

# Flash Comment Denmark

## FX intervention continued in November

- **Danmarks Nationalbank (DN) sold DKK1.2bn in FX reserves due to FX intervention in November.**
- **DN allowed EUR/DKK to trade above 7.4730 in November and thus above the FX intervention level from October.**
- **We forecast EUR/DKK to trade above 7.4700 on 12M supported by, among other things, the large discount in FX forwards.**

Danmarks Nationalbank (DN) has just published November's FX reserve data and central bank balance sheet data. In November, the FX reserve declined by DKK1.9bn to DKK441bn. The decline was partly due to FX intervention. DN sold DKK1.2bn in FX reserves due to intervention. Government deposits were DKK84bn in November, up from DKK76bn in October.

It was the second month in a row DN has sold EUR/DKK in FX intervention. DN allowed EUR/DKK to rise above 7.4730 and thus above the peak from October; hence, it showed patience with respect to the weak DKK. Over the past two months DN has sold an accumulated DKK1.6bn of FX reserves. In comparison, DN sold off DKK14bn of FX reserves last December and January in FX intervention. Hence, the upwards pressure on EUR/DKK remains limited.

We forecast EUR/DKK to continue to trade above 7.4700 on 12M aided by a large discount in FX forwards and late next year possibly also by the flow of vacation money (see *DKK Edge: Beware the wall of vacation money*, 25 October). Hence, DN will probably need to remain active in the FX market to cap EUR/DKK upside.

At some point, it will probably spur speculation about an independent DN policy rate hike (of the magnitude of 10bp). While that is justified, the upwards pressure on EUR/DKK still remains limited and DN has ample room to draw down the FX reserve to manage the peg – we estimate about DKK40bn. Hence, a Danish rate hike is not around the corner in our view. Our base case is therefore still that DN keeps the key policy rate unchanged at minus 0.75% on 12M.

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**Report completed:** 3 December 2019, 17:08 CET

**Report first disseminated:** 3 December 2019, 17:40 CET