

Market Guide

June 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

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Scandies benefit on political uncertainty and rising equities...for now

Political unrest

The unexpected announcement of a French snap election has sparked renewed concerns about eurozone public debt levels. European equities have underperformed global benchmarks considerably and the single currency has suffered. US economic data has been a mixed bag of news with inflation pressures easing but with the job market remaining resilient; yet USD rates have declined over the last month. Despite ECB delivering its first cut in the June, sticky services inflation coupled with tight labour markets remain a concern for ECB chief Lagarde. On a broader scale monetary policy signals from G10 central banks have increasingly diverged with a hawkish Norges Bank firmly closing the door for rate cuts in 2024, a dovish SNB delivering its second cut of the year and Bank of Canada launching its cutting cycle. The oil price has risen again to around USD 85 USD/bbl on the back of improved mood in the financial markets.

The increased focus on eurozone public debt concerns has sparked broad EUR weakness with spill-over to the CEE currencies. On the other hand, the USD and the CHF have been among the outperformers. The combination of lower USD rates and eurozone public debt concerns amid decent risk appetite have been supportive for the Scandi currencies over the last month. Additionally, a rise in oil prices and a hawkish Norges Bank has provided tailwind for the NOK.

Outlook: we favour the downside in EUR/USD in H2

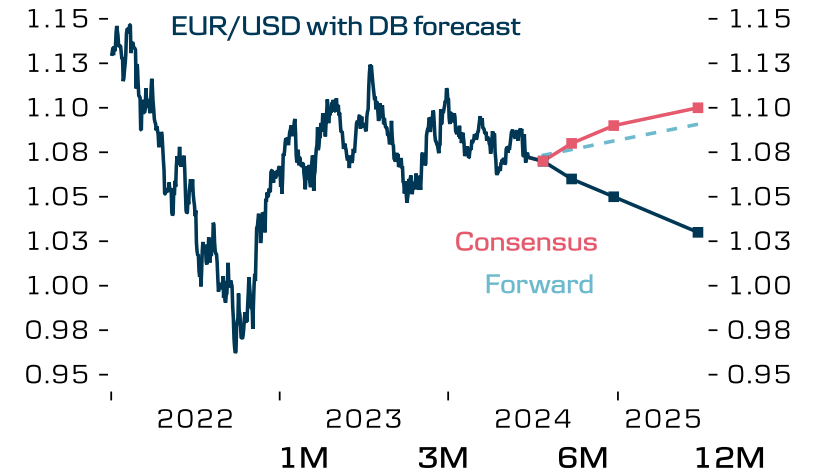
We still believe that fundamental factors point to a lower EUR/USD in the medium term, including the structural case for stronger US growth dynamics. In the near term, we expect the cross to continue trading within a range, but we slightly favour the downside due to the EUR leg potentially remaining fragile owing to the political risk premium. While NOK sentiment could remain positive near-term, we still highlight that the combination of weak global growth and contractionary global monetary conditions very rarely constitute an environment where NOK rallies persist for long. 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 6-12 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 will closely monitor European political developments. 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.

We expect a stronger USD

- US data has started to surprise on the downside, albeit from a high level given the strong start to the year. Inflation data in the US has generally been surprising to the upside this year, but the latest CPI and PPI data indicate that the disinflationary process is ongoing. Especially the May CPI print presented the first discernibly soft print of the year. In the euro area, growth has likely bottomed out, and leading indicators point to stronger momentum in economic activity. Sticky services inflation and tight labour markets remain concerns for the ECB. Recently, the snap election in France has been weighing on the EUR, which could continue over the next month during the election.
- Despite the Fed's dot plot only indicating one rate cut this year, markets price in 45bp worth of rate cuts for the Fed, while 40bp are priced in for the ECB. We expect the first 25bp rate cut from the Fed in September, followed by an additional cut in December. For the ECB, we expect one more 25bp rate cut in December after the widely anticipated rate cut in June. Our expectations for the Fed and ECB in isolation suggest some upside risk to EUR/USD in H2, but we think other factors will weigh on the cross.
- We believe that fundamental factors indicate a lower EUR/USD in the medium term. In the near term, we expect the cross to continue trading within a range, but we slightly favour the downside due to the EUR leg potentially remaining fragile owing to the political risk premium. Overall, we anticipate a downward trend for EUR/USD over the next year, driven by our expectation of stronger US growth dynamics supporting the USD.
- 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	1.07	1.08	1.09	1.10
Forward	1.07	1.08	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



USD

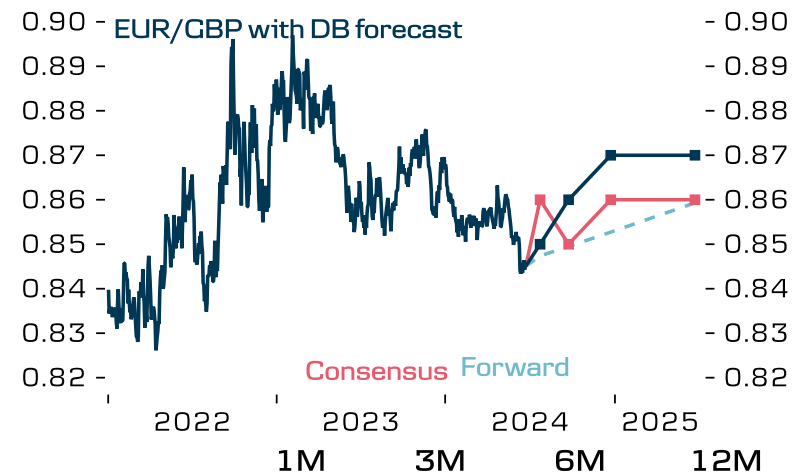
A dovish BoE supports the cross



GBP

- The UK economy grew 0.6% q/q in Q1 driven by services, production, and business investment. Headline inflation reached target of 2.0% in May, but service inflation is sticky with underlying momentum still strong and wage growth remains elevated. The labour market remains tight by historical standards, although gradually loosening. Prime minister Sunak has announced a snap election to be held on 4 July, where fiscal policy is likely to remain constrained regardless of the election outcome. Our base case is a Labour majority. However, closer ties to the EU, policies aimed at boosting growth and the supply side of the economy, less policy uncertainty are on balance GBP positive although we do not want to overstate the impact.
- We expect the Bank of England (BoE) to deliver the first cut of 25bp in August, followed by 25bp in the following quarter, and a total of 50bp cuts for 2024. Markets are pricing 50bp. On balance, we continue to see relative rates as a positive for EUR/GBP.
- EUR/GBP has moved lower the past month. We see this as a reflection of inflation surprising to the topside, growth being better than expected and most recently, political uncertainty in France proving headwind to the broad EUR. A dovish BoE has provided some support. We remain negative on GBP but note that with risks to both growth and inflation tilted to the topside, this leaves a more challenging backdrop for an impending BoE cutting cycle. By extension and combined with the political uncertainty in France, this may provide temporary headwinds for EUR/GBP in the near-term.
- 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	0.85	0.86	0.87	0.87
Consensus	0.86	0.85	0.86	0.86
Forward	0.85	0.85	0.85	0.86

Hedging recommendations

Income: Sell GBP via forwards.

Expenses: Buy GBP via risk reversals.

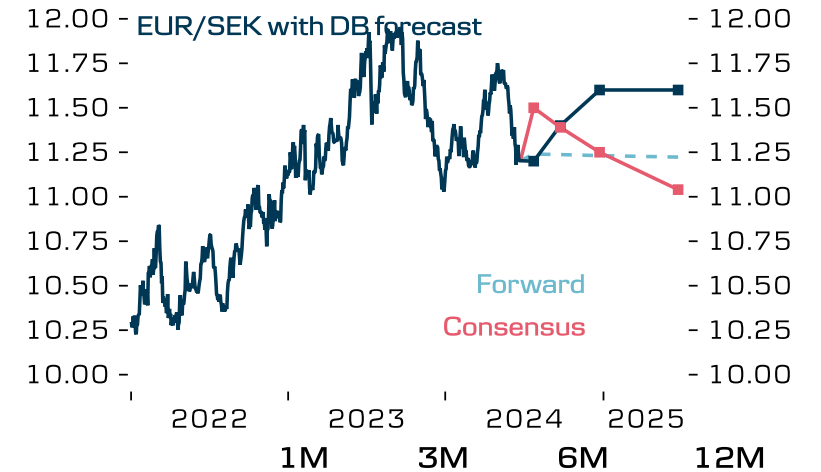
Source: Macrobond, Bloomberg, Danske Bank
 Note: Past performance is not a reliable indicator of current or future results



A weaker SEK in the medium term

- The global economy remains sluggish, although the US has proven surprisingly resilient in stark contrast to Europe. This has been a triple headwind for the SEK, which is typically proportional to global growth, high-beta to European growth and susceptible to the growth-related US-European rate gap. However, a Swedish recovery should bring at least some relief. Our macro forecasts indicate that Swedish GDP growth will be twice that of the eurozone in 2024. This should mitigate ‘excessive’ SEK weakness but is not a sufficient standalone argument for an outright SEK rally.
- In our updated baseline scenario, we do not only see a continued rate gap between US and Europe but also a risk that the Riksbank will cut rates more than the ECB. Our forecasts indicate a 50bp EUR-positive rate gap vs SEK by end-2025, which should be seen as a clear headwind for the SEK. This could be exacerbated if investors view the Riksbank as a global frontrunner for rate cuts. Hence, relative rates are increasingly likely to weigh on the SEK.
- We argued consistently that the spring move higher in EUR/SEK was overdone and that 11.20-11.40 was a fairer range for the cross as indicated by our model. In the 6-12M perspective, a global economic recovery where Sweden outpaces peers could be SEK positive. However, this tailwind is challenged and arguably dominated by the outlook for relative rates vs the Fed where a substantial yield gap prevails and vs the ECB where too few Riksbank cuts are priced in for 2025.
- July seasonality has been SEK positive over the past 20 years, but with European politics in focus alongside Fed expectations (US yields) on top of illiquid Swedish holiday markets short-term risks are symmetrical.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.20	11.40	11.60	11.60
Consensus	11.50	11.39	11.25	11.04
Forward	11.24	11.24	11.23	11.22

Hedging recommendations

Income: We recommend selling SEK via forwards and take advantage of current levels to increase hedging.

Expenses: Buy SEK via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank

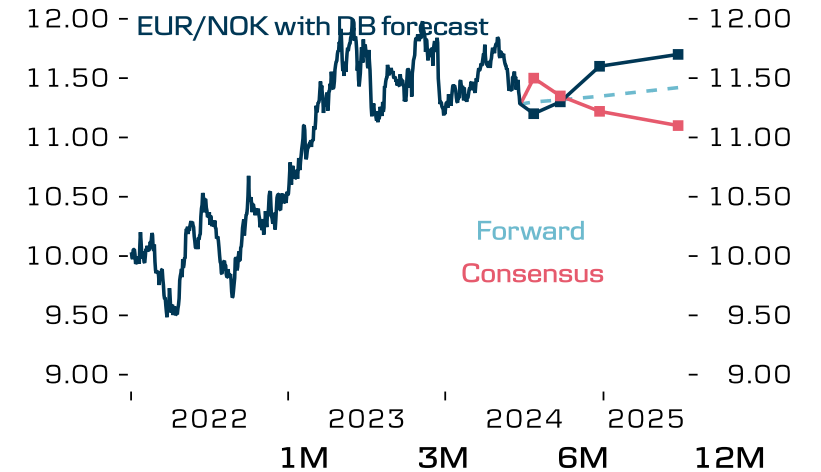
Note: Past performance is not a reliable indicator of current or future results

We emphasize that downside potential is limited



- The mainland economy shows signs of stabilisation with most notably the hardest hit sectors (retail, construction) showing less contraction. Service sectors continue to report decent growth which alongside a strong petroleum industry sharply has diminished the risk of a recession. Paradoxically, at a time of stabilisation in activity the labour market is increasingly showing signs of weakness. However, with rising capacity pressures it may be too early to pencil in a real turnaround in the labour market just yet. Finally, inflation continues to move lower and we expect the disinflationary narrative to continue in 2024.
- As expected Norges Bank (NB) kept the sight deposit rate unchanged at 4.50% at the June meeting. However, NB delivered a hawkish surprise by guiding towards no rate cuts in 2024 whilst signalling the first cut in March 2025. We still think it is fair for markets to price a slight probability of a 2024 rate cut. That said, we also believe the NB has revealed its preferences, suggesting that continued downside surprises to inflation is unlikely to be enough to trigger rate cuts. We now pencil in the first rate cut in March 2025.
- The combination of lower USD rates, eurozone public debt concerns amid decent risk appetite and a hawkish NB has supported NOK recently. While NOK sentiment could remain positive near-term, the combination of weak global growth and contractionary global monetary conditions very rarely is supportive for prolonged NOK strength. Also, we want to downplay the medium-term potential for NB to strengthen the NOK as both NOK and SEK recently have performed strongly despite different monetary policies. We see limited further topside to energy prices, and the medium-term drivers like unit labour costs and the balance of payments will likely remain NOK headwinds.
- Near-term risks are closely connected to the global investment environment, USD/global real rates and energy prices.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.20	11.30	11.60	11.70
Consensus	11.50	11.35	11.22	11.10
Forward	11.30	11.32	11.35	11.42

Hedging recommendations

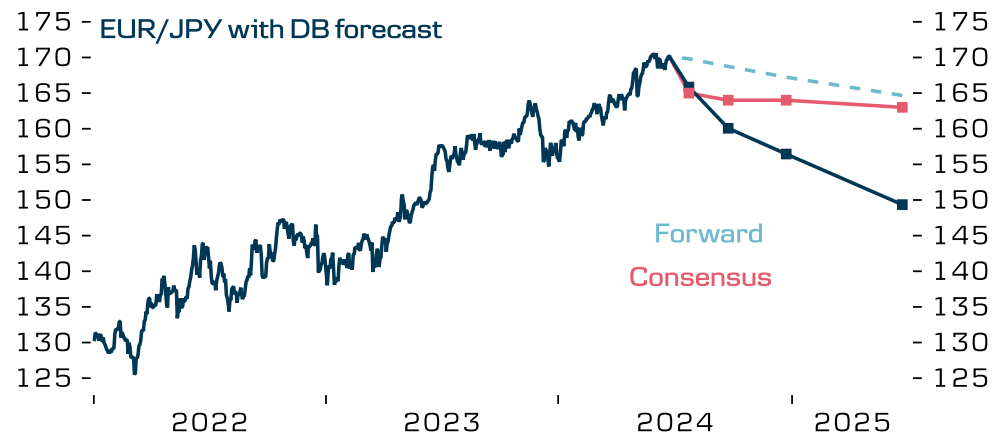
Income: We recommend selling NOK via forwards and take advantage of current levels to increase hedging.

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

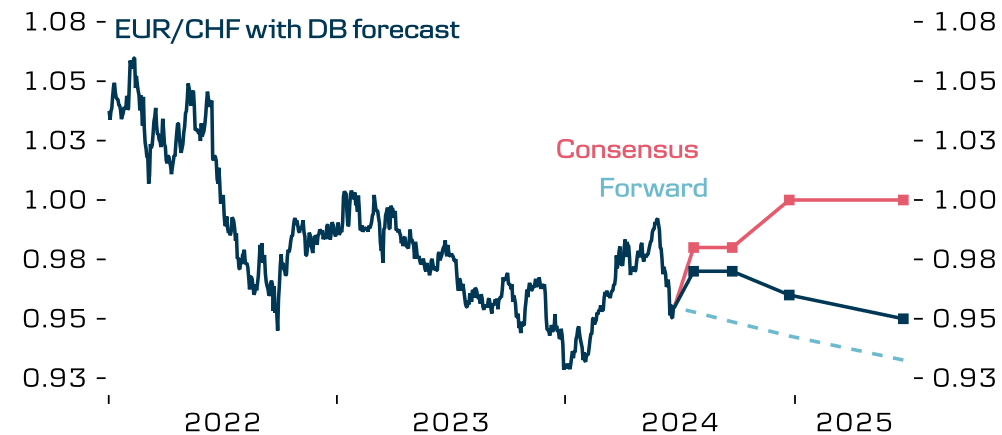
Income: Sell JPY via risk reversals.

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.

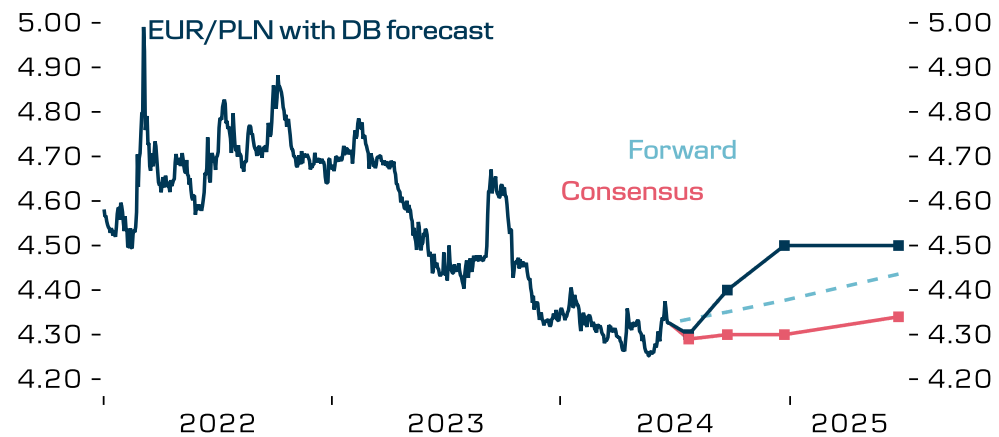
Expenses: Buy CHF via forwards.

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

Exchange rates vs EUR

FX Forecast Table

G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.07	1.07	1.06	1.05	1.03
EUR/JPY	171	166	160	156	149
EUR/GBP	0.85	0.85	0.86	0.87	0.87
EUR/CHF	0.96	0.97	0.97	0.96	0.95
EUR/SEK	11.25	11.20	11.40	11.60	11.60
EUR/NOK	11.35	11.20	11.30	11.60	11.70
EUR/DKK	7.4593	7.4575	7.4550	7.4525	7.4525
EUR/AUD	1.62	1.62	1.63	1.64	1.63
EUR/NZD	1.75	1.75	1.77	1.78	1.78
EUR/CAD	1.47	1.47	1.47	1.49	1.50
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.30	4.30	4.40	4.50	4.50
EUR/HUF	395	400	400	420	420
EUR/CZK	24.9	24.8	24.9	25.0	25.0
EUR/TRY	35.4	35.6	36.0	37.3	39.9
EUR/ZAR	19.6	19.4	18.9	18.5	17.6
EUR/CNY	7.79	7.77	7.71	7.64	7.52
EUR/INR	89.5	89.2	88.5	87.8	86.3

Last Update: 24-06-2024

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Report completed: 24 June 2024, 15:20 CET

Report first disseminated: 24 June 2024, 15:50 CET