Market Guide

16 April 2024
https://research.danskebank.com

Analyst
Kirstine Kundby-Nielsen
+45 45 14 15 29
kigrn@danskebank.dk

Director
Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.dk

Director
Jens Nærvig Pedersen
+45 45 12 80 61
jenpe@danskebank.dk

Associate
Mohamad Al-Saraf
+45 45 14 12 24
moals@danskebank.dk

Assistant Analyst
Oscar Christian Dahl Pedersen
oscp@danskebank.dk

Important disclosures and certifications are contained on page 10 of this report.

Gear up for NOK weakness

US outperformance continues

The economic divergence between the US and the rest of the world has become increasingly pronounced. The latest US inflation prints highlight that underlying inflation pressures seemingly remain stickier than in most other parts of the world supported by a strong US labour market. As a result, US rates have continued to rise with markets now expecting less than 45bp worth of cuts for 2024, down from 150bp at the beginning of the year. While there are signs of the global manufacturing cycle recovering, a softening in some leading indicators is broadly in line with our expectation of a temporary and mostly inventory-driven upturn rather than a new manufacturing boom. Oil prices have tracked higher over the past month now trading close to 90 USD/bbl. We see limited further topside to oil prices as the US could halt its buying of oil for its strategic reserves and potentially start selling again. A further rise will likely also tempt OPEC+ members to increase supply and weaken compliance to the current output reducing strategy.

The USD has been the big winner over the past month, with EUR/USD breaking firmly below the 1.07 mark on the back of US economic outperformance, higher energy prices and markets pricing out cuts from the Fed. Scandies have continued to face headwinds from higher USD-rates with a higher oil price failing to notably support the NOK. The JPY continues to perform poorly amid global rates moving higher, which has sent USD/JPY to new decade highs even as Bank of Japan has exited its negative interest rate policy.

Outlook: temporary weaker USD, headwind to Scandies

In the near term, we see the case for lower USD rates as we believe markets underestimate the potential for a summer Fed rate cut. If proven right this should yield some temporary support to EUR/USD. That said, the potential is limited and we maintain our long-term case for a lower EUR/USD based on amongst other things the structural case for stronger US growth dynamics as a function of productivity-, labour force- and terms-of-trade developments. We expect EUR/NOK to move higher over the year not least based on the cocktail of below-trend global growth and contractionary global monetary conditions. Akin to the NOK, we pencil in SEK weakening on the back of the cyclical backdrop and relative central bank pricing, targeting the EUR/SEK at 11.60 in 6 months.

Risks to our forecasts primarily lie in the combination of a sharp drop in core inflation and a more resilient global economy than what we pencil in. In the near-term, we closely monitor developments in global manufacturing and US inflation. Also, an eventual much harder landing than what we pencil in would require a sharp easing of global monetary conditions, which would likely entail a much weaker USD after an initial squeeze higher.

Too aggressive repricing could lead to near-term USD-weakness

USD

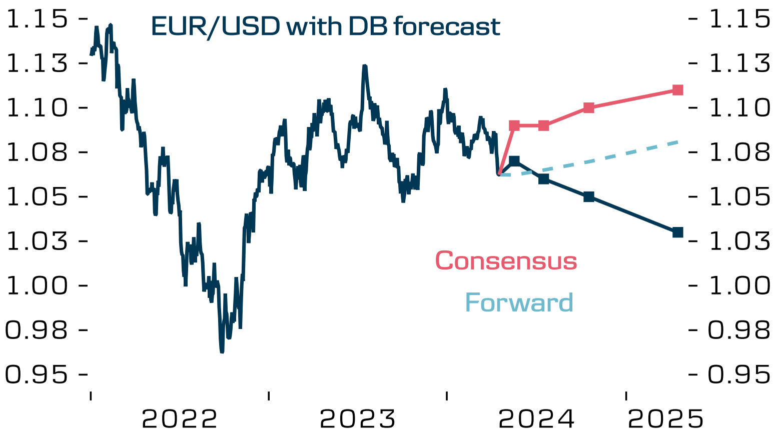
- US economic activity data remains stronger than expected with solid job growth and continued CPI upside surprises, adding doubt to the disinflation backdrop. However, cyclical factors point to a slowdown in US figures ahead, and we still expect the labour market balance to continue improving. In the euro area, growth momentum remains stagnant, and inflation is declining, but wage growth and tight labour markets remain relatively strong. Recent signs of a rebound in the global manufacturing sector have slightly receded.

- Over the past month, we have seen a notable divergence in market expectations regarding rate cuts by the Fed and ECB. Currently, there are around 45bp of rate cuts priced in for the Fed for the full year, compared to 85bp for the ECB. While it is not a high conviction call, we still anticipate the Fed to start its rate-cutting cycle in June, followed by two additional cuts for the remainder of the year. For the ECB, we expect the widely anticipated rate cut in June to be followed by two more cuts later this year. Therefore, we believe that the aggressive repricing by the Fed is excessive, and if we are correct, this could provide some support to EUR/USD in the near term.

- We still believe that fundamental factors point to a lower EUR/USD in the medium term, including the structural case for stronger US growth dynamics. In the near term, we believe that the recent repricing of Fed rate cut expectations has been excessively aggressive. If we are correct, and if US data results in an increased likelihood of a June Fed cut, this could potentially provide some support to EUR/USD in the near term.

- In general, persistent cyclical tailwinds pose risks to our long-term forecast. Additionally, substantial weakness in the US economy also presents a risk to our forecast, as does a significant improvement in the euro area economy e.g. supported by a rebound in the global manufacturing sector.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.07	1.06	1.05	1.03
Consensus	1.09	1.09	1.10	1.11
Forward	1.06	1.06	1.07	1.08

Hedging recommendations

Income: Sell USD via risk reversals.

Expenses: Purchase USD via forwards and take advantage of potential short-term losses in USD to further increase hedging.

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

BoE turning more dovish sets the scene for GBP

GBP

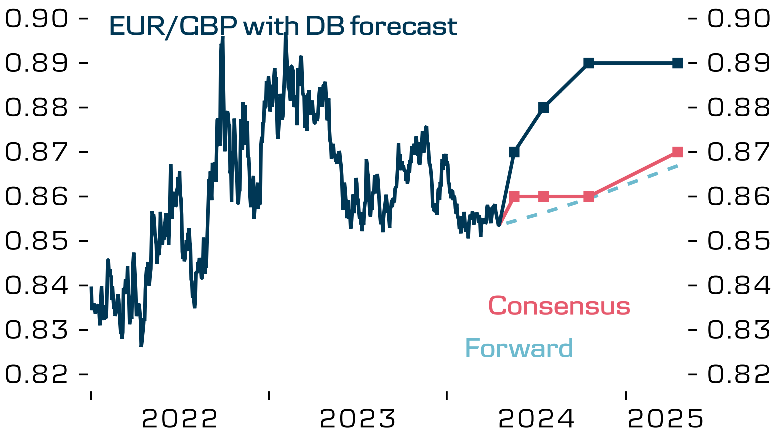
- Our long-held view of inflation not set to develop materially different in the UK compared to peers is increasingly materialising. Large base effects from energy prices are set to bring headline inflation back to 2% during Q2 2024. The labour market continues its gradual loosening with further decline in recruitment activity, easing in wage growth and rising candidate availability. However, wage growth remains unsustainable with a 2% inflation target. PMIs point to a rebound in activity and hence a pickup in growth in 2024 following a technical recession at the end of 2023.

- We continue to expect the Bank of England (BoE) to prime markets for a rate cut at the May meeting, which includes updated projections, delivering the first cut of 25bp in June. We think the recent dovish shift in both the vote split, wording of the statement and remarks from Governor Bailey increases the likelihood of our call of a June cut materialising. We expect 25bp cuts in the following quarters, totaling 75bp of cuts for 2024. Markets are pricing 50bp for the remainder of the year with the first 25bp cut fully priced by August. On balance, we continue to see relative rates as a positive for EUR/GBP.

- We think the dovish shift marks an important turning point for EUR/GBP with BoE at present not set to lag peers, namely the ECB, notably in an impending cutting cycle. We expect upcoming data to increasingly support this notion. Additionally, we expect the UK economy to perform relatively worse than the euro area and expect relative growth outlooks and broad central bank pricing to weigh on GBP. We target the cross at 0.89 in 6-12M.

- The risks that could see EUR/GBP trade substantially below our projection is if the UK economy considerably outperforms the euro area and/or inflation sustainably returning to target coupled with an above-trend acceleration in global growth.

EUR/GBP



	1M	3M	6M	12M
Danske Bank	0.87	0.88	0.89	0.89
Consensus	0.86	0.86	0.86	0.87
Forward	0.85	0.86	0.86	0.87

Hedging recommendations

Income: Sell GBP via forwards.

Expenses: Buy GBP via risk reversals.

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

SEK could be supported temporarily near-team

SEK

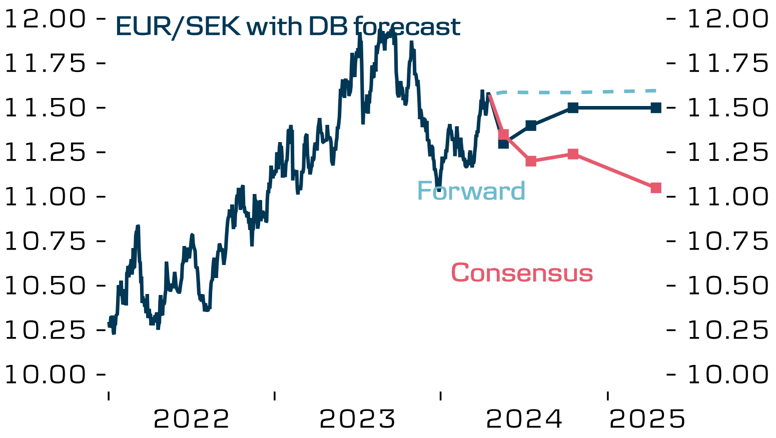
- The global economy remains sluggish, although the US has proven surprisingly resilient in stark contrast to Europe. This is a triple headwind for the SEK, which is typically proportional to global growth, high-beta to European growth and susceptible to the relative growth-driven US-European rate gap. In addition, the Swedish economy has been hit relatively hard by indebted and rate-sensitive households, erosion of real incomes and prudent fiscal policy. These headwinds are likely to wane over the medium term as global monetary policy and domestic fiscal policy turn less restrictive.

- The Riksbank (RB) and the ECB are unlikely to diverge substantially from one another in the upcoming easing cycle. We expect both to cut in June and then delivering one cut per quarter through 2025. The low inflation prints for March suggest that the RB could cut already in May. However, if they do that the risk is that the SEK, which is already 2.5% weaker than forecast, takes a another hit and impair the inflation outlook. In our view, there is nothing to lose from not frontrunning the ECB. Thus, we stick to our June call for now. If we are right the SEK could be supported near term, given that current pricing clearly favours a May cut.

- Potentially negative, yet transitory, dividend flows alongside macro shocks including the US and Swedish CPI surprises last week have contributed to the recent rally in EUR/SEK. We still expect global growth dynamics and relative monetary policy to weigh on the SEK in 2024. Over the somewhat longer horizon the cyclical headwinds are expected to wane, which leaves a flat profile between 6M and 12M.

- Global risk sentiment remains key. The biggest domestic upside risk in the short term is related to our RB call. In the very short term, risks are two-sided and primarily linked to geopolitics and risk sentiment.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.30	11.40	11.50	11.50
Consensus	11.35	11.20	11.24	11.05
Forward	11.59	11.59	11.59	11.60

Hedging recommendations

Income: We recommend selling SEK via forwards and take 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

NOK

The close connection to USD rates is set to continue

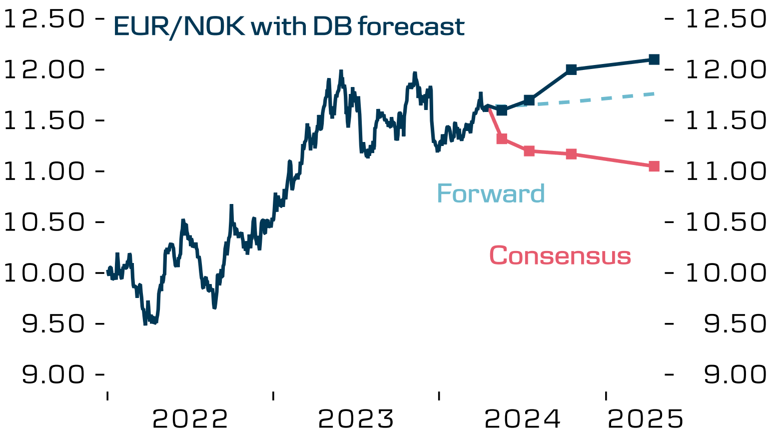
- Mainland activity has done slightly better than expected yet with growth rates still below trend potential as evident from the continued rise in unemployment. The last Regional Network Survey indicated -0.1 q/q growth in Q1 and zero growth prospects for Q2. At 4.5% y/y March core inflation surprised to the downside and we expect the disinflationary trend to continue in the coming quarters. Central wage negotiations ended at 5.2% which does leave some topside risk to Norges Bank's 4.9% wage forecast.

- At the March monetary policy meeting Norges Bank (NB) kept policy rates unchanged incl. the sight deposit rate at 4.50%. At the same time NB also indicated that it is still too premature for a cut in June. We expect the first rate cut in September and an additional two rate cuts in November and December bringing the sight deposit rate to 3.75% by year-end. All in all, we expect relative rates to be a positive for EUR/NOK in the coming quarters.

- In the near-term we expect the close connection between EUR/NOK and USD-rates (higher USD rates, weaker NOK) to continue, which in principle does suggest a near-term downside potential in EUR/NOK given our call for a Fed cut in June. That said, we think the downside potential is very limited and we still see the medium-term balance of risk skewed to the topside for EUR/NOK not least based on the cocktail of below-trend global growth and contractionary global monetary conditions. Also, we see limited further topside to energy prices, we think markets underestimate the potential for a September NB rate cut and the medium-term drivers in the likes of unit labour costs and the broad basic balance of payments look set to remain NOK headwinds.

- Near-term risks are closely connected to the global investment environment incl. the rebound in manufacturing, global real rates, energy prices, news regarding the Middle East and China and the strength of the US economy.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.60	11.70	12.00	12.10
Consensus	11.32	11.20	11.17	11.05
Forward	11.64	11.65	11.68	11.76

Hedging recommendations

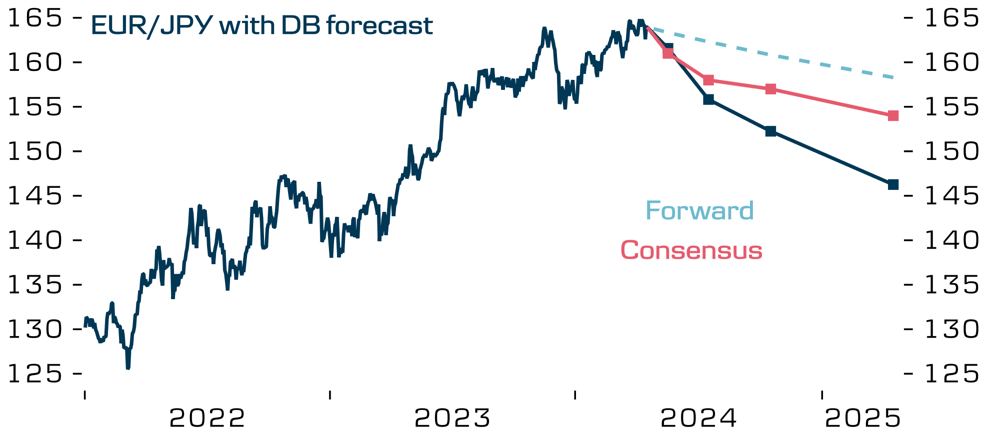
Income: Sell NOK via forwards.

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



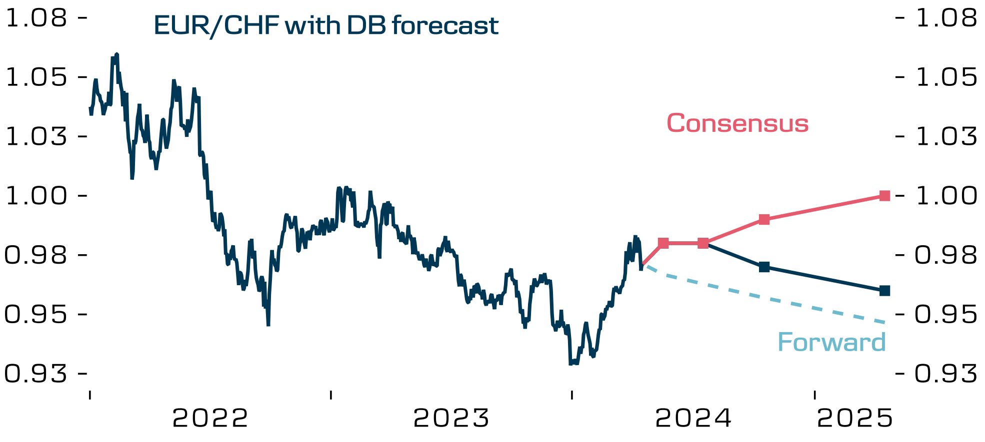
Hedging recommendations

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

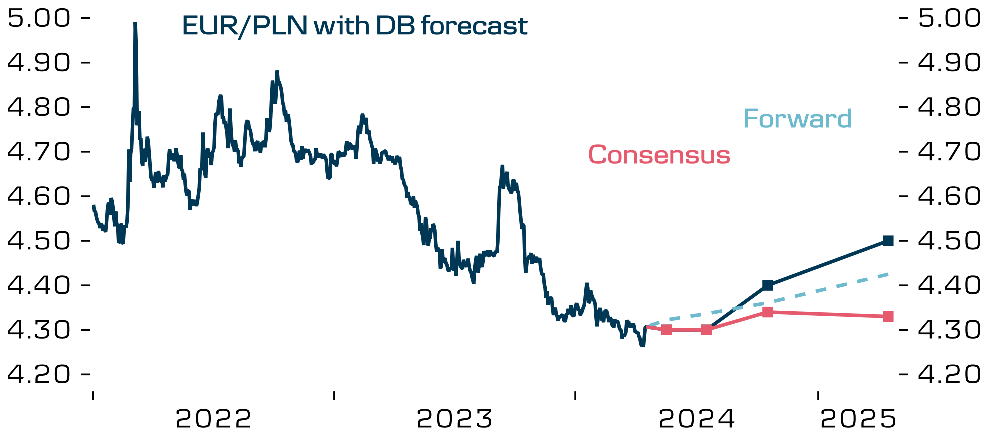
Income: Sell CHF via risk reversals.

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 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

Danske Bank

Exchange rates vs EUR

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	16-04-2024
Exchange rates vs EUR					
EUR/USD	1.06	1.07	1.06	1.05	1.03
EUR/JPY	164	162	156	152	146
EUR/GBP	0.85	0.87	0.88	0.89	0.89
EUR/CHF	0.97	0.98	0.98	0.97	0.96
EUR/SEK	11.59	11.30	11.40	11.50	11.50
EUR/NOK	11.63	11.60	11.70	12.00	12.10
EUR/DKK	7.4606	7.4550	7.4550	7.4500	7.4500
EUR/AUD	1.65	1.65	1.66	1.67	1.66
EUR/NZD	1.80	1.78	1.80	1.81	1.81
EUR/CAD	1.47	1.47	1.47	1.49	1.50

EM	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.32	4.30	4.30	4.40	4.50
EUR/HUF	395	390	400	400	420
EUR/CZK	25.3	25.3	25.2	25.0	25.0
EUR/TRY	34.5	35.3	36.0	37.3	40.1
EUR/ZAR	20.2	20.1	19.5	18.7	17.2
EUR/CNY	7.68	7.75	7.69	7.63	7.52
EUR/INR	88.6	89.2	88.5	87.8	86.3

Disclosure and disclaimer (1/2)

Market Guide is a general research report, and any recommendations reflect a general opinion. As such, the report does not consider your specific situation as an investor, including, in particular, your investment profile. This means that although the bank may have a general recommendation, such recommendation may not be appropriate for you as an investor owing to your particular circumstances.

Market Guide does not constitute an offer or a solicitation to buy or sell securities, foreign currency or financial instruments.

We recommend that you discuss any potential transactions with your investment adviser to ensure that any investment decisions you make are appropriate given your personal circumstances.

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are presented on page 1.

The following disclaimer and disclosure apply to all communication as such, though for the parts that refer to the term "investment recommendation", the disclaimer and disclosure are only applicable as far as the communication falls under the definition in Regulation (EU)No 596/2014. This communication has been prepared by personnel in the LC&I Sales & Trading departments or non-independent Research departments of Danske Bank A/S. The views set forward in this communication may differ from views or opinions in other departments of Danske Bank A/S. It constitutes a short-term view and is subject to change and Danske Bank A/S does not undertake to notify any recipient of this communication of any such change. Details of the producer's previous investment recommendations on the relevant financial instrument and all previous investment recommendations made in the past 12 months by the producer will be available upon request.

LC&I's Sales & Trading departments' or non-independent Research departments' personnel are not independent research analysts, and this communication is not intended to constitute "investment research" as that term is defined by applicable regulations. This communication has as such not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of the communication. The personnel in LC&I's Sales & Trading departments or non-independent Research departments may be remunerated based on investment banking revenues. Danske Bank A/S may hold a position or act as market maker in any financial instrument discussed herein. Prices and availability are indicative and may change without notice.

This communication is provided for informational purposes only and should not be considered investment, legal or tax advice. 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. Danske Bank A/S is not acting as an advisor, fiduciary or agent. Recipients of this communication should obtain advice based on their own individual circumstances from their own tax, financial, legal and other advisors about the risks and merits of any transaction before making an investment decision, and only make such decisions on the basis of the investor's own objectives, experience and resources.

This communication has been prepared independently and solely on the basis of available information that Danske Bank A/S considers to be reliable, but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to and no reliance should be placed on the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this communication and Danske Bank A/S, 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 communication.
For current disclosures of Danske Bank A/S' interests and potential conflicts of interest regarding issuers and financial instruments subject of investment recommendations please refer to the following webpage: https://danskeci.com/ci/research/disclosures-and-disclaimers.

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

Disclosure and disclaimer (2/2)

Please note that while information on the great majority of relevant issuers and financial instruments are contained on this website, it may not contain information on all relevant issuers and financial instruments. The absence of information on any relevant issuer or financial instrument should not be seen as an indication that Danske Bank A/S does not have any interests or potential conflicts of interest on the issuer or financial instrument. Please contact your Danske Bank A/S representative for information regarding any issuer subject of investment recommendation that is not mentioned on https://danskeci.com/ci/research/disclosures-and-disclaimers.

Danske Bank A/S 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 A/S is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank A/S on request.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this communication is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This communication is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/Swill rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the United States

This communication was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The communication 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 investment recommendation in connection with distribution in the United States solely to 'U.S. institutional investors'.

Any U.S. investor recipient of this communication 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.

This communication is for the general information of our clients and is a 'solicitation' only as that term is used within CFTC Rule 23.605 promulgated under the U.S. Commodity Exchange Act. Unless otherwise expressly indicated, this communication does not take into account the investment objectives or financial situation of any particular person.

Report completed: 16 April 2024, 12:50 CET

Report first disseminated: 16 April 2024, 13:15 CET