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Market Guide

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USD-cycle still intact

Stronger US data

US data releases have surprised positively with notably the September nonfarm payrolls report substantially beating expectations. This marks an important shift from summer where US data releases consistently disappointed. By extension, this has led to a large repricing of the Fed monetary policy outlook with markets now expecting a considerably slower easing pace compared to just one month ago. On the contrary, the European economy is losing steam with growth momentum waning and inflation pressures easing faster than anticipated. In China, the economy continues to show underlying weakness with muted household consumption, weak industrial production and the housing crisis raging on, which has led the Chinese authorities to announce various stimulus measures. Earlier this month, oil prices gained some renewed momentum on a re-escalation of the war in the Middle East but has since then retraced the move back to just above 70 USD/bbl.

The past month, the USD has been the clear outperformer following strong economic US data leading to large repricing of the Fed with EUR/USD moving from close to 1.12 to below 1.09 over the past weeks. EUR/GBP has continued its downward trajectory breaking below the 0.83 mark for the first time since 2022 with relative UK growth outperformance being a key driver. On the other hand, the JPY has faced renewed headwinds following the sharp rise in US rates.

Outlook: stronger USD and weaker Scandies

We hold a bearish view on EUR/USD in both the near-term and medium-term, expecting the cross to gradually decline toward 1.05 over a 12M horizon. Regardless of the outcome of the US election, our expectation of relatively stronger US growth dynamics compared to the euro area over the coming year leads us to foresee a downward trajectory for EUR/USD. We remain medium- to long-term negative on NOK on the back of weak global growth and elevated unit labour costs and think any short-term rise on a possible decision from Norges Bank to cap the size of the FX reserves will prove temporary. For the SEK, we expect a continued weak cyclical outlook, a stronger USD, and a Riksbank continuing to front run peers to remain medium-term headwinds 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.



Market overview

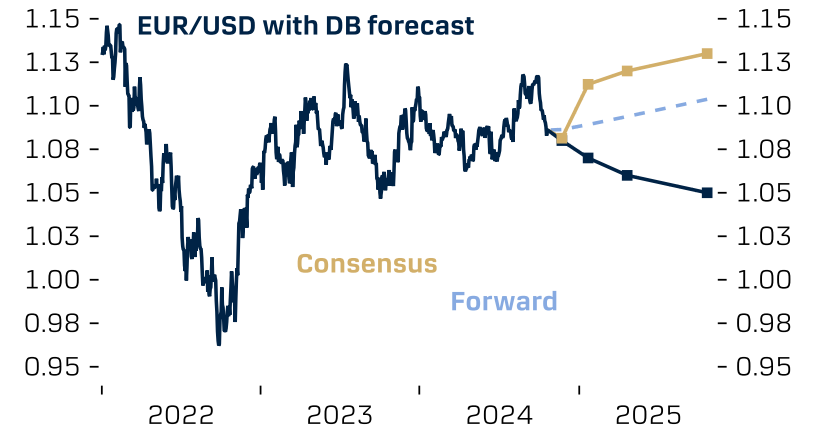


USD

Downward trend for the cross

- The US economy is no longer overheated, and activity data has slowly begun to show signs of cooling, although the economy remains on a relatively strong footing as seen by the solid September jobs report. On the inflation front, despite the upside surprise in September's CPI, a downward trajectory is likely to be maintained. Overall, recent macro data suggests that the Fed can gradually normalize monetary policy toward a more neutral stance. In the euro area, recent data indicates clear signs of weaker growth momentum and moderating labour market dynamics. Coupled with easing inflation data, with headline inflation declining below 2% for the first time in three years, the pressure on the ECB to move more quickly toward a neutral policy stance has increased.
- After the 50bp Fed cut, strong US data has led markets to significantly reprice the outlook for additional rate cuts in the two remaining meetings this year, with fewer than two 25bp cuts now priced in. We expect the Fed to deliver a 25bp cut at each meeting until June next year. For the ECB, we anticipate one more 25bp rate cut in December, following the expected cut in October. If our expectations, which are in line with consensus, are correct, monetary policy alone should not have a notable impact on EUR/USD for the rest of the year.
- We hold a bearish view on EUR/USD in both the near-term and medium-term, expecting the cross to gradually decline toward 1.05 over a 12M horizon. The upcoming weeks, with the US October jobs report, the US election, and the November FOMC meeting, will likely set the near-term tone for EUR/USD. The binary outcome of the election presents a risk factor to our near-term view, but regardless of the result, our expectation of relatively stronger US growth dynamics compared to the euro area over the coming year leads us to foresee a downward trajectory for EUR/USD.
- Significant weakness in the US economy poses a risk to our forecast, as does a marked improvement in the euro area economy, potentially supported by a rebound in the fragile global manufacturing sector.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.08	1.07	1.06	1.05
Consensus	1.08	1.11	1.12	1.13
Forward	1.09	1.09	1.09	1.10

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

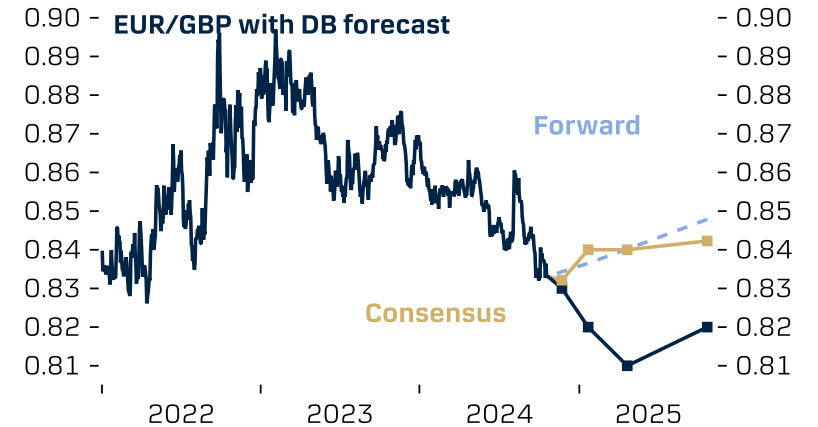


GBP

We expect the GBP tailwinds to persist

- The UK economy had a strong start to the year growing respectively 0.7% and 0.6% q/q in Q1 and Q2 driven by government investment and household consumption. However, H2 2024 is expected to see a slower expansion as indicated by PMIs and monthly GDP figures. Headline, core and service inflation have eased more than expected, boosting consumption, reflected in retail sales. However, underlying inflation pressures in the service sector remain elevated leaving the BoE to approach rate cuts more cautiously. The labour market continues its gradual loosening with vacancies moving lower and wage disinflation in both the public and private sectors.
- 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 their gradual approach to easing monetary policy restrictiveness. While recent data has come in softer than anticipated by the BoE across the board, warranting a November cut, we think they will remain cautious and pause in December. Markets are pricing 45bp for the remainder of the year. We see relative rates as neutral for EUR/GBP in the near-term but a tailwind further out as we think markets underestimate the degree of easing in 2025.
- Recently, EUR/GBP has moved steadily lower, currently trading close to 0.83, the lowest level in two years. GBP continues to benefit from the BoE's cautiously hawkish tone, signalling a more gradual cutting cycle relative to peers and UK growth outperformance relative to the eurozone. We expect these forces to keep weighting on the cross in the coming months, further amplified by continued tight credit spreads and a USD positive environment. Longer-term some of these GBP tailwinds look set to fade, while we also expect a more dovish BoE to eventually 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	0.82	0.81	0.82
Consensus	0.83	0.84	0.84	0.84
Forward	0.83	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

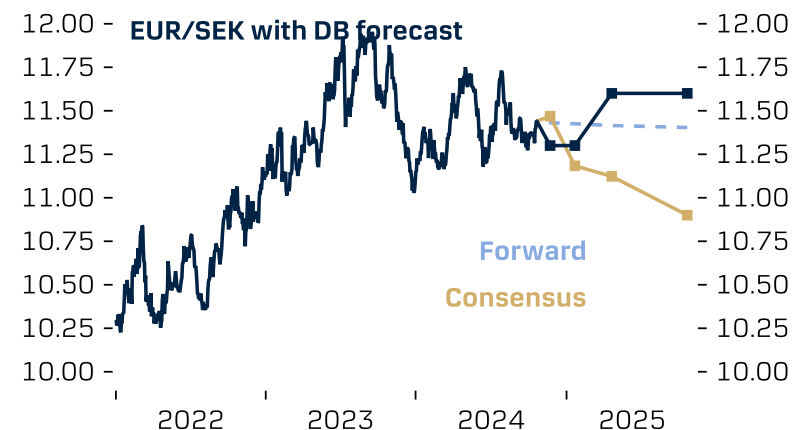
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Seasonality points to stronger SEK, with two-sided risks near-term

- 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, although the recent batch of Swedish data has shown some ray of lights for 2025, the current backdrop remains weak. Additionally, the outlook for key export markets in Europe is fragile, whereas the US looks set to manage a soft landing (USD positive). In general, the global cyclical outlook remains a slight headwind for the SEK.
- All is set for a 25bp rate cut at the next Riksbank meeting: 1) inflation runs 0.1-0.2 pp. above their forecast, 2) 5y inflation expectations edged up by 0.1 pp to 2.1%, 3) solid US data and repricing of other central banks, and 4) activity data have by and large supported their recovery scenario. The market is currently evenly split between a 25bp and a 50bp rate cut after pricing in a full 50bp just a few weeks ago. Hence, the rates-implied fair value has dropped to just above 11.20. We expect consecutive 25bp cuts down to a terminal rate at 2% by June 2025, frontrunning the ECB who reaches 2% by end-2025, while a substantial negative rate gap vs the Fed will prevail over the medium term.
- EUR/SEK has kept within the 11.25-11.40 range for the past month, in line with our short-term target. Although the cross is currently challenging the topside of the range, the rates-implied fair value has edged slightly lower, towards 11.20, with the market now evenly split between a 25bp and a 50bp rate cut from the Riksbank in November - we expect 25bp. Although seasonality also favours a stronger SEK through year-end, risks remain two-sided not least in relation to the US election. Further overshoot vs fair value could turn into a decent opportunity for a tactical short EUR/SEK towards year-end. However, for 2025 we expect the Riksbank to continue frontrunning peers which ought to be SEK negative. Additionally, the global cyclical outlook and a stronger USD remain medium-term headwinds for the SEK.
- Risks to our forecast include the US election, a massive dollar selloff (SEK positive), a prolonged setback in equities (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	11.47	11.18	11.12	10.90
Forward	11.43	11.43	11.42	11.40

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

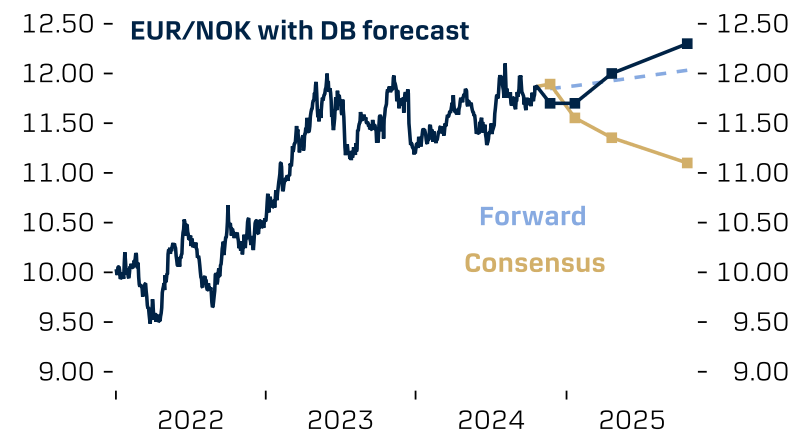
Note: Past performance is not a reliable indicator of current or future results



A short-term dip should prove temporary

- We have had limited ground-breaking news on the domestic economy over the last month. The structural growth story 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 differences, and activity kept up by service industries and not least those related to oil and gas. That said, the quarterly industrial confidence indicator report revealed a sharp drop in new orders for oil-related industries which in turn suggest declining growth tailwinds in the coming year. Inflation continues to move lower, and we expect core inflation to move close to 2% y/y in the beginning of 2025.
- Norges Bank (NB) delivered a hawkish surprise at the September meeting by pushing back against market expectations of a 2024 rate cut. While we think it is fair for markets to price some probability of a 2024 rate cut, we think NB has revealed its preferences which suggest that continued downside surprises to inflation is unlikely to be enough to trigger rate cuts. Instead, we need to see capacity utilisation metrics turn over. We pencil in the first rate cut in March 2025 and eventually think NB will deliver more rate cuts than currently signalled in both 2025 and 2026.
- We remain medium- to long-term negative on NOK and think any short-term rise on a possible decision from NB to cap the size of the FX reserves should prove temporary. We highlight how the combination of surging unit labour costs (higher wage growth, poor productivity) 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 and hence the US presidential election, the US monetary policy outlook and the situation in the Middle East. Also, any announcement from Norges Bank on possible FX reserves could move NOK.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.70	11.70	12.00	12.30
Consensus	11.89	11.55	11.35	11.10
Forward	11.85	11.88	11.93	12.03

Hedging recommendations

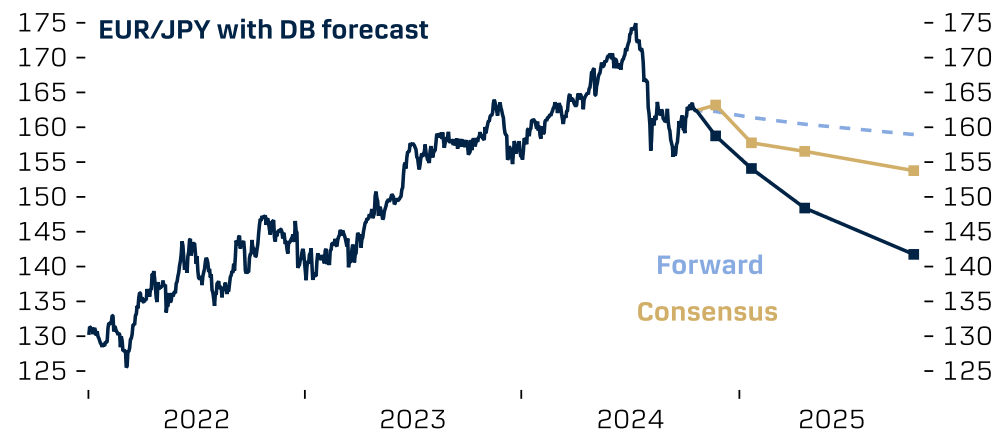
Income: We recommend to hedge NOK income via FX forwards and take advantage of potential short-term gains in NOK to further increase hedging.

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

Exchange rates vs EUR

FX
Forecast
Table

G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.08	1.08	1.07	1.06	1.05
EUR/JPY	163	159	154	148	142
EUR/GBP	0.83	0.83	0.82	0.81	0.82
EUR/CHF	0.94	0.94	0.93	0.92	0.91
EUR/SEK	11.41	11.30	11.30	11.60	11.60
EUR/NOK	11.84	11.70	11.70	12.00	12.30
EUR/DKK	7.4580	7.4600	7.4575	7.4550	7.4550
EUR/AUD	1.62	1.61	1.62	1.63	1.64
EUR/NZD	1.79	1.77	1.78	1.80	1.78
EUR/CAD	1.50	1.47	1.49	1.51	1.51
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.32	4.30	4.30	4.20	4.10
EUR/HUF	401	400	400	420	420
EUR/CZK	25.3	25.2	25.2	25.0	25.0
EUR/TRY	37.1	37.6	38.3	39.5	42.4
EUR/ZAR	19.0	19.0	18.7	18.4	18.1
EUR/CNY	7.71	7.69	7.65	7.63	7.61
EUR/INR	91.0	90.9	90.5	90.2	90.3



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