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

Market Guide

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Danske Bank

Near-term NOK strength, medium-term bearish on Scandies

The Fed kicks of its cutting cycle

The Fed has initiated its cutting cycle, delivering a 50bp rate cut as concerns have shifted from too high inflation towards a weakening labour market. Going forward, we think the Fed will cut by 25bp at every meeting until H2 2025. On the contrary, Norges Bank pushed back against market expectations for a rate cut this year and the BoE similarly delivered a cautiously hawkish tone. In China, the economy has lost further momentum with a continued deterioration in domestic demand, weak industrial production and no improvements in the housing crisis. This leaves China as a key disinflationary force for the global economy. This has also contributed to the manufacturing sector losing steam in the rest of the world, which acts as a headwind for not least the European economy. Earlier this month, oil prices declined to the lowest level since 2021, breaching below 70 USD/bbl amplified by recession concerns.

Over the past weeks, NOK has benefitted from an improvement in risk sentiment and a push-back on rate cut expectations from Norges Bank. Akin to the NOK, GBP has found support from a cautiously hawkish BoE, pushing EUR/GBP firmly below the 0.84 mark. EUR/USD has been in for a v-shaped price action dominated by changes in risk sentiment amid receding recession fears and relative central bank outlooks. The big winner continues to be the JPY, which has benefitted from lower US rates and hawkish commentary from the BoJ.

Outlook: lower EUR/USD and medium-term headwinds for Scandies

We believe that fundamental factors indicate a lower EUR/USD driven by our expectation of stronger US growth dynamics supporting the USD. In the near term, we expect the cross to trade within a range as relative monetary policy outlooks take centre stage. In the near-term we pencil in a somewhat stronger NOK based on the global investment environment stabilising, a short-term valuation adjustment and a hawkish Norges Bank. That said, we remain medium- to long-term bearish on NOK based on weak global growth, contractionary global monetary conditions and elevated unit labour costs. Also, for the SEK, we expect the cyclical and structural flows to continue to act as headwinds over the coming 6-12M, targeting EUR/SEK at 11.60 in 6-12 months.

Risks to our forecasts primarily lie in a sharper economic downturn than what we pencil in. 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) and much weaker cyclically sensitive currencies than in our base case. In the near-term, we will closely monitor the state of the US economy and by extension the direction of US monetary policy.

USD

Stronger fundamentals support the USD

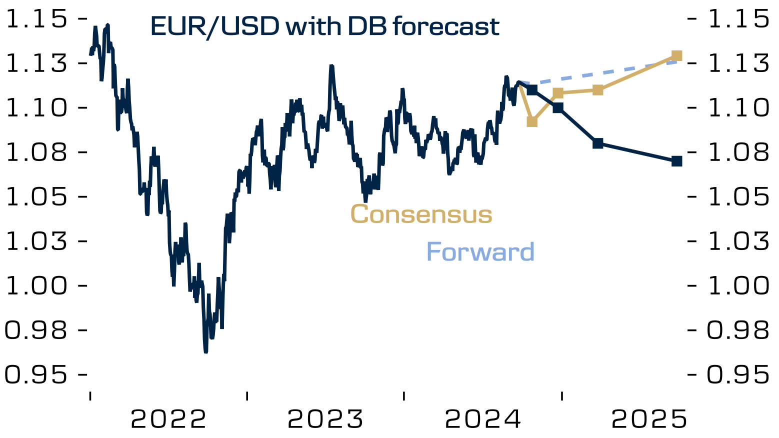
- The US economy is no longer overheated, with signs of cooling, especially in the labour market, albeit from a high level. While August core CPI surprised to the upside driven by the shelter component, a sustainable downward trajectory is likely to be maintained. Overall, recent macro data suggests that the Fed can normalize monetary policy toward a more neutral stance. In the euro area, growth has likely bottomed out, and leading indicators point to stronger momentum in economic activity, though the growth outlook remains bleak. The speed of disinflation is linked to services inflation, which could be sticky.

- After the 50bp Fed cut, markets are now pricing in a cumulative 70bp of additional cuts, split evenly across the two remaining meetings in 2024. We expect the Fed to deliver 50bp worth of cuts this year, with 25bp at each of the remaining meetings. For the ECB, we anticipate only one more 25bp rate cut in December. All else being equal, our monetary policy expectations should keep the cross relatively stable for the rest of 2024 if we are correct, as we expect both the Fed and the ECB to deliver fewer cuts than current market pricing.

- In the near term, we expect EUR/USD to continue trading within a tight range but lean slightly toward the downside. Despite softer US data, the potential for persistent US inflation and/or US growth outperformance remains positive for the USD, as markets are essentially pricing in a perfect soft landing. However, this outlook is still surrounded by uncertainty, compounded by the upcoming US election. Overall, we expect a downward trend for EUR/USD over the next year amid our expectations of relatively stronger US growth dynamics.

- 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	1.11	1.10	1.08	1.07
Consensus	1.09	1.11	1.11	1.13
Forward	1.11	1.12	1.12	1.13

Hedging recommendations

Income: We recommend hedging via risk reversals.

Expenses: We recommend purchasing USD forwards.

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

GBP support to continue

GBP

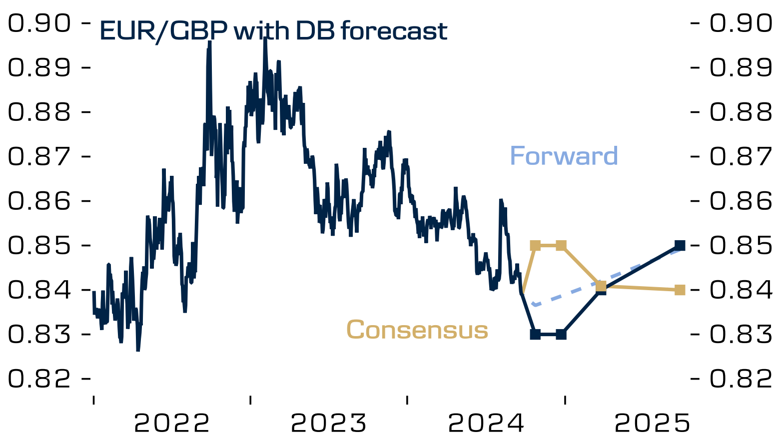
- The UK economy continued its expansion, growing 0.6% q/q in Q2 driven by government investment and consumption with household consumption having lost some steam. PMIs point to the recovery having lost some steam with more muted growth in Q3. Headline inflation is expected to increase slightly further above the 2% target the coming months due to base effects and energy prices, but more importantly, underlying price pressures remain elevated especially in the service sector. The labour market continues its gradual loosening, with wage disinflation apparent in both the private and public sector.

- The Bank of England (BoE) decided to leave the Bank Rate unchanged at 5.00% in September, in line with our expectation. The MPC delivered a hawkish twist to its guidance emphasising a gradual approach to easing monetary policy restrictiveness. We think this supports our base case of a November cut and December pause - markets expect 40bp for the rest of 2024. We see relative rates as neutral for EUR/GBP in the near-term but a tailwind further out.

- Over the past month, GBP has gained tailwind from a cautiously hawkish tone from the BoE signalling a more gradual cutting cycle, UK outperformance coupled with weaker signals from the euro area and risk sentiment recovering. We expect these forces to continue weighting on the cross in the next 1-3M – also amplified by continued tight credit spreads. Further out, we believe continued weak global growth, our expectation of a more dovish BoE compared to peers and continued global tight monetary conditions to weigh on GBP.

- The key risk to our forecasts in the near-term is centred around 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 global investment environment, credit spreads and the relative growth outlook between the euro area and the UK.

EUR/GBP



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

Hedging recommendations

Income: We recommend to hedge via FX forwards.

Expenses: We recommend to hedge via risk reversals.

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

SEK

Our near-term forecast is range-bound around fair value

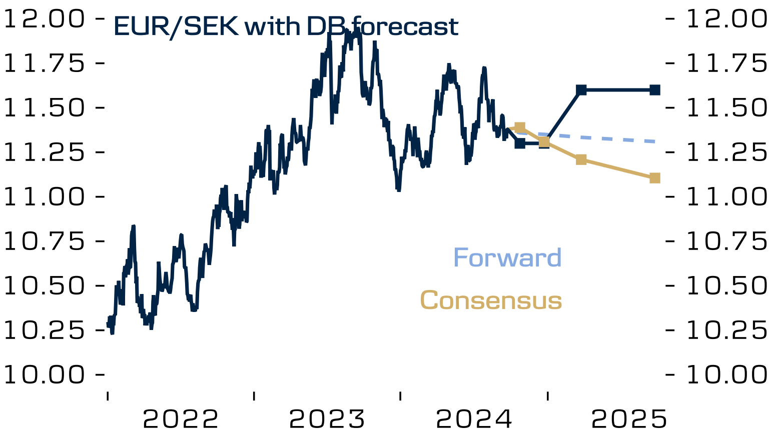
- Looking ahead to 2025, our updated macro forecasts entail a Swedish growth outperformance which, at least on the margin, could be construed as a SEK tailwind. However, the recent batch of data has been on the weaker side of expectations and hence the state of the Swedish recovery remains uncertain. With a bleak global growth outlook amid an expected US slowdown, the cyclical outlook has yet to turn into an outright tailwind for the SEK.

- With recent additions, the Riksbank board yields the impression of being more forward-looking. Such an approach that considers sub-trend growth and rising unemployment suggests that the Riksbank will continue gradually easing monetary policy, potentially becoming slightly expansionary. However, we see consecutive 25bp cuts as the most prudent and likely path, with no case for the Riksbank to follow the Fed's 50bp rate cut. A terminal rate at 2% by June 2025 is a headwind for SEK due to a negative rate gap vs both EUR and USD.

- EUR/SEK has continued to move within the 11.30-11.50 range recently, aligning with our 1-3M target. Our relative rates model still implies 11.30-11.40 as fundamentally fair, which has been a helpful anchor when standard correlations have tended to be weaker than normal. We do not believe that the bigger cut by the Fed warrants a similar move by the Riksbank. Instead, we think 25bp makes more sense based on economic data releases and recent communication, which should have a neutral impact on the cross. While projected Swedish growth outperformance could be a SEK positive, the rebound is softer than anticipated.

- In the light of recent developments, renewed US recession risk and investor unwinding of carry position (SEK positive). Conversely, a prolonged setback in equities is SEK negative. Unforeseen shifts in relative monetary policy also weigh on the cross.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.30	11.30	11.60	11.60
Consensus	11.39	11.31	11.21	11.11
Forward	11.36	11.35	11.33	11.31

Hedging recommendations

Income: We recommend to hedge income via FX forwards.
Expenses: We recommend to hedge expenses via risk reversals.

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

NOK

Short-term NOK-strengthening will be temporary

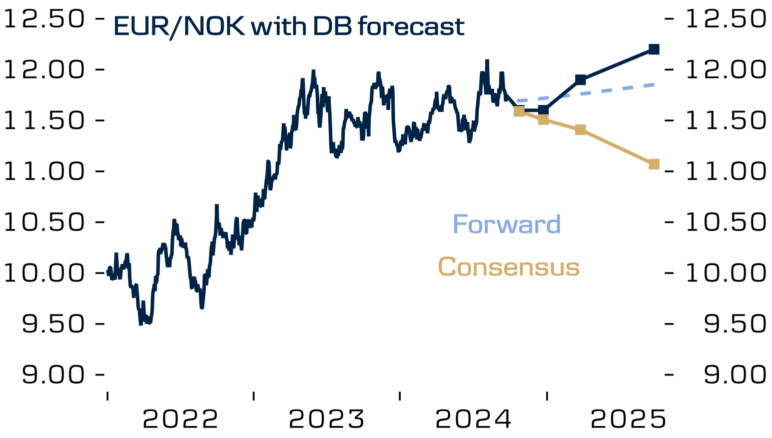
- Structural growth for the mainland economy remains weak and despite the cyclical case for somewhat higher growth in the coming year, we do not expect growth to accelerate much higher from here. The Regional Network Survey indicated around 0.8% annualised growth in the coming quarter with large sector difference – with activity kept up by service industries and not least those related to oil and gas. Notably, despite the weak growth prospects, capacity utilisation continues to rise which we see as a key reason for Norges Bank (NB) maintaining a hawkish tone. Inflation continues to move lower, and we expect core inflation to move close to 2% y/y in the beginning of 2025.

- NB delivered a hawkish surprise at the September meeting, pushing back against market expectations of a 2024 rate cut. We still think markets can price some probability of a cut this year. That said, we also believe that NB has revealed its preferences, suggesting that continued downside surprises to inflation is unlikely to be enough to trigger rate cuts. Instead, a weakening in capacity utilisation is needed. We pencil in the first cut in March 2025.

- In the near-term we expect a somewhat stronger NOK based on the global investment environment stabilising, a valuation adjustment for NOK after an overdone summer sell-off and NB pushing against rate cut expectations. That said, we remain medium- to long-term negative on NOK and think any short-term dip will prove temporary. We emphasize how the combination of surging unit labour costs and falling unit profits is not sustainable over time without a rise in unemployment and/or a weaker exchange rate. Given the fiscal setup in Norway we think the potential for much higher unemployment is capped which should add renewed downside pressure on NOK in the coming years.

- Near-term risks are closely connected to the global investment environment, recession risks and hence global real rates and energy prices.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.60	11.60	11.90	12.20
Consensus	11.59	11.51	11.41	11.07
Forward	11.69	11.72	11.76	11.85

Hedging recommendations

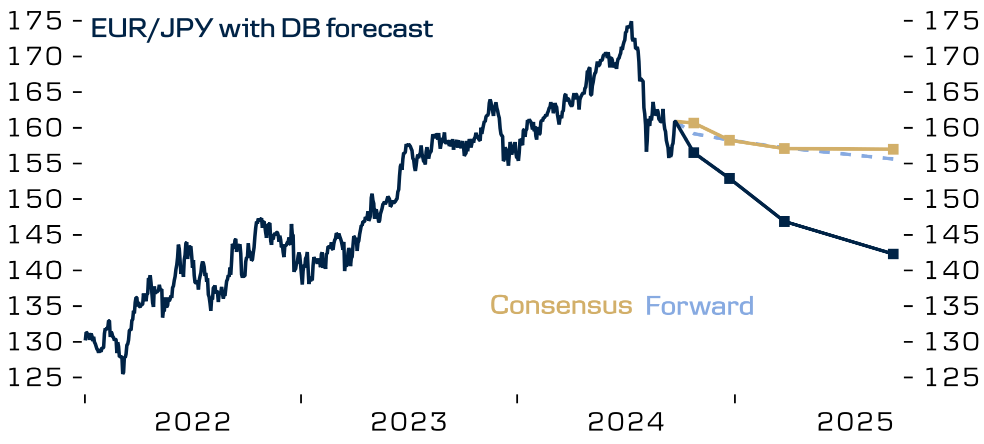
Income: We recommend to hedge NOK income via FX forwards.

Expenses: We recommend to hedge NOK expenses via risk reversals.

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

Others

EUR/JPY



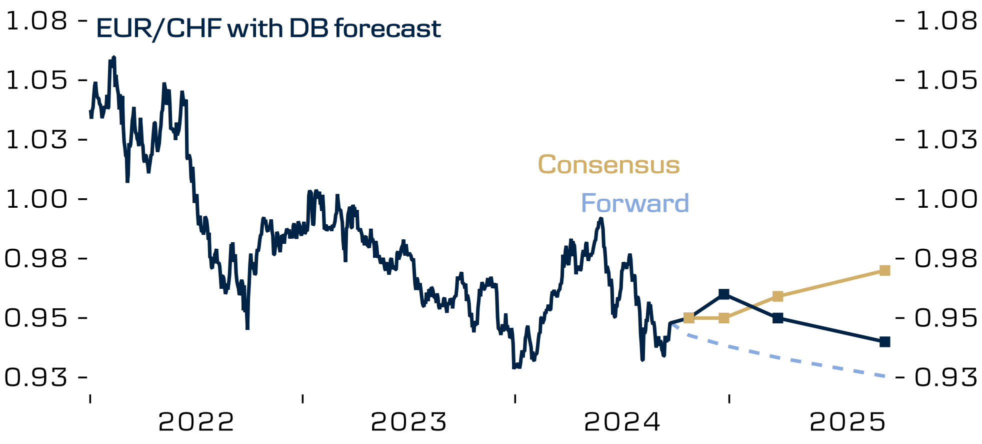
Hedging recommendations

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

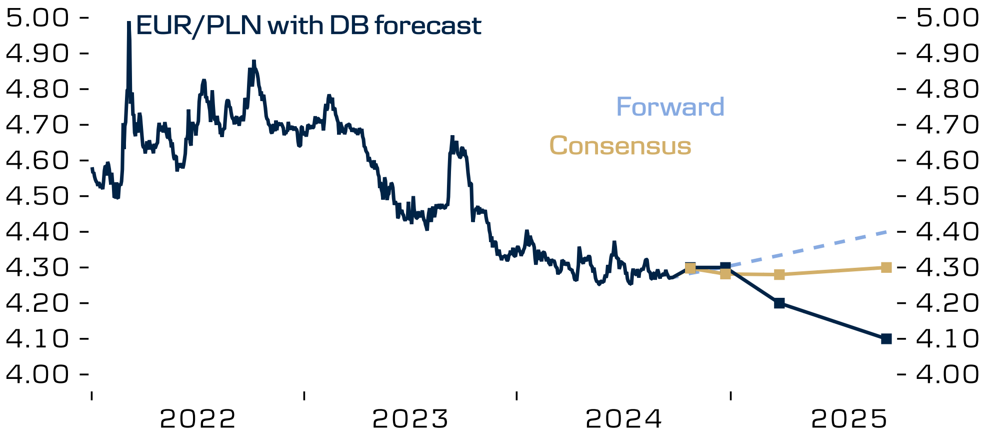
Income: Sell CHF via risk reversals.

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 to hedge via knock-in forwards.

Expenses: We recommend to hedge via FX forwards.

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:	24-09-2024
Exchange rates vs EUR					
EUR/USD	1.11	1.11	1.10	1.08	1.07
EUR/JPY	160	157	153	147	142
EUR/GBP	0.83	0.83	0.83	0.84	0.85
EUR/CHF	0.94	0.95	0.96	0.95	0.94
EUR/SEK	11.29	11.30	11.30	11.60	11.60
EUR/NOK	11.62	11.60	11.60	11.90	12.20
EUR/DKK	7.4563	7.4600	7.4575	7.4550	7.4550
EUR/AUD	1.62	1.66	1.67	1.66	1.67
EUR/NZD	1.77	1.82	1.83	1.83	1.81
EUR/CAD	1.50	1.51	1.52	1.52	1.53
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.26	4.30	4.30	4.20	4.10
EUR/HUF	394	390	400	420	420
EUR/CZK	25.1	25.2	25.2	25.0	25.0
EUR/TRY	38.1	38.4	39.2	40.2	43.1
EUR/ZAR	19.3	19.4	19.3	18.9	18.7
EUR/CNY	7.84	7.88	7.87	7.78	7.76
EUR/INR	93.2	92.8	92.1	90.5	89.8

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