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<https://research.danskebank.com>



# Market Guide

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## We expect a weaker USD

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### Uncertainty looms amid tariff turmoil

Since our last FX Forecast Update, 21 March, the dominating theme for markets has been increased political turmoil in the US triggered by escalating trade tensions leading to mounting US recession concerns. President Trump's signals have been mixed post Liberation Day, with a shift in focus from broad-based tariffs to specific measures against China. The policy uncertainty in the US has triggered a broad-based risk-off sentiment in markets, resulting in a sharp sell-off in equities and widening credit spreads. The Fed faces a stagflationary shock, evident by falling oil prices and inflation expectations moving higher. For Europe, the implications are more clear cut with tariffs posing as a negative demand shock leaving downside risk to growth. As a result, markets have pushed European rates significantly lower.

Over the past month, the USD has experienced a sharp decline due to elevated political uncertainty and mounting US recession concerns with EUR/USD breaking above the 1.14 mark. The risk-off environment has favoured safe-haven currencies such as the CHF and JPY. In contrast, NOK, SEK, and GBP have faced renewed pressure with the NOK being especially hard hit from lower oil prices. EUR/GBP has moved sharply higher driven by widening credit spreads amidst market uncertainty and volatility.

### Outlook: bearish on the USD and Scandies

We have turned positive on EUR/USD in both the near and medium term, targeting a gradual move toward 1.22 over a 12M horizon. In the near term, concerns about US asset confidence and a recession will support the cross. Longer term, structural challenges like US political shifts, the trade war, and capital rotation away from US assets suggest significant USD downside. We maintain an upward sloping forecast profile for EUR/NOK as the combination of a negative demand shock to Norway's trading partners, elevated NOK real rates, lower energy prices, and elevated labour costs create an unfavourable environment for NOK FX. While the net-effect on EUR/SEK is more uncertain given opposing driving forces, such as portfolio flows out of the US, global recession perceptions, and equity pressure, we expect a flat forecast in 1-3M and a slight rise to 11.30 over the next 12 months.

Risks to our forecasts are predominantly tied to the US outlook. If the capital rotation out of US assets continues and a sharp US recession hits, EUR/USD could break substantially higher than our forecast suggests. In this environment, commodity currencies would also face a larger hit. Conversely, a potential shock or U-turn from the Trump administration could act as a USD positive although we think much of the confidence-damage to the US would not be fully unwound.

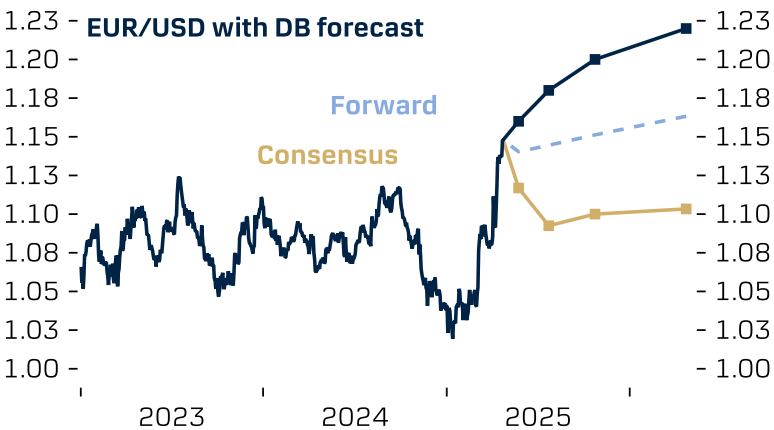


USD

# Negative on the USD

- On the data front, the US economy continues to show resilience, as underscored by the March jobs report, which pointed to a still-healthy labour market despite elevated economic policy uncertainty. On inflation, the March CPI print surprised to the downside, indicating that underlying price pressures were clearly moderating ahead of Trump’s tariff announcements. Meanwhile, in the euro area, recent PMI data disappointed, reinforcing expectations for a sluggish recovery throughout the year, supported by lower policy rates and rising real incomes. Inflationary pressures remain contained, while the fiscal shift in Germany and the broader euro area is unlikely to have a meaningful impact before next year due to implementation lags in public investment.
- The Fed left rates unchanged in March, as expected. We continue to forecast the first rate cut in June, followed by quarterly 25bp reductions until the policy rate reaches a terminal range of 3.00-3.25% by mid-2026. While our profile is marginally more hawkish than current market pricing for 2025, our terminal rate assumption remains slightly below consensus. The ECB also delivered a widely expected 25bp cut in April. We anticipate a continued easing cycle with back-to-back 25bp cuts through the summer, bringing the terminal rate to 1.50% by September – a view markets have recently converged toward.
- We have recently turned positive on EUR/USD in both the near and medium term, now targeting a gradual move toward 1.22 over the next 12M. In the near term, the brewing confidence crisis in US assets and mounting US recession concerns are likely to remain dominant market themes, offering continued support for the cross. Longer term, we believe the evolving structural backdrop – including the seismic shift in US politics, the ongoing trade war, and signs of capital rotation out of US assets – will leave the USD facing the greatest relative downside.
- Risks to our forecast include stronger-than-expected US data. If resilience persists, the USD could regain strength on reduced recession risks and/or a rebound in confidence in US assets.

## EUR/USD



	1M	3M	6M	12M
Danske Bank	1.16	1.18	1.20	1.22
Consensus	1.12	1.09	1.10	1.10
Forward	1.14	1.14	1.15	1.16

## Hedging recommendations

- Income:** We recommend hedging USD income via knock-in forwards.
- Expenses:** We recommend hedging USD expenses via risk reversals.

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

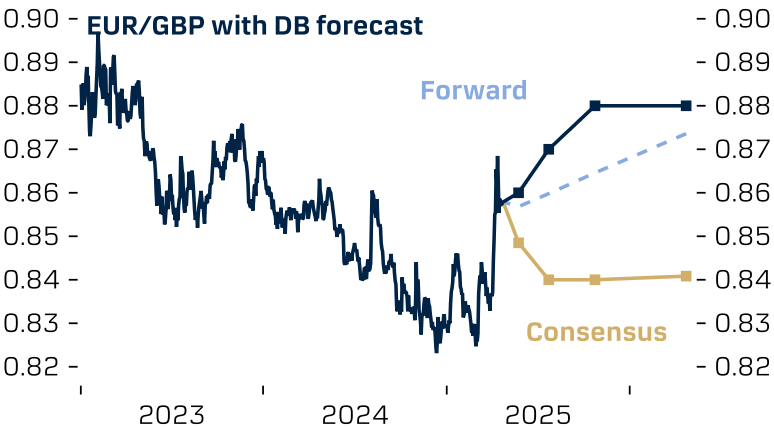


GBP

# GBP hit by global uncertainty

- The cyclical backdrop shows tentative improvement with strong retail sales early in the year, but large uncertainty persists, especially due to recent US developments. We expect fiscal and monetary policies to boost the economy in 2025, but to a lesser extent than previously assumed given trade frictions. Inflation has surprised to the downside the past months, but underlying inflation remains elevated with signs of cooling price pressures, also within core services. The labour market is gradually loosening with elevated wage growth clashing with cooling labour demand and unfilled vacancies edging lower. This is amplified by survey data signalling more reluctant hiring likely attributed to the rise in employers' national insurance contributions.
- The Bank of England (BoE) held the Bank Rate steady at 4.50% in March, in line with expectations. While the vote split was to the hawkish side, the overall signal remained for a "careful and gradual" cutting cycle. We continue to expect the BoE to deliver the next 25bp cut in May and deliver quarterly rate cuts at the meetings associated with updated economic projections. We see the risk as skewed towards a swifter cutting cycle amplified by trade war. We expect the Bank Rate to end the year at 3.75%. We see relative rates as fairly neutral for EUR/GBP.
- Over the past month, GBP has been pressured by a sell-off in risky assets due to US political turmoil. While we see domestic factors and the relative UK-euro area growth outlook as GBP positives, we think the global investment environment will drive EUR/GBP in the coming months. Elevated uncertainty, widening credit spreads and a positive correlation to a USD negative environment, likely favours a weaker GBP. The UK's large current-account deficit makes GBP vulnerable to reduced capital inflows. We now forecast EUR/GBP to move higher towards 0.88 on a 6-12-month horizon.
- The key risk to seeing EUR/GBP trade substantially higher than our forecast is a sharp sell-off in global risk and/or renewed focus on the UK's fragile fiscal position. Other risks are closely related to the developments in the relative growth outlook between the euro area and the UK.

## EUR/GBP



	1M	3M	6M	12M
Danske Bank	0.86	0.87	0.88	0.88
Consensus	0.85	0.84	0.84	0.84
Forward	0.86	0.86	0.86	0.87

## Hedging recommendations

**Income:** We recommend hedging GBP income via knock-in forwards.

**Expenses:** We recommend hedging GBP expenses via risk reversals.

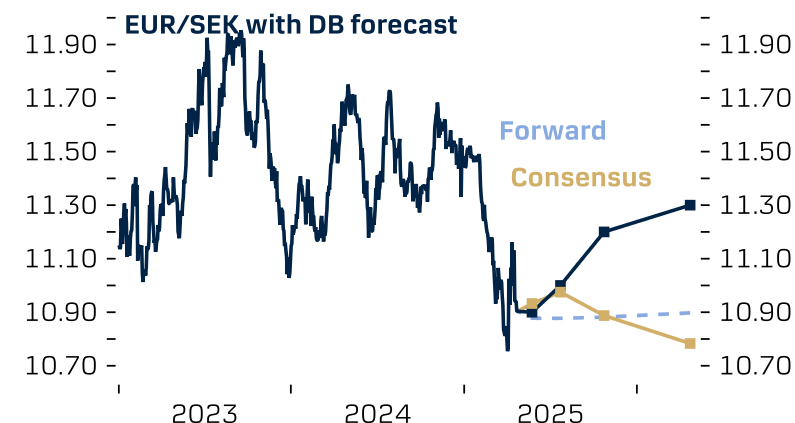
Source: Macrobond, Bloomberg, Danske Bank  
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## Upward sloping profile for EUR/SEK

- For three years the Swedish economy has been getting nowhere, but now we expect the recovery to gain some traction in 2025. However, the projected rebound hinges on consumers starting to consume and recently households have become more pessimistic while the labour market has deteriorated. Hence, we expect the recovery to be sluggish and probably materialise only late 2025.
- The Riksbank's current rate path is completely flat at 2.25% throughout the forecast horizon and keeps all doors open. The recent pick-up in inflation is deemed transitory and the recovery in domestic demand is said to be weak. We agree on both. However, the US-induced trade war has tilted the risk picture to the downside, in our view. Hence, we think the probability for a rate cut has risen, though the base case is on hold. In Europe, the massive fiscal stimulus removes some of the pressure on the ECB to cut aggressively. On balance, we consider relative monetary policy to be neutral for EUR/SEK.
- Erratic US policies continue to dominate markets with USD selling off alongside US treasuries and equities. EUR/SEK has seen unclear effects, shown by a sharp rise in implied vols and the wide range within which the cross has been trading recently. Forecasting uncertainty is greater than normal. SEK is supported by dollar-negative rotation flows but so is the EUR, complicating the net-effect on EUR/SEK. However, the perception of a pending global recession underpins EUR/SEK. In addition, EUR/SEK would be supported in an environment where equities remain under pressure. On balance, we see relative monetary policy as neutral for EUR/SEK spot. We maintain an upward sloping profile for EUR/SEK, targeting the cross at 11.30 in 12M.
- The risks to our baseline are two-sided and greater than normal given the huge uncertainty around erratic US policies. On the one hand, a USD debasement would turn the tide for long USD/SEK trend, but it could also weigh on EUR/SEK. On the other hand, a full-blown global recession alongside a sustained equity negative market could push EUR/SEK higher than our forecast.

### EUR/SEK



	1M	3M	6M	12M
Danske Bank	10.90	11.00	11.20	11.30
Consensus	10.93	10.98	10.89	10.78
Forward	10.88	10.88	10.88	10.90

### Hedging recommendations

**Income:** We recommend hedging SEK income via FX forwards.

**Expenses:** We recommend hedging SEK expenses via risk reversals.

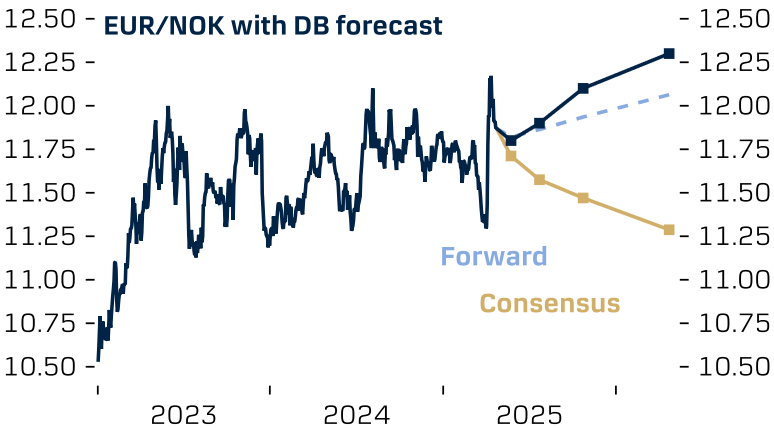
Source: Macrobond, Bloomberg, Danske Bank

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

## We remain long-term negative on NOK

- Global trade uncertainty and the rising risk of a US recession may imply that the recent string of Norwegian macro indicators are outdated as proxies for the future. That said, after a disappointing 2024 the beginning to this year did suggest a slight acceleration in growth to levels just around trend-potential. The Regional Network Survey suggested trend growth for both Q1 and Q2 and continued employment growth close to a normal level. After consecutive months of positive surprises, the March inflation print matched market expectations with several core metrics also showing a decline in the y/y-rates. This alongside a central wage norm below projections should have eased Norges Bank's (NB) overall inflation concerns.
- At the March monetary policy meeting NB refrained from delivering its indicated rate cut as inflation and wage figures had surprised to the topside going into the decision. However, NB maintained its easing bias indicating two rate cuts this year - namely in September and December - whilst leaving open the door for a June cut with a 25% probability. While global uncertainties right now dominate and potentially could trigger earlier easing, we now have a base case of two cuts this year, three cuts in 2026 and a final cut in 2027 bringing the sight deposit rate to 3.00%.
- The Norwegian Krone has suffered heavily over the last month from the sell-off in risky assets and the decline in energy prices. This price action highlights that NOK is highly sensitive to global developments and that Norwegian assets - unlike those of other European peers - are unlikely to prove a relative winner. We highlight that the current combination of a negative demand shock to Norway's closest trading partners, elevated NOK real rates, a negative terms of trade shock from lower energy prices and elevated unit labour costs still make for a poor backdrop for NOK FX to do well in. Near-term uncertainties look set to remain high, but we maintain an upward sloping forecast profile.
- Risks are closely connected to the global investment environment, Trump announcements on tariffs, the rising risk of a US recession and any supply side developments that could impact energy prices.

### EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.80	11.90	12.10	12.30
Consensus	11.71	11.58	11.47	11.29
Forward	11.82	11.86	11.94	12.06

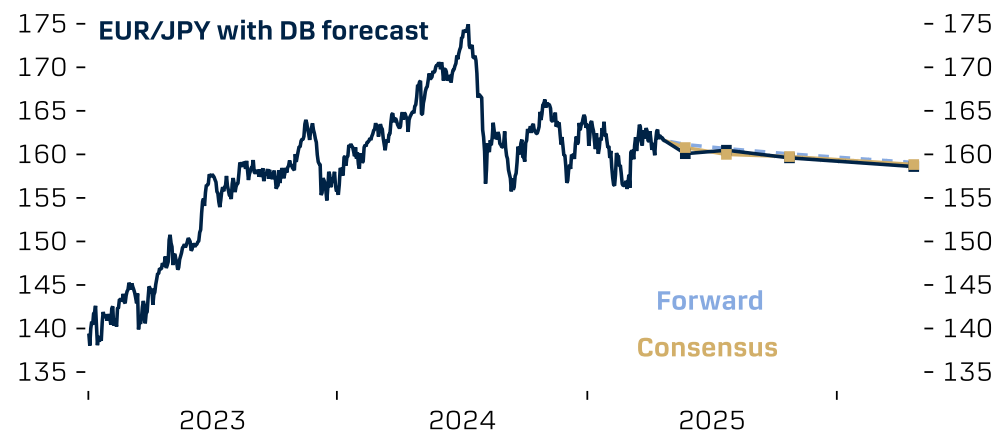
### Hedging recommendations

**Income:** We recommend hedging NOK income via FX forwards.

**Expenses:** We recommend hedging NOK expenses via risk reversals.

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

## EUR/JPY



### Hedging recommendations

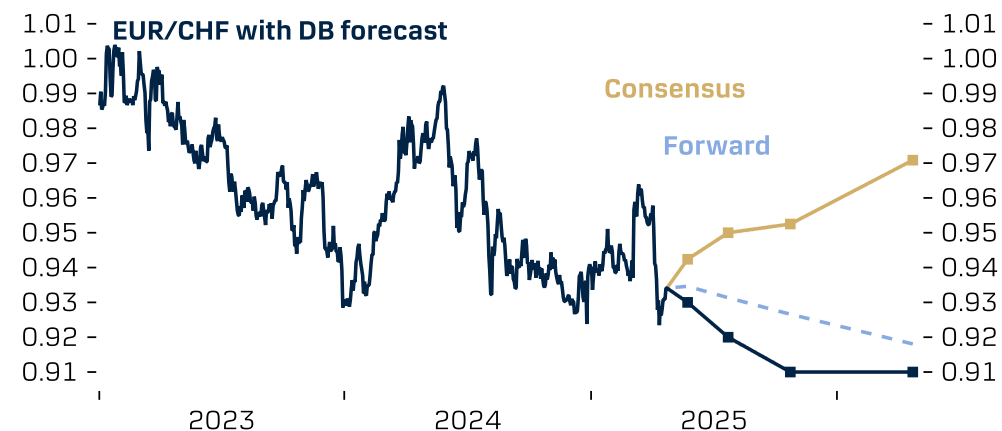
**Income:** We recommend hedging JPY income via risk reversals.

**Expenses:** We recommend hedging JPY expenses via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

## EUR/CHF



### Hedging recommendations

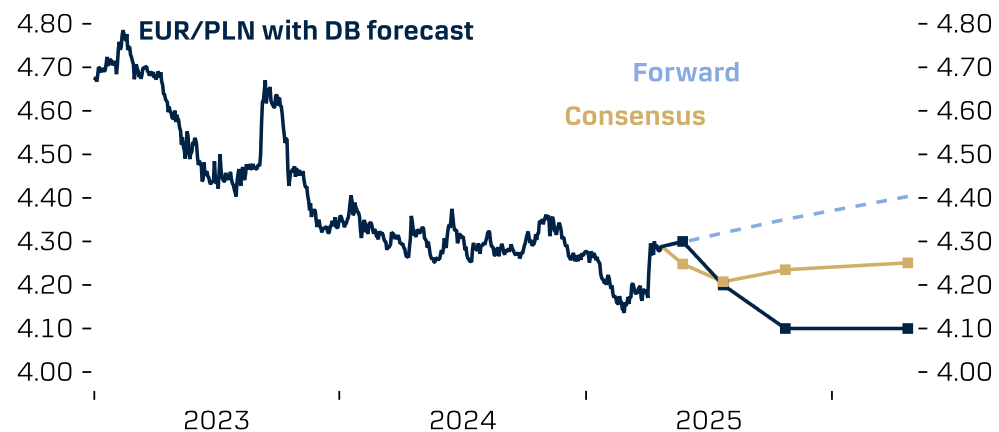
**Income:** We recommend hedging CHF income via risk reversals.

**Expenses:** We recommend hedging CHF expenses via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

## EUR/PLN



## Hedging recommendations

**Income:** We recommend hedging PLN income via knock-in forwards.

**Expenses:** We recommend hedging PLN expenses via FX forwards.

Source: Macrobond, Bloomberg, Danske Bank

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



# FX Forecast Table

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## Exchange rates vs EUR

G10	Last Update: 24-04-2025				
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.14	1.16	1.18	1.20	1.22
EUR/JPY	162	160	160	160	159
EUR/GBP	0.86	0.86	0.87	0.88	0.88
EUR/CHF	0.94	0.93	0.92	0.91	0.91
EUR/SEK	10.98	10.90	11.00	11.20	11.30
EUR/NOK	11.91	11.80	11.90	12.10	12.30
EUR/DKK	7.4666	7.4675	7.4625	7.4600	7.4550
EUR/AUD	1.78	1.78	1.79	1.79	1.79
EUR/NZD	1.91	1.90	1.90	1.90	1.91
EUR/CAD	1.57	1.59	1.63	1.66	1.70
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.28	4.30	4.20	4.10	4.10
EUR/HUF	409	410	410	420	430
EUR/CZK	25.0	25.0	25.0	24.8	24.7
EUR/TRY	43.6	45.0	47.2	50.0	55.0
EUR/ZAR	21.2	21.5	21.8	21.9	21.8
EUR/CNY	8.28	8.48	8.64	8.80	8.97
EUR/INR	97.1	98.6	100.4	102.2	104.3



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