12 March 2020

FX/FI Strategy Denmark

Danish central bank introduces new lending facility

- **Danmarks Nationalbank (DN) has just announced a new one-week lending facility with an interest rate of -0.50%.**
- **The facility will help cap upside in short-term DKK interest rates should a DKK liquidity shortage arise.**
- **In our view, it will also allow DN to draw down the FX reserve further to cap EUR/DKK upside and, hence, reduce the possibility of a near-term rate hike.**
- **The Danish government bond market has shown remarkably strong resilience to the spread widening seen in the semi-core and periphery.**

Danmarks Nationalbank (DN) has just announced a new one-week lending facility. It will allow banks to borrow for one week at an interest rate of -0.50%. The interest rate on the permanent repo facility is +0.05%. The move will, de facto, narrow the interest rate corridor to -0.50% to -0.75%. It will help cap short-term DKK interest rates at -0.50%, as opposed to +0.05% if a liquidity shortage should arise in the DKK money market, e.g. following upward pressure on EUR/DKK and a significant drawdown on the FX reserve. DN said it currently does not see signs of strain in the money market.

We forecast EUR/DKK to continue to trade close to 7.4730 short term, as the current weak stock markets and low interest rates in Denmark are weighing on the DKK. In the remainder of March, seasonal dividend payments will further support a high level for the EUR/DKK. In addition, we expect a large discount in EUR/DKK FX forwards. However, in our view, the new lending facility provides DN more room to draw on the FX reserve, which was DKK429bn at the end of February, to support the DKK without having to raise interest rates. We still expect an independent 10bp rate hike from DN later this year, but see less probability of a hike in the short term should we see renewed outflow from the FX reserve.

The Danish government bond market has shown remarkably strong resilience to the spread widening seen in the semi-core and periphery, with only 2-4bp widening across the curve to Germany in the last three weeks. It is a similar picture in the DKK-EUR swap spreads, with also very limited widening relative to other markets.

It has been mainly callable mortgage bonds that have been hit lately, with callable bonds underperforming by nearly 2-4bp to swaps today and the 0.5’50 losing 70-75 cents to DGBs. The 0.5% 30Y have dropped almost 100 cents this week and the 1% 2050(io) bonds are close to being reopened. However, the spread widening in callables is much less than that seen in other markets, given ‘only’ 10-12bp widening to swaps since the end of February. Furthermore, as the price of the 0.5% 30Y callables declines, it reduces the prepayment risk in the higher coupon bonds. Looking forward, there is a risk of a more spread widening, but if the issuance declines, there would be limited supply pressure and this should dampen pressure on the callables.

Longer flex bonds (4-5Y) have actually seen good buying interest this week, almost without any spread widening, whereas investors are selling shorter flex bonds to get cash for buying other assets (equities).

Senior Analyst
Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

Chief Analyst:
Jan Weber Østergaard
+45 4513 0789
jast@danskebank.dk

Chief Analyst
Jens Peter Sørensen
+45 4512 8517
jenssr@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Jens Nærvig Pedersen, senior analyst, Jan Weber Østergaard, chief analyst, and Jens Peter Sørensen, chief analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) [('Relevant Financial Instruments').]

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 12 March 2020, 17:58 CET

Report first disseminated: 12 March 2020, 18:30 CET