

20 April 2021

Market Guide

US economic outperformance continues

- USD – we continue to believe in a comeback this year
- GBP – despite bump, we still expect a stronger pound
- SEK – headwinds from industry and low inflation
- NOK – at the turning point

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Statistical sources: Macrobond Financial, Bloomberg, Danske Bank

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Market overview

US economic outperformance continues

Markets have increasingly priced in a normalisation of the economic situation. The US remains characterised by economic outperformance only supported by the outlook for further fiscal easing with the recent announcement of Biden’s infrastructure package. Blood clot concerns with regards to both the AstraZeneca and the Johnson & Johnson vaccines have worsened the outlook for an already disappointing EU vaccine roll-out compared to peers. This poses a real threat to the EU economic recovery. In China, credit and money growth has slowed further supporting the picture of policy tightening. Overall, our narrative of a strong US economy relative to EU and Asia continues.

Cyclical features of the FX market restored

The Fed faces an increasing pressure to raise rates and taper bond purchases. That leaves an outlook of higher USD real rates, which by extension diminishes the topside risk to EUR/USD. The development of EUR/USD hinges on the course of action whether verbal or rate intervention from the Fed. Commodity currencies have enjoyed a recent bounce in commodity prices, incl. oil but with the outlook for a turn in global manufacturing PMIs and a stronger USD that in our view limit the topside. Also a turn in the industrial cycle and weak domestic inflation dynamics pose a headwind for SEK. UK virus concerns and a bounce in the EUR recently brought EUR/GBP to the highest level since early March.

Recovery of the oil market to continue in H2

OPEC+ will start normalising oil output from May. We expect OPEC+ to balance the normalisation of output with the ongoing recovery in demand. Drilling activity has only slowly started to increase in the US shale oil and has not led to higher production yet. The ongoing vaccine roll out, reopening of economies and growing inflationary pressure has brightened the outlook for oil prices. OPEC+ has started normalising its oil output, which will ease the upside potential for oil prices from the sound demand backdrop. We have revised our oil price forecasts higher.

Contents

- *Market overview*
- *USD - we continue to believe in a comeback this year*
- *GBP - despite bump, we still expect a stronger pound*
- *SEK - headwinds from industry and low inflation*
- *NOK - at the turning point*
- *Others: JPY, CHF, PLN, RUB*
- *FX forecast table*

Chart 1. US yields have moved slightly lower over the past month

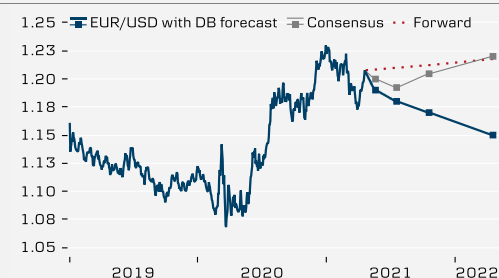


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Sources: Macrobond, Danske Bank

USD – we continue to believe in a comeback this year

- The US is likely to experience a very rapid normalization of the labour market and other macro indicators over the next 6-12 months. In markets, these expectations are seen through high levels of equities, low credit spreads, as well as from inflation expectations running at 2.6%. US fiscal policy and a good pace of vaccinations support this.
- We continue to see Chinese tailwinds as slowing and this will be a counteracting factor for the European uptick, both of which are likely to coincide during H2.
- The Fed has given some sporadic guidance linked to inflation in Q4 and high levels of vaccinations. One should expect talks of tapering to pick up during H2. However, we see the ECB more likely to de facto end PEPP in H2 21 rather than in Mar22 as expectations on the European recovery and higher inflation are firm.
- We keep our current profile unchanged, in favour of USD. The key risks to watch are 1) the expectations to US recovery must be met, 2) questioning if EU can surprise on the upside and/or 3) the state of the next leg in US-China tariffs. As has been the case since the onset of COVID, the potential outcomes for EUR/USD are very wide, irrespective of us seeing a stronger dollar in our base case.
- We still target EUR/USD at 1.15 in 12M.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.19	1.18	1.17	1.15
Consensus	1.20	1.19	1.20	1.22
Forward	1.21	1.21	1.21	1.22

Hedging recommendations

- **Income:** Sell USD via participating forwards.
- **Expenses:** Purchase USD via forwards.

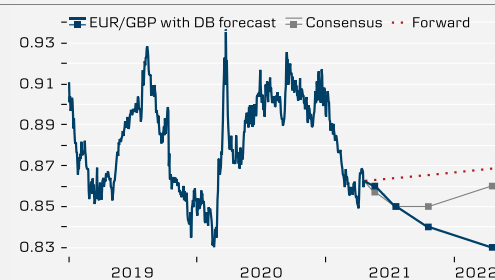
Source: Macrobond, Bloomberg, Danske Bank

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GBP – despite bump, we still expect a stronger pound

- The UK is gradually reopening supported by fast vaccinations, which, combined with businesses getting used to the new EU-UK trading relationship, means that the outlook for the UK economy looks much brighter. We expect the UK economy will outperform the euro area this year.
- EU-UK trade recovered in February after a sharp drop in January although trade is not all the way back to more normal levels. Overall, we think Brexit as a theme has moved into the background now, but keep an eye on the EU-UK negotiations on the implementation of the Northern Ireland protocol.
- We have seen a significant repricing of the Bank of England (BoE) in Q1. It is not long ago a negative BoE Bank Rate was a theme, but now the first 15bp rate hike is priced already in November 2022, which would take the Bank Rate back to 0.25%. We think this is slightly to the aggressive side, as we do not expect any hikes through 2022, at the moment. Eventually, the BoE is likely to tighten monetary policy earlier than the ECB.
- EUR/GBP has followed EUR/USD slightly higher over the past month. Just like for EUR/USD, we think the recent EUR/GBP increase closer to 0.87 is a bump in the road and remain bullish on GBP, as we are still more upbeat on the UK than on the euro area. Near-term we expect EUR/GBP to trade around the current levels before the cross starts to move lower again. We still forecast EUR/GBP will trade in 0.83 in 12M.

EUR/GBP



	1M	3M	6M	12M
Danske Bank	0.86	0.85	0.84	0.83
Consensus	0.86	0.85	0.85	0.86
Forward	0.86	0.86	0.87	0.87

Hedging recommendations

- **Income:** Sell GBP via participating forwards.
- **Expenses:** Buy GBP via forwards

Source: Macrobond, Bloomberg, Danske Bank.

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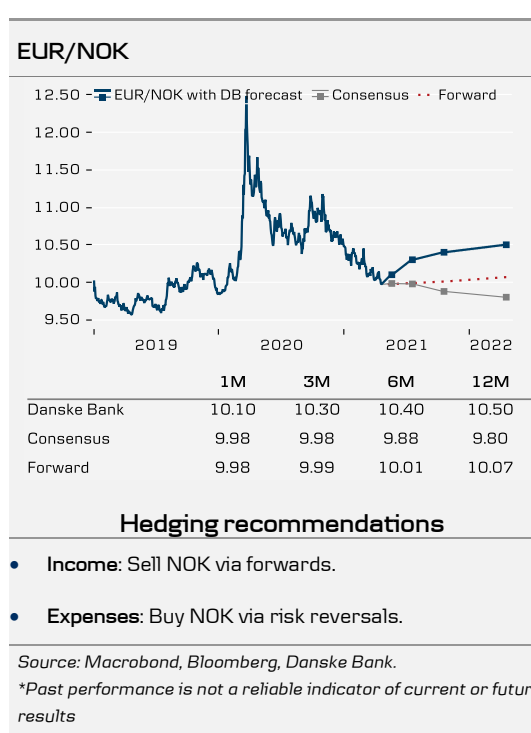
SEK – headwinds from industry and low inflation

- With both consumption and activity indicators well above Q4 levels, it seems that Q1 2021 has started on a positive note, with Sweden set to gain from the global recovery. However, manufacturing sector has warned that global supply chain disruptions might affect Swedish production negatively, increasing the risk for a temporary setback in Q2.
- Base effects have pushed inflation higher during spring, however not to the full extent that the Riksbank had hoped. We believe that inflation will resume old patterns in H2, with underlying inflation struggling at 1%. We believe that the pre-pandemic strong ‘inflation-SEK’ link is set to be re-established in the coming months, meaning that inflation will reclaim its position as perhaps the most important driver of the SEK. Hence we expect a gradual weakening of the SEK from here on.
- With EUR/SEK temporarily being pushed above previous range highs, the SEK would be vulnerable to a dovish surprise from the Riksbank given current market pricing, which is too hawkish in our opinion. Inflation is close to a peak and the downtrend we see for the remainder of the year is in our thinking a key headwind for the krona. Our constructive view on the USD is also set to weigh on the krona. In all, we raise our expectations for EUR/SEK in the near term to trade around 10.20-10.30, but unchanged at 10.40 at 12M.

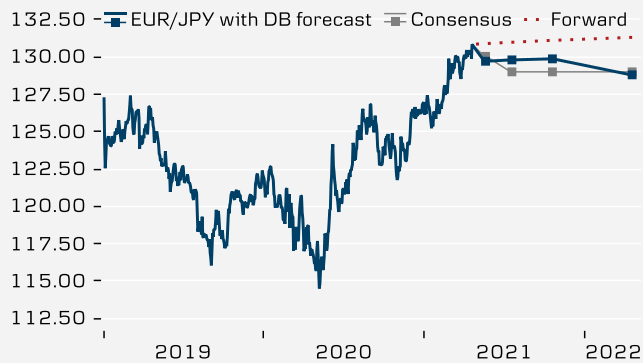


NOK – at the turning point

- The mainland economy has suffered a setback from the COVID-19 restrictions. That said, it is still all about the future for capacity utilisation and hence the vaccine roll-out. Ultimately, we still expect a sharp activity rebound for the mainland economy and the latest vaccination-schedules point to a vaccination of the broad public by summer. Additionally we see a significant rise in optimism and investment prospects improving substantially. We expect the core inflation to move lower in the coming quarters on lower capacity utilisation and 2020 NOK strength.
- At the March meeting Norges Bank (NB) moved forward its signal for the first rate hike by signalling a 25bp hike in H2 this year. While higher NOK rates in isolation is supportive of a stronger NOK, we still highlight that relative short-end rates are a much less important driver of NOK relative to the global reflation theme.
- We have long argued that NOK would enjoy a strong start to the year but that a turning point was likely during spring. We believe we are now at this point and pencil in a weaker NOK going forward. While we have emphasized 10 reasons for a weaker NOK, we once again highlight the importance of the industrial cycle, USD real rates, the USD and by extension commodity prices. We increase our forecast of EUR/NOK to 10.10 in 1M, 10.30 in 3M, 10.40 in 6M and 10.50 in 12M.



EUR/JPY



	1M	3M	6M	12M
Danske Bank	129.71	129.80	129.87	128.80
Consensus	130.04	129.00	129.00	129.00
Forward	130.89	130.98	131.11	131.31

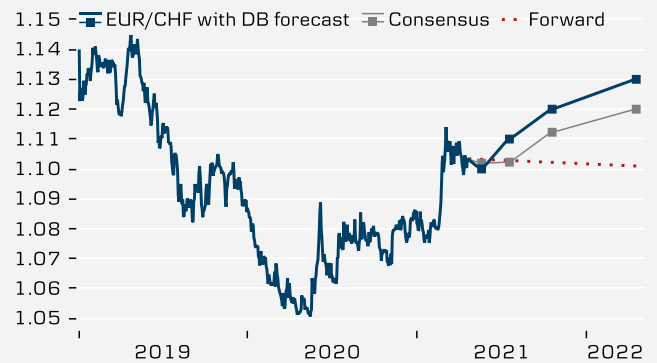
Hedging recommendations

- **Income:** Sell JPY via forwards.
- **Expenses:** Buy JPY via forwards.

Source: Bloomberg, Danske Bank.

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EUR/CHF



	1M	3M	6M	12M
Danske Bank	1.10	1.11	1.12	1.13
Consensus	1.10	1.10	1.11	1.12
Forward	1.10	1.10	1.10	1.10

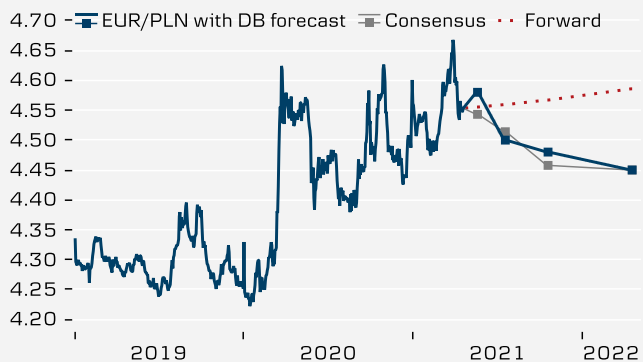
Hedging recommendations

- **Income:** Sell CHF via forwards.
- **Expenses:** Buy CHF via participating forwards.

Source: Bloomberg, Danske Bank.

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EUR/PLN



	1M	3M	6M	12M
Danske Bank	4.58	4.50	4.48	4.45
Consensus	4.54	4.51	4.46	4.45
Forward	4.56	4.56	4.57	4.59

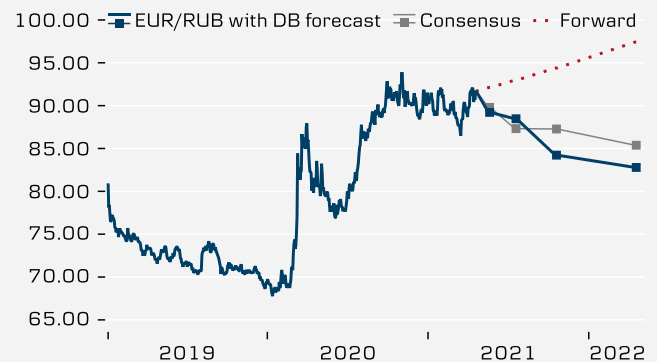
Hedging recommendations

- **Income:** Sell PLN via participating forwards.
- **Expenses:** Purchase PLN via forwards.

Source: Bloomberg, Danske Bank.

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EUR/RUB



	1M	3M	6M	12M
Danske Bank	89.25	88.50	84.24	82.80
Consensus	89.84	87.35	87.31	85.40
Forward	92.16	93.02	94.44	97.48

Hedging recommendations

- **Income:** Sell RUB via forwards. We expect a slightly stronger RUB, but there is great uncertainty regarding the outcome of the political conflict between the US, Russia and Ukraine. High political uncertainty may weaken RUB.
- **Expenses:** Buy RUB via forwards.

Source: Bloomberg, Danske Bank.

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Danske Banks' FX forecasts

Last Update: <u>20/04/2021</u>					
G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.203	1.19	1.18	1.17	1.15
EUR/JPY	130.2	130	130	130	129
EUR/GBP	0.862	0.86	0.85	0.84	0.83
EUR/CHF	1.100	1.10	1.11	1.12	1.13
EUR/SEK	10.09	10.10	10.20	10.30	10.40
EUR/NOK	9.97	10.10	10.30	10.40	10.50
EUR/DKK	7.4365	7.4360	7.4400	7.4450	7.4450
EUR/AUD	1.549	1.57	1.57	1.60	1.60
EUR/NZD	1.675	1.70	1.71	1.72	1.72
EUR/CAD	1.503	1.50	1.50	1.51	1.51
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.547	4.58	4.50	4.48	4.45
EUR/HUF	360	362	365	372	373
EUR/CZK	25.9	25.8	25.7	25.5	25.3
EUR/RUB	91.8	89	89	84	83
EUR/TRY	9.72	9.6	9.8	10.2	10.2
EUR/ZAR	17.12	17.3	17.1	17.6	18.4
EUR/CNY	7.83	7.76	7.73	7.72	7.71
EUR/INR	90.1	89.8	89.7	90.1	89.7

Source: Bloomberg, Danske Bank

Disclosures

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