

# Market Guide

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# *Global environment and strong US economy to support USD*

## **Markets continue to scale back on expectations of rate cuts**

Global rates have continued to rise amid markets scaling back expectations of rate cuts supported by hawkish tones from central banks. While our view continues to be that market pricing remains too aggressive on most G10 central banks, the recent repricing increasingly aligns with our view. The US economy remains on a strong footing underpinned by a still tight labour market. Turmoil connected to the New York Community Bank has reignited concerns related to regional banks in the US. While the incident appears to be contained it highlights the vulnerability of the sector. Over the past month, the war in the Middle East has continued and tensions have risen with the US and UK initiating air strikes targeting Houthi rebels in the region. However, the market impact has proven limited at this stage.

The USD has been the clear outperformer so far this year as markets have repriced the outlook for global rate cuts and as the US economy continues to show underlying strength. Likewise, GBP has benefitted from a sharp repricing of the Bank of England amid a continued hawkish vote split and inflation remaining elevated. On the other hand, the cyclically sensitive Scandies have faced headwinds since the beginning of the year. JPY continues to face headwinds from a dovish Bank of Japan and higher global real rates. EUR/DKK briefly spiked above the central rate, a move we largely attribute to Novo Nordisk related news and flows.

## **Outlook: stronger USD, weaker Scandies**

We maintain our case of a strategic case for a lower EUR/USD in the medium term. While our forecast for the Fed and the ECB suggests upside risk to the cross in Q1, we stress that a broader central bank pricing could prove to be more crucial for EUR/USD. We therefore see any rally in the cross as temporary. For NOK, we see relative rates, below-trend growth globally and that markets should price in tighter global monetary conditions as headwinds that are likely to push the cross higher on a 3-12M horizon. We do not see the trigger for a sustainable turnaround in the next 12M. We pencil in SEK weakening on the back of the cyclical backdrop, relative central bank pricing and the structural flows outlook, targeting the EUR/SEK at 11.60 in 6-12 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 following tentative signs of a turn in the global manufacturing cycle. Also, a 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.



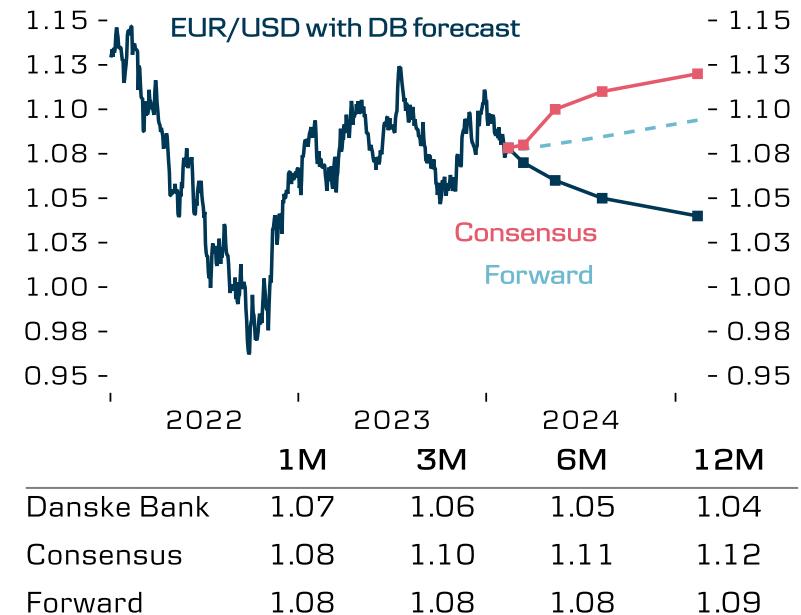
# USD

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## Robust US fundamentals to continue supporting the USD

- Even though US data has been surprisingly strong recently, and the latest jobs report was much stronger than expected, we believe there are underlying signs of softening, and we expect the labour market balance to continue improving, bolstering the broader disinflation backdrop. 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 the global manufacturing sector rebounding, could pose a risk to our forecast, potentially supporting the manufacturing-heavy European economy and the EUR in H1.
- The question now is when central banks will begin rate-cutting cycles. Although our call for a March cut from the Fed has increasingly looked challenged, we stick to it as we expect the current disinflationary trend will allow the Fed to cut early, followed by three more quarterly cuts of 25bp. In the euro area, we expect the ECB to implement the first 25bp rate cut in June, followed by two additional cuts in H2. Markets price in around 5x25bp worth of cuts for both.
- We maintain the strategic case for a lower EUR/USD based on the relative terms of trade, real rates, and relative unit labour costs. Hence, we expect a downward trajectory over the course of the year. In the near term, we like to sell the cross on rallies. Although our forecast for the Fed and the ECB suggests upside risk to EUR/USD in H1, we stress that the broader market pricing in G10, which we believe is too aggressive for cuts, could prove to be more crucial for EUR/USD. Unless we see a notable turnaround in US data, we anticipate the USD to remain strong 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



### 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

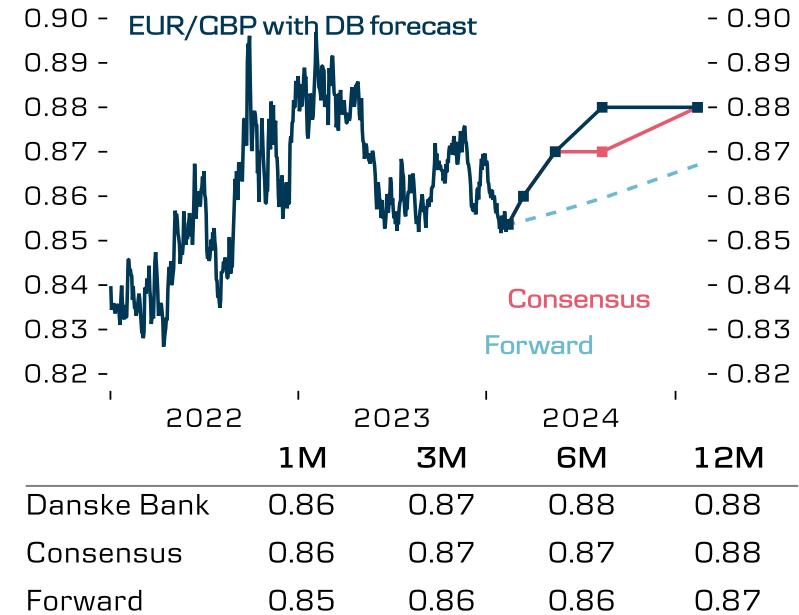


# GBP

## Near-term support to GBP set to fade

- Data releases have overall pointed to more muted price pressures in the UK, although November and December data highlight that the road back to 2% will be bumpy. Large base effects from energy prices are set to bring headline inflation back to 2% during H1. We do not see inflation developing materially different in the UK compared to elsewhere. Wage growth continues to edge lower with the pace of wage growth in the private sector now sustainable with a 2% inflation target. More broadly on the labour market, there is still uncertainty around the official statistics, but revised data indicate that the labour market is tighter than previously expected. PMIs continue to print above 50 both for the composite and service index amid recovery in real incomes, which could point to a slight rebound in GDP.
- We expect the Bank of England (BoE) to keep the Bank Rate unchanged at 5.25% after hiking the Bank Rate by a total of 515bp over the past years. We expect the BoE to deliver the first 25bp cut in June and a total of 75bp for 2024. Markets have recently scaled back on expectations for cuts, currently pricing 80bp for the year. On balance, we continue to see relative rates as a moderate positive for EUR/GBP.
- Over the past month, EUR/GBP has continued its move lower, breaching below the 0.86 mark on the back of primarily a sharp BoE repricing. This could continue to lend support in the near-term. At present, we do not see the global investment environment to create meaningful divergence between EUR and GBP. However, 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 0.88 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 acceleration in global growth.

### EUR/GBP



### Hedging recommendations

**Income:** Sell GBP via forwards.

**Expenses:** Buy GBP via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank

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# SEK

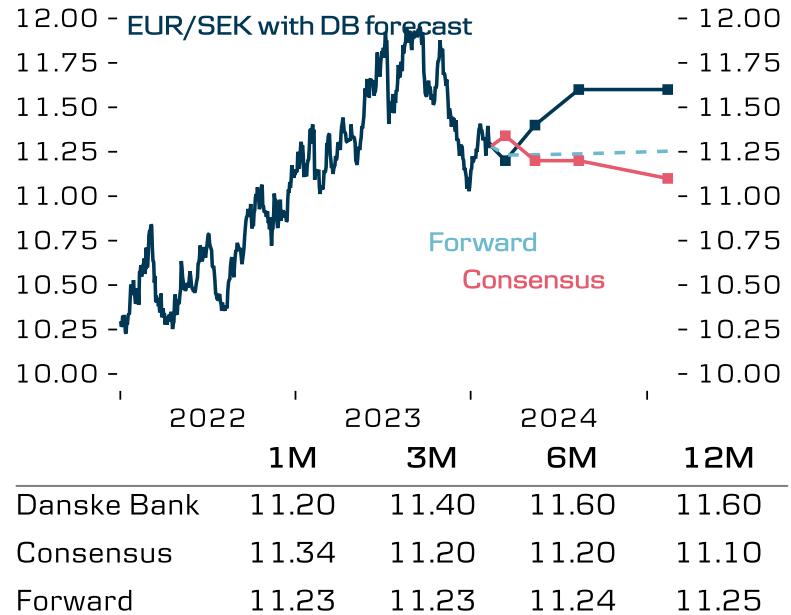
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## We remain negative on the SEK

- Global growth is staged for a slowdown in 2024. Subdued global growth is an environment where pro-cyclical currencies as the SEK perform poorly. Historically, the regime that we think will define 2024, low growth/normal inflation, has resulted in a +6% return in EUR/SEK. Sweden is in a technical recession, though GDP looks set to grow in Q4 2023 even as domestic demand remained stagnant - no cushion when global GDP disappoints. That said, beyond 2024 the cyclical backdrop gets more constructive for the SEK.
- We think the Riksbank (RB) will embark on an easing cycle in June, in tandem with the ECB and other European central banks. We do not expect RB to be a laggard vs. major central banks, nor do we expect the Fed to be a global leader. Thus we do not see relative rates pulling down the USD nor act as a tailwind for the SEK. RB keeps the SEK high on the agenda, as confirmed by the latest Minutes. Excessive SEK weakness may delay rate cuts. As expected, RB raised the pace for QT in February, where at least one member (Breman) argues that this could support the SEK via unhedged demand from foreign investors.
- EUR/SEK and USD/SEK have rebounded sharply year-to-date, which is well justified in our view and in line with our projections. The cyclical backdrop remains a headwind for the SEK in our view amid subpar and even recession-like European growth outlook. The Swedish economy, which entered recession in Q3 2023, is set to pick up even as domestic demand and the housing market are stagnant. RB will not lag the ECB - and the Fed will not significantly lead other central banks - in the easing cycle. This leaves the SEK in a vulnerable position from a rates perspective, too.
- Overall risks comprise the global risk sentiment, hard landing vs. a more benign scenario alongside central bank surprises relative to our calls.

### EUR/SEK



### Hedging recommendations

**Income:** We recommend selling SEK via forwards

**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

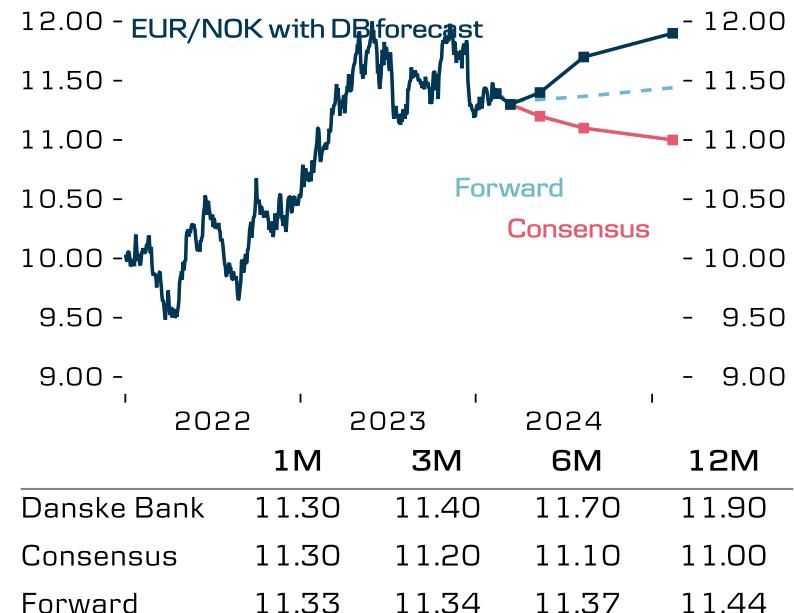
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## More downside in store for NOK

- Mainland growth remains weak and forward looking indicators point to negative growth in the coming quarters. Unemployment continues to tick higher although very modestly, while the number of unfilled vacant positions remains elevated. The disinflationary tendencies have continued in 2024 although domestic service price inflation surprised to the topside in January. This requires monitoring heading into the central wage negotiations this spring and marks a risk to our call on Norges Bank (NB) initiating a cutting cycle in June. Finally, revised house prices from Real Estate Norway show that the housing market performed worse than expected in 2023, but on the other hand has been off to a strong start in 2024.
- At the December monetary policy meeting NB surprised markets by hiking the sight deposit rate to 4.50%. We think the peak in policy rates has now been reached and we pencil in five 25bp rate cuts in 2024 with the first cut coming in June at the latest.
- NOK has been off to a poor start this year. We regard relative rates to be a positive for EUR/NOK in 2024 and given our call for below-trend-growth globally and that markets should price in tighter global monetary conditions that rarely pose an environment in which EUR/NOK declines. In the near-term, we will closely monitor developments in global manufacturing. However, in the absence of a sharp growth acceleration combined with further global disinflation, we think the balance of risk favours a higher EUR/NOK in 3-12M. We think NOK is fundamentally undervalued but we do not see the trigger for a sustainable turnaround in the next 12M.
- 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



### Hedging recommendations

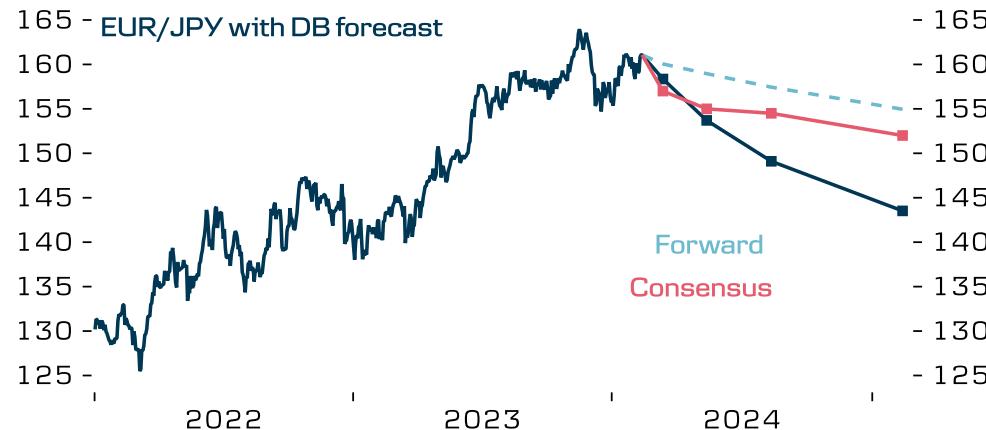
**Income:** Sell NOK via forwards.

**Expenses:** Buy NOK via risk reversal.

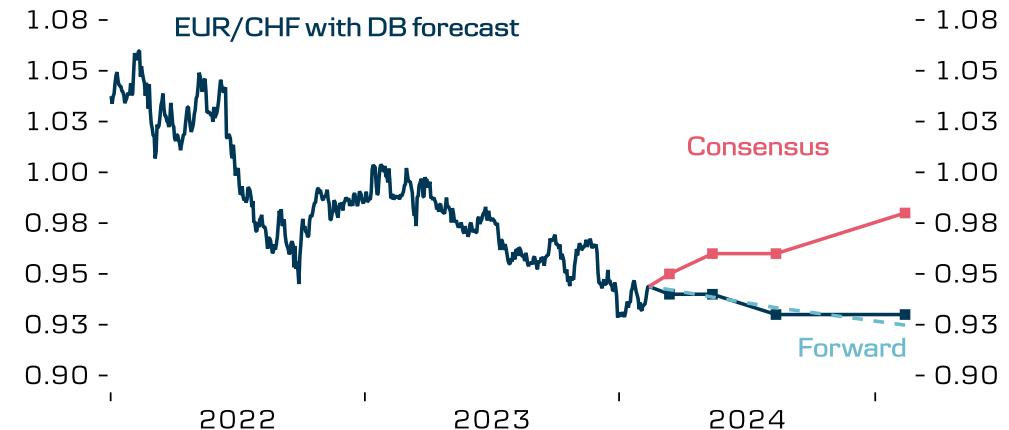
Source: Macrobond, Bloomberg, Danske Bank Note: Past performance is not a reliable indicator of current or future results

# Others

## EUR/JPY



## EUR/CHF



### 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

### Hedging recommendations

**Income:** Sell CHF via risk reversals.

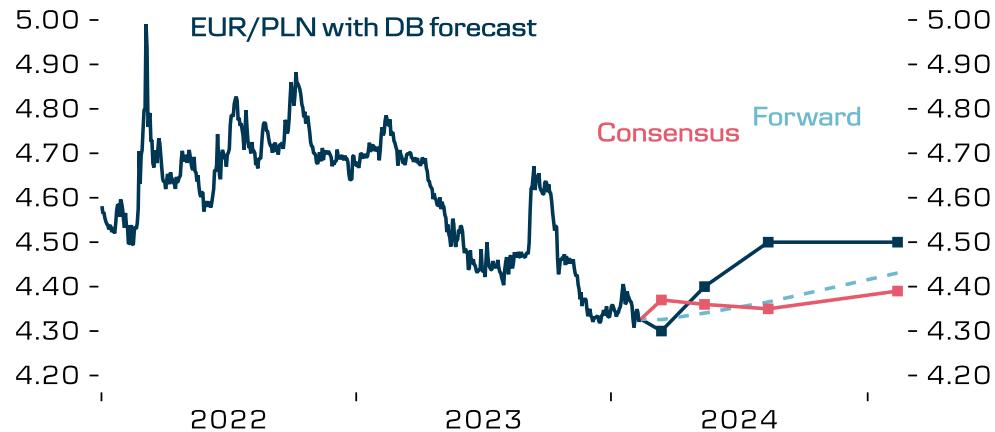
**Expenses:** Buy CHF via forwards.

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*Exchange rates vs EUR*

G10						Last Update: 13/02/2024
	Spot	+1m	+3m	+6m	+12m	
<b>Exchange rates vs EUR</b>						
EUR/USD	1.08	1.07	1.06	1.05	1.04	
EUR/JPY	161	158	154	149	144	
EUR/GBP	0.85	0.86	0.87	0.88	0.88	
EUR/CHF	0.95	0.94	0.94	0.93	0.93	
EUR/SEK	11.25	11.20	11.40	11.60	11.60	
EUR/NOK	11.30	11.30	11.40	11.70	11.90	
EUR/DKK	7.4548	7.4600	7.4550	7.4500	7.4500	
EUR/AUD	1.65	1.65	1.66	1.67	1.68	
EUR/NZD	1.76	1.78	1.80	1.81	1.82	
EUR/CAD	1.45	1.44	1.45	1.46	1.50	
<b>EM</b>						
	Spot	+1m	+3m	+6m	+12m	
EUR/PLN	4.32	4.30	4.40	4.50	4.50	
EUR/HUF	387	390	400	400	420	
EUR/CZK	25.3	25.2	25.1	25.0	25.0	
EUR/TRY	33.2	33.5	34.2	35.5	38.3	
EUR/ZAR	20.3	20.2	19.8	19.3	18.4	
EUR/CNY	7.76	7.70	7.69	7.67	7.70	
EUR/INR	89.4	88.8	88.3	87.7	87.1	

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