Market Guide

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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

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Near-term USD weakness as the global easing cycle commences

SNB kicks off G10 easing cycle

Global rates have continued to rise amid markets scaling back expectations of rate cuts. The move has largely been driven by the US economy remaining on a strong footing underpinned by a still tight labour market with inflationary pressures showing signs of persistence. However, recent activity data has started to show signs of weakness. At the March meeting the Fed maintained its easing bias whilst highlighting the possibility for rate cuts despite strong activity levels. As the first G10 central bank, the SNB has lowered its policy rate by 25bp to 1.50%, while the BoE firmly opened the door for rate cuts. Conversely, the BoJ hiked its key policy rate to end its negative interest rate policy and scrapped its yield curve control following a long period of above 2% inflation in Japan and rising wage growth.

The USD continues to be closely tied to movements in global real rates with EUR/USD trading close to the 1.08 mark. GBP has faced headwinds recently amid dovish tones from the BoE. Scandies have continued to perform poorly and despite widening rates spreads and a higher oil price the NOK has been a clear underperformer in Majors space this year. EUR/CHF reached the highest level since July 2023 following the SNB initiating its cutting cycle. The JPY failed to strengthen following the hike from the BoJ with USD/JPY, in a move that was largely anticipated by markets.

Outlook: temporary USD weakness, weaker Scandies

We maintain our case of a strategic case for a lower EUR/USD in the medium term. In the near term, we think the potential for an early Fed cut poses upside risk to the cross, and perhaps markets have also become too optimistic on US exceptionalism and too pessimistic on economic data from the euro area and China. In the absence of a global growth re-acceleration above trend potential, we continue to see the EUR/NOK balance of risk skewed to the topside and target the cross at 12.10 in 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 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.

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USD

Temporary weakness

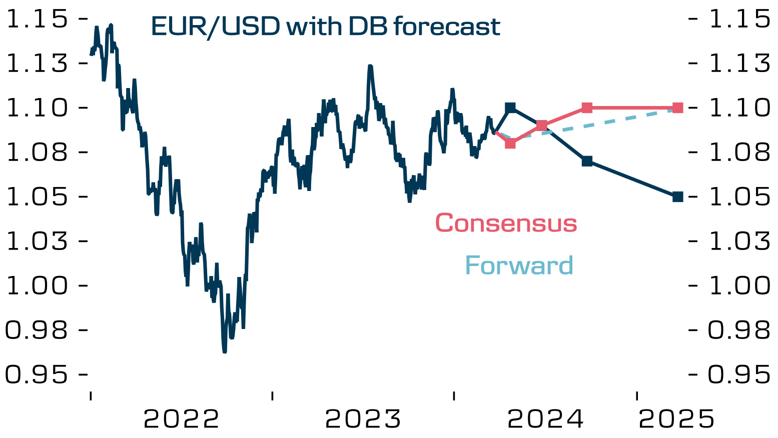
- After a very strong start to the year, US economic activity data has started to show slightly weaker signs relative to expectations, for example, with the latest retail sales figures. Inflation data has generally surprised to the topside, but the disinflation backdrop remains intact, and we expect the labour market balance to continue improving, which should support this further. 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.

- We expect the current disinflationary trend will allow the Fed to cut in May earlier than market expectations, followed by two more quarterly cuts during the year. In the euro area, we expect the ECB to implement the first rate cut in June, followed by two additional cuts in H2. Hence, our cumulative calls for 3x25bp rate cuts from the Fed and the ECB are currently well in line with market pricing and should not weigh heavy on EUR/USD over the year.

- We maintain the strategic case for a lower EUR/USD based on 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 think the potential for an early Fed cut poses upside risk to the cross, and perhaps markets have also become too optimistic on US exceptionalism and too pessimistic on economic data from the euro area and China. Strategically, we maintain our USD-positive bias, however, as the structural growth case seems significantly stronger relative to the rest of the world.

- 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	1.10	1.09	1.07	1.05
Consensus	1.08	1.09	1.10	1.10
Forward	1.08	1.09	1.09	1.10

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

Dovish BoE setting the tone for GBP

GBP

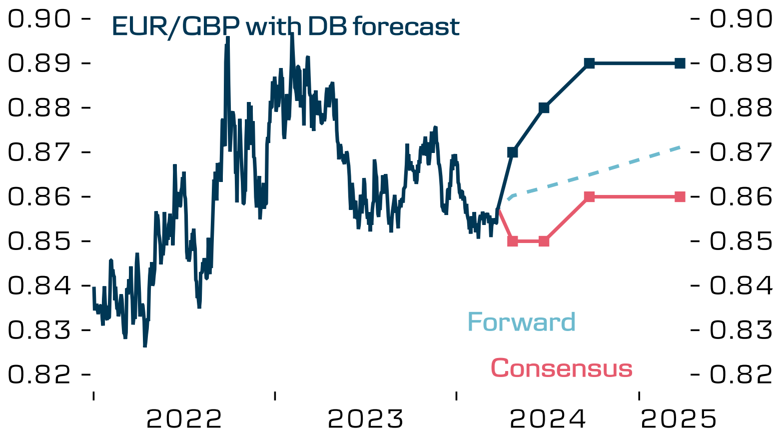
- Our long-held view of inflation not set to develop materially different in the UK compared to peers is increasingly materialising. The past month, data releases have overall pointed to more muted price and wage pressures in the UK. More broadly, large base effects from energy prices are set to bring headline inflation back to 2% during Q2 2024. Wage growth continues to edge lower supported by a gradually loosening of the labour market. PMIs remain in expansionary territory amid recovery in real incomes, which could point to a slight rebound in GDP 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. However, we stress that the recent dovish shift in both the vote split, wording of the statement and remarks from Governor Bailey opens the door for a cut already in May. We expect 25bp cuts in the following quarters, totaling 75bp of cuts for 2024. Markets are pricing close to 85bp 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.

- Recently EUR/GBP has moved higher on the back of a dovish shift from the BoE. We think the dovish shift marks an important turning point for EUR/GBP with BoE at present not set to lag peers notably in an impending cutting cycle. 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 acceleration in global growth.

EUR/GBP



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

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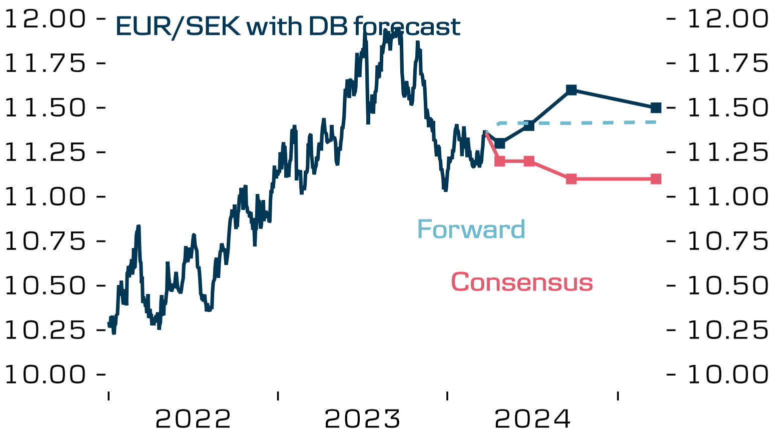
Cyclical backdrop to weigh on SEK in 2024

SEK

- Global growth remains staged for a slowdown in 2024, although a soft landing rather than a recession looks increasingly likely. However, it is mainly the US that has proven surprisingly resilient whereas European growth has been outright weak. We expect this US-Europe divergence to continue at least over the course of 2024, which ought to weigh on US assets vs European, including the SEK. That said, there are already now some green shoots in the Swedish economy, and we expect the cyclical outlook to brighten as we approach 2025.
- The Riksbank (RB) and the ECB are unlikely to diverge substantially from one another in the upcoming easing cycle, that we expect both to embark on by their respective June meetings. The SEK remains high on the RB's agenda, but we expect focus to fade as the inflation risks dissipate. In terms of inflation risks, the RB has stated that they see the domestic risks as less pronounced in Sweden compared to peers thanks to relatively moderate wage growth. We agree with their assessment and as such we see less risks of an inflation resurgence in Sweden than e.g. the US, which should keep the Fed on their toes and assure a continued rate gap in favour of the USD.
- The cyclical backdrop remains a headwind for the SEK in 2024 amid sub-par and even recession-like European growth outlook. Improved Swedish and global growth is likely to eventually become a supportive factor for the SEK in 2025. The 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.
- Global risk sentiment remains key short-term, alongside potential central bank surprises and other risks related to our "soft landing" call.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.30	11.40	11.60	11.50
Consensus	11.20	11.20	11.10	11.10
Forward	11.41	11.41	11.41	11.42

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

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NOK

NOK performance connected to global investment environment

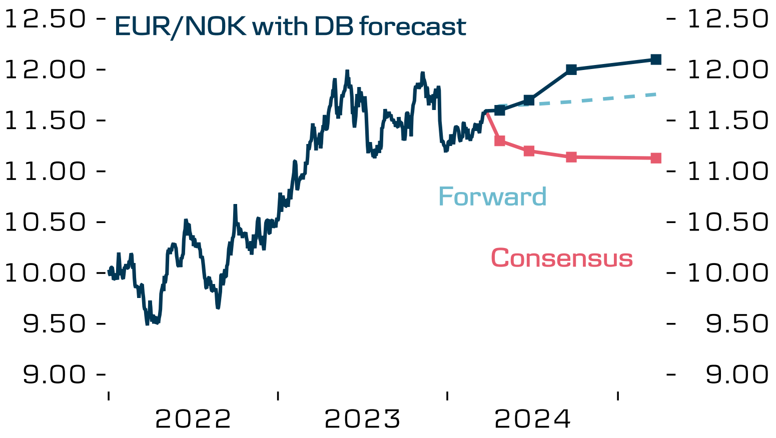
- The mainland economy continues to operate at below trend potential with the rate sensitive parts of the economy suffering from the last years' policy rate hikes. The last Regional Network Survey indicated -0.1 q/q growth in Q1 and zero growth prospects for Q2. At 4.9% y/y core inflation remains far above Norges Bank's inflation target. That said, the latest inflation prints have shown faster disinflationary tendencies with not least domestic food prices, imported inflation and service price inflation excl. rent coming lower. We expect the disinflationary tendencies to continue in the months to come.

- 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.

- Despite widening rates spreads and a higher oil price NOK continues to be a clear underperformer in Majors space this year. In our view, a key reason for that is the connection to the global investment environment and US rates. Over the last months EUR/NOK has broadly mirrored moves in USD rates with lower USD rates benefitting cyclically sensitive assets incl. NOK (and vice versa). In our view it is a prerequisite for a rebound in NOK that global growth re-accelerates above trend potential. However, as this is not part of our base case, we continue to see the EUR/NOK balance of risk skewed to the topside.

- 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	11.30	11.20	11.14	11.13
Forward	11.64	11.66	11.68	11.76

Hedging recommendations

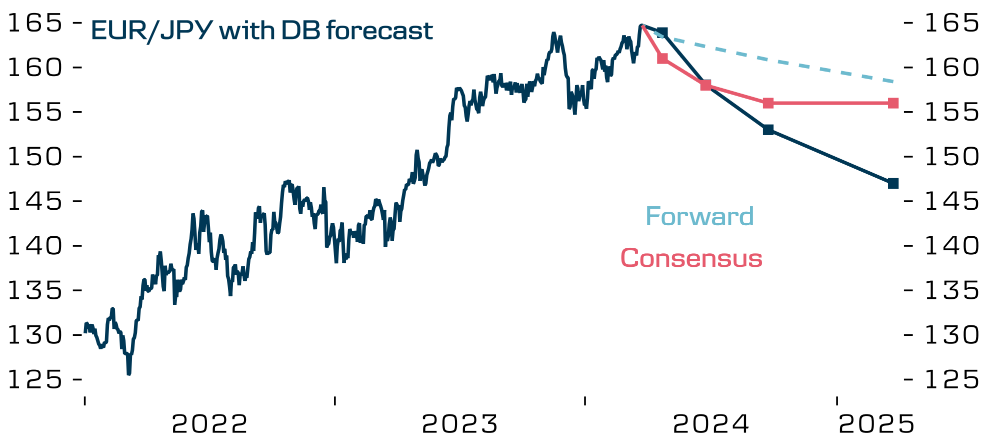
Income: Sell NOK via forwards.

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



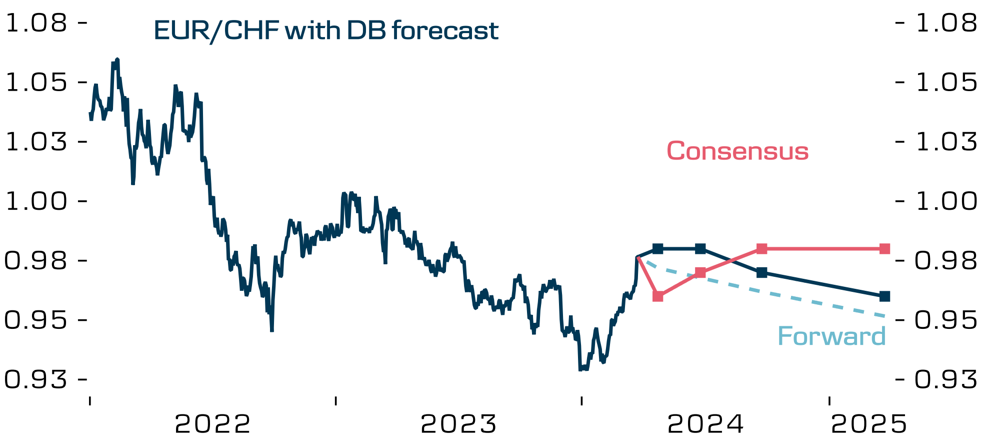
Hedging recommendations

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.

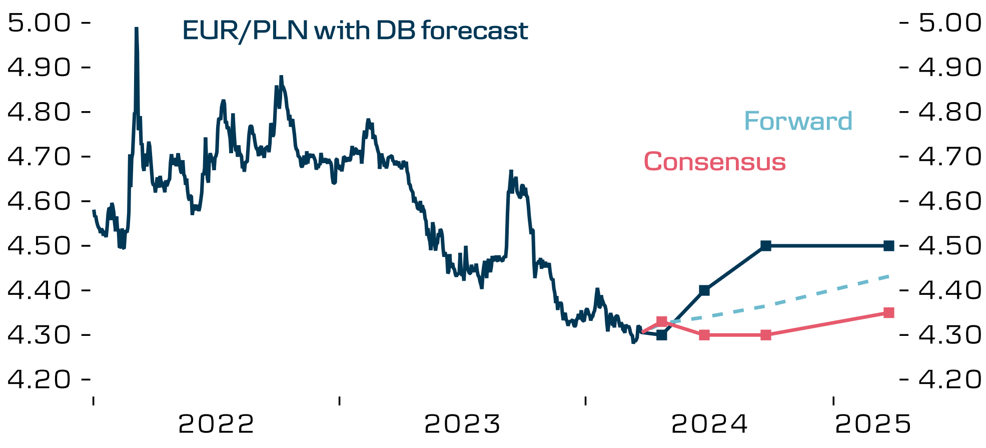
Expenses: Buy CHF via forwards.

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

Danske Bank

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	Spot	+1m	+3m	+6m	+12m
				Last Update:	25/03/2024
Exchange rates vs EUR					
EUR/USD	1.08	1.10	1.09	1.07	1.05
EUR/JPY	164	164	158	153	147
EUR/GBP	0.86	0.87	0.88	0.89	0.89
EUR/CHF	0.97	0.98	0.98	0.97	0.96
EUR/SEK	11.42	11.30	11.40	11.60	11.50
EUR/NOK	11.62	11.60	11.70	12.00	12.10
EUR/DKK	7.4584	7.4600	7.4550	7.4500	7.4500
EUR/AUD	1.66	1.69	1.70	1.70	1.69
EUR/NZD	1.80	1.83	1.85	1.84	1.84
EUR/CAD	1.47	1.49	1.49	1.49	1.51

EM	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.32	4.30	4.40	4.50	4.50
EUR/HUF	397	390	400	400	420
EUR/CZK	25.3	25.2	25.1	25.0	25.0
EUR/TRY	34.8	35.4	36.5	37.5	39.7
EUR/ZAR	20.5	20.7	20.3	19.5	18.3
EUR/CNY	7.79	7.95	7.90	7.81	7.72
EUR/INR	90.2	91.3	90.8	89.3	87.9

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