeze higher) and much weaker cyclically sensitive currencies than in our base case. With the US Red sweep, the risk of a re-acceleration of US inflation and hence USD real rates in the coming years has also risen.

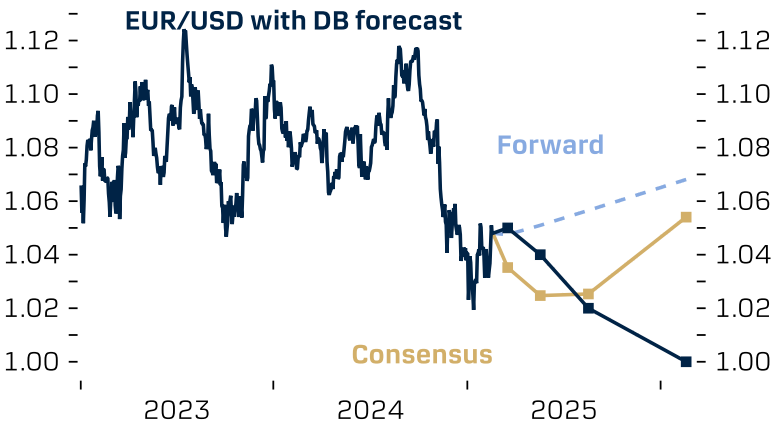


USD

Politics weighing on short-term direction

- The US economy remains on a solid footing, as highlighted by the January jobs report, which came in stronger than expected, with data for the past two months revised upward. On the inflation front, the January CPI print surprised sharply to the upside, driven by broad-based price acceleration. However, in the broader picture, we expect underlying inflation in the US to continue moderating. In the euro area, growth almost stagnated in Q4, but forward-looking PMI figures surprised to the upside, and inflationary pressures appear contained. Rising real incomes and declining interest rates should provide support for the fragile euro area economy.
- Strong US data since September, alongside economic policy uncertainty, has led markets to significantly reprice the outlook, with only around 35bp of cuts now priced in for 2025. Given the solid economic backdrop, we expect the Fed to stay on hold at the March meeting and implement quarterly rate cuts from June through mid-2026. The ECB delivered a widely expected 25bp cut in January without surprises. We expect the central bank to continue easing with consecutive 25bp cuts through the summer, bringing the terminal rate to 1.50% by September this year.
- We maintain a negative medium-term outlook for EUR/USD, forecasting a gradual decline toward 1.00 over a 12M horizon. The outcome of the US election supports this view, given the anticipated pro-growth and inflationary policies, alongside our expectation of structurally stronger US growth dynamics. In the near term, direction remains uncertain, with tariff and geopolitical headlines continuing to drive price action. On tariffs, there has been significant rhetoric but little immediate action, aligning with our view that Trump will ultimately underdeliver. We expect EUR/USD to consolidate around current levels in the near term.
- Significant weakness in the US economy poses a risk to our forecast, as does a marked improvement in the euro area economy, potentially supported by a rebound in the fragile global manufacturing sector.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.05	1.04	1.02	1.00
Consensus	1.04	1.02	1.03	1.05
Forward	1.05	1.05	1.06	1.07

Hedging recommendations

Income: We recommend hedging USD income via risk reversals.

Expenses: We recommend hedging USD expenses via FX forwards.

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

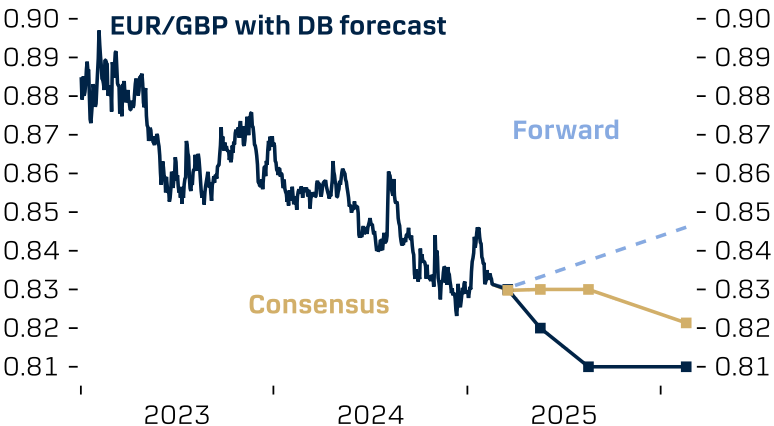


GBP

Fiscal worries fading into the background

- Following a strong first half of 2024, the UK economy lost steam in the second half growing modestly 0.1% q/q in Q4. Domestic demand remains weak flatlining in Q4, and business investments weakened towards the end of the year. Government consumption on the other hand has been a primary growth driver. We expect the expansionary fiscal stance and a loosening of monetary conditions to boost the economy in 2025. Underlying inflation remains elevated, although there are tentative signs of price pressures cooling, also within core services. The labour market continues its gradual loosening with opposing forces at play with elevated wage growth but a cooling demand for labour with weak payrolls and unfilled vacancies edging further lower. This is further amplified by survey data signalling more reluctant hiring.
- As expected, the Bank of England (BoE) cut the Bank Rate to 4.50% in February. While there were some more dovish tunes from the BoE, the overall signal was still for a “careful and gradual” cutting cycle. Our base case of a continuous gradual easing cycle is further amplified by the expansionary fiscal stance. We continue to expect the BoE to deliver the next 25bp cut in May and deliver quarterly rate cuts at the meetings associated with updated economic projections. We expect the Bank Rate to end the year at 3.75%. We see relative rates as a slight positive for EUR/GBP as we think markets underestimate the degree of easing from the BoE in 2025.
- In line with our expectation, the fiscal policy related sell-off in UK markets at the beginning of the year has reversed and EUR/GBP is back to trading around 0.83. We stay positive on GBP FX on the back of a relatively hawkish BoE and a growth pickup in the UK relative to the euro area in 2025 - further amplified by continued tight credit spreads and a positive correlation for GBP to a USD positive investment environment.
- The key risks to our forecast are related to the UK’s fragile fiscal position and policy action from the BoE. If the BoE opts for a more front-loaded cutting cycle, this would act as a headwind for GBP. Other risks are closely related to the developments in the relative growth outlook between the euro area and the UK.

EUR/GBP



	1M	3M	6M	12M
Danske Bank	0.83	0.82	0.81	0.81
Consensus	0.83	0.83	0.83	0.82
Forward	0.83	0.83	0.84	0.85

Hedging recommendations

Income: We recommend hedging GBP income via knock-in forwards.

Expenses: We recommend hedging GBP expenses via FX forwards.

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

Medium-term headwind remains intact

- Finally, there are some signs that the Swedish economy is starting to pick up, which suggest that Sweden will outgrow the euro area in 2025. However, the recovery is very fragile with risks tilted to the downside and as such in need of more monetary policy stimulus. Relative growth is in isolation positive for SEK. Meanwhile, the sub-trend global growth outlook with the US as the main engine, is typically SEK negative.
- Fundamentally, the February drop in EUR/SEK was supported by relative rates via weaker euro area growth prospects alongside the high Swedish CPI print. Even with inflation slightly above target, we consider it prudent for the Riksbank to add more support to the fragile recovery. Hence, we expect another 25bp rate cut and a terminal rate at 2.00% in Q2. This is not adequately priced in, which in isolation is a SEK negative on the 3M horizon. On the other hand, we expect the ECB to go below 2.00% in Q3 and a terminal rate at 1.50%. In all, the marginal tailwind for EUR/SEK from relative monetary policy becomes a slight headwind. However, the big and growing policy differential vs the US is a substantial headwind for broad SEK.
- While EUR/SEK was stuck for long within a tight range around 11.50, we argued that the descending trend with lower and lower highs from November 2024 would set the scene for Q1 2025. After the 2.5% drop, we shift from being tactically negative to a neutral stance. We do not rule out some further downside in the cross, but we think the slide will abate when relative monetary policy has been 'appropriately' repriced. Meanwhile, the medium-term headwind for the broad SEK remains intact given the scope for continued US outperformance in terms of productivity growth and US equities as the main source of Swedish investment flows. The SEK is also meeting headwinds from the substantial interest rate differential between the US and Sweden and the scope for a stronger USD in the 6-12M perspective.
- Near-term risks are abundant given the huge uncertainty around US global policy announcements and geopolitics. The medium-term [downside] risks are related to potential shifts in portfolio flows towards SEK assets.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.20	11.20	11.40	11.50
Consensus	11.36	11.40	11.33	11.18
Forward	11.21	11.20	11.20	11.20

Hedging recommendations

Income: We recommend hedging SEK income via FX forwards. Utilise the latest rise in SEK by lifting hedge ratios.

Expenses: We recommend hedging SEK expenses via risk reversals.

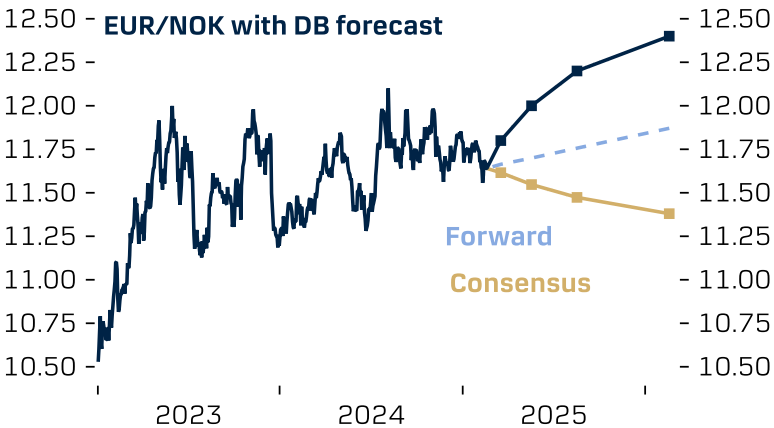
Source: Macrobond, Bloomberg, Danske Bank

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

We maintain our upward sloping profile

- Mainland growth in 2024 was only 0.6% despite the strong support from petroleum related industries and real disposable income rising sharply. With oil investments set to turn neutral for growth this year and negative in 2026 and a normalisation in savings rate limiting private consumption we continue to pencil in below trend growth and higher unemployment in 2025. While the real backdrop suggests an imminent need to ease monetary policy, inflation and notably wage growth, which ended up close to 5.7% in 2024 - above Norges Bank's forecast of 5.2% - remain too high. While higher unit labour costs initially are inflationary in nature, we highlight that they over time become recessionary and importantly also negative for the FX.
- At the December meeting Norges Bank (NB) strongly indicated the beginning of a cutting cycle in March. The rate path suggested a close to 100% likelihood of a 25bp reduction at the upcoming meeting and two additional cuts in the rest of 2025 with the balance of risk skewed to three additional cuts. While our economic analysis is fairly close to that of NB we still pencil in a more negative output gap and lower core inflation than NB. For this reason, we still pencil in four rate cuts in both 2025 and 2026 while markets pencil in but four total cuts by the end of 2026.
- We remain negative on NOK for the coming years. This is not least due to divergence in unit labour costs between Norway and most of Norway's trading partners which over time adds a real appreciation pressure on NOK and makes Norwegian assets less attractive for foreign investors. In the absence of a sharp move higher in unemployment the only way for this to be sustained is via sharper monetary policy easing and/or a weaker NOK. Also, with the outlook for continued tightness in global monetary conditions, below-trend global growth and with an OPEC+ that increasingly is pressured on its cohesiveness the global backdrop is unlikely to sustainably turn NOK supportive. We do not think that NB's new NOK buying flows in capping the FX reserve will be enough to change this narrative.
- Risks are connected to the global investment environment, US monetary policy and geopolitical events impacting energy prices.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.80	12.00	12.20	12.40
Consensus	11.62	11.55	11.47	11.38
Forward	11.66	11.70	11.76	11.87

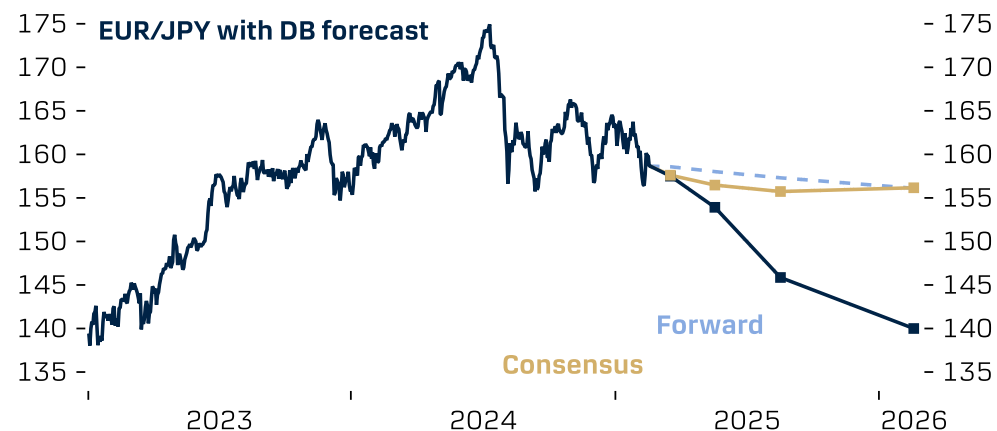
Hedging recommendations

Income: We recommend hedging NOK income via FX forwards.

Expenses: We recommend hedging NOK expenses via risk reversals.

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

EUR/JPY



Hedging recommendations

Income: We recommend hedging JPY income via risk reversals.

Expenses: We recommend hedging JPY expenses via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

EUR/CHF



Hedging recommendations

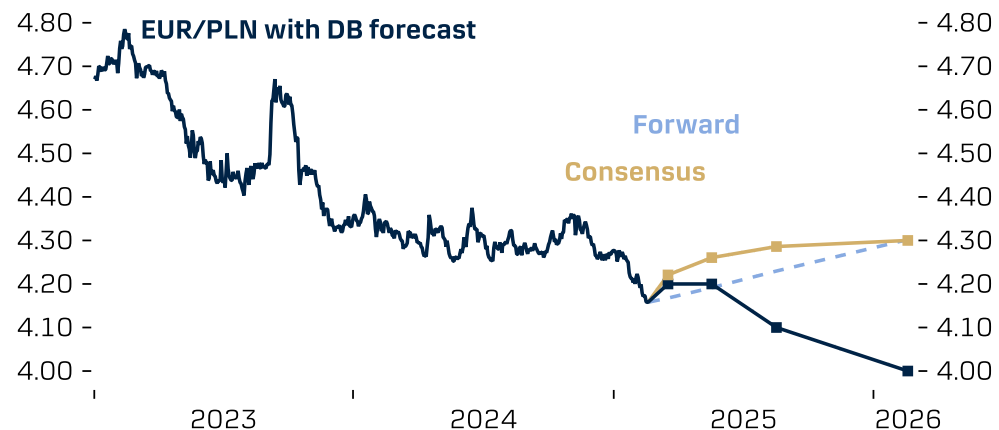
Income: We recommend hedging CHF income via risk reversals.

Expenses: We recommend hedging CHF expenses via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

EUR/PLN



Hedging recommendations

Income: We recommend hedging PLN income via knock-in forwards.

Expenses: We recommend hedging PLN expenses via FX forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

FX Forecast Table

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Exchange rates vs EUR

G10	Last Update: 20-02-2025				
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.04	1.05	1.04	1.02	1.00
EUR/JPY	157	158	154	146	140
EUR/GBP	0.83	0.83	0.82	0.81	0.81
EUR/CHF	0.94	0.93	0.92	0.91	0.90
EUR/SEK	11.16	11.20	11.20	11.40	11.50
EUR/NOK	11.59	11.80	12.00	12.20	12.40
EUR/DKK	7.4589	7.4625	7.4600	7.4550	7.4550
EUR/AUD	1.64	1.67	1.68	1.67	1.64
EUR/NZD	1.82	1.81	1.82	1.79	1.75
EUR/CAD	1.48	1.48	1.49	1.47	1.45
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.17	4.20	4.20	4.10	4.00
EUR/HUF	402	410	420	430	440
EUR/CZK	25.1	25.1	25.1	25.0	24.9
EUR/TRY	38.0	38.6	39.4	40.3	42.7
EUR/ZAR	19.3	19.3	19.1	18.6	18.1
EUR/CNY	7.58	7.61	7.59	7.60	7.60
EUR/INR	90.4	91.4	91.0	89.8	89.0



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