

# *Market Guide*

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## *Summer weakness in store for NOK and GBP*

### **Broad repricing of major central banks**

The past month, there has been a broad repricing (higher rates) of several central banks such as the Reserve Bank of Australia, Bank of Canada, Norges Bank and most notably the Bank of England. While headline inflation has continued to move lower in most regions, core inflation remains sticky as seen by continued underlying price pressures in the service sector and labour markets remain tight. In line with our expectation, the Fed opted to keep rates steady at the last meeting but delivered a hawkish message. On the contrary, to fight a faltering recovery, the Chinese authorities have added more stimulus. In Europe, optimism with respect to the growth outlook seems to be fading alongside the outperformance of European equities. The European natural gas price has risen around 50% since the start of the month to around EUR40/Mwh - the highest level since the beginning of April - which serves as a reminder that the European energy situation is fragile and sensitive to many different factors.

### **Fade recent moves**

The past month in FX markets has been characterised by moves in relative rates driving spot markets. Currencies that have witnessed the biggest repricing higher of their central bank outlooks like CAD, AUD, NOK and GBP have all been among the top-performers while SEK, USD and the EUR have been among the underperformers. The JPY has suffered not only from a dovish Bank of Japan but also from the general rise in global yields. This has lifted USD/JPY to new year-highs. EUR/USD has moved higher over the past week, trading just below the 1.10 mark.

We maintain our strategic case for a lower EUR/USD based on relative terms of trade, real rates and relative unit labour costs. Likewise, we see the prospect of the USD finding further near-term support despite the Fed pause. Although we see the latest move higher in EUR/SEK as overdone, we remain bearish on the SEK over the medium term on the back of relative monetary policy, gloomy global growth outlook globally and domestic headwinds from the housing market suggest. We have a negative stance on NOK the coming months given a mismatch in fiscal FX transactions, weaker global sequential growth and tighter global liquidity conditions. Further out, we pencil in a move lower in EUR/NOK on both EUR strength fading and the NOK making a 2023-comeback.

A key assumption is that of a re-tightening of global financial conditions. Risks to this assumption primarily lie in the combination of a sharp drop in core inflation and a more resilient global economy than what we pencil in.

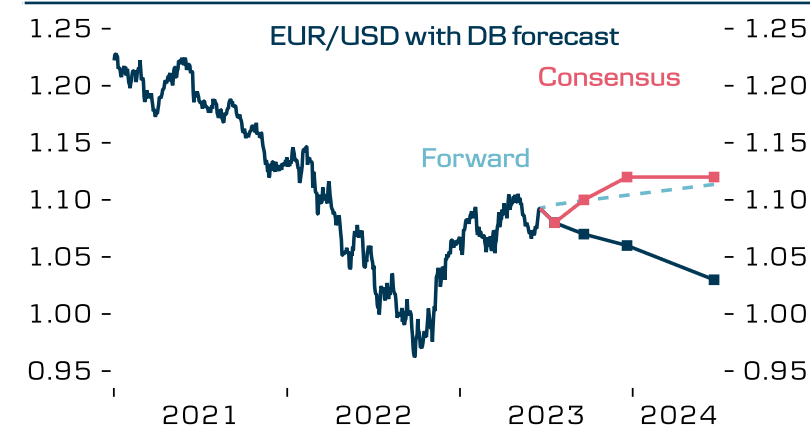


# USD

## Stronger USD

- Economic momentum and inflation appear to be fading both in the US and in the euro area, although core inflation could continue to cause concerns in both regions. US economic data on growth, labour and inflation have generally moderated lately, but the underlying strength of the US economy very much seems intact. In the euro area, there have been some weakening signs in macro data as of late, which we expect to become even more pronounced in H2, as the full impact of last year's monetary policy tightening hits the real economy. Overall, we think the US economy will prove more robust relative to the European counterpart in H2.
- We think the Fed has delivered its last hike. Since our last update, 3x25bp rate cuts in H2 have been priced out by the market. Against the backdrop of a resilient US economy, the question is now whether the Fed will hike again after its "hawkish pause", where it signaled two more 25bp rate hikes this year. Similarly to the Fed, we also saw some hawkish tones from the ECB, besides the expected 25bp rate hike. We think there are two 25bp rate hikes left in July and September from the ECB, bringing the policy rate up to 4%.
- We maintain the strategic case for a lower EUR/USD based on relative terms of trade, real rates (growth prospects) and relative unit labour costs. Despite US and euro area rates differentials likely narrowing from here, we think this effect will be dominated by fundamentals in favour of the USD. Additionally, we think sticky global core inflation and any resurgence in energy prices should provide headwinds for EUR/USD. We continue to forecast the cross at 1.03 in 12M.
- One of the biggest risks related to our forecast is a turnaround of the manufacturing industry in Europe e.g. driven by a re-acceleration from China in H2. In general, any cyclical tailwinds are risks to our forecast. Furthermore, substantial weakness in US economy also poses a topside risk for the cross.

### EUR/USD



	1M	3M	6M	12M
Danske Bank	1.08	1.07	1.06	1.03
Consensus	1.08	1.10	1.12	1.12
Forward	1.10	1.10	1.10	1.11

### Hedging recommendations

**Income:** Sell USD via risk reversals.

**Expenses:** Purchase USD via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

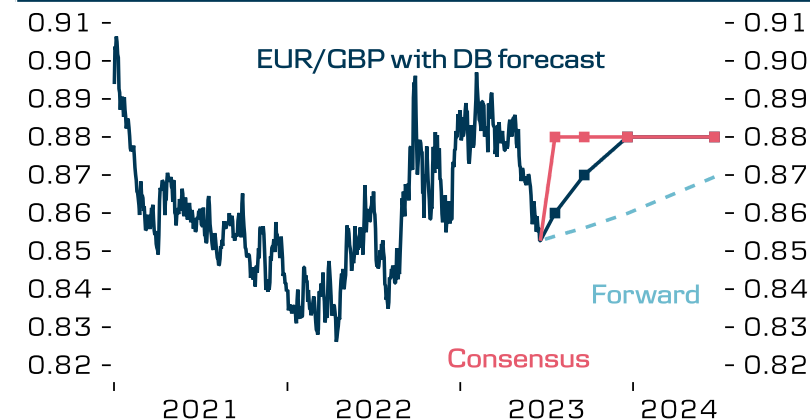


# GBP

## Rebound to prove temporary

- The UK economy continues to show resilience with the labour market remaining tight, PMI's above 50 (excl. manufacturing) and positive GDP growth. Relative to the euro area, the UK has performed better than expected. The latest labour market report was broadly stronger than expected and highlights that the UK labour market remains under immense pressure. Wage growth excluding bonuses increased to 7.2% (up from 6.7%) with wage growth accelerating in the private sector. Likewise, unemployment ticked lower to 3.8% following increases the past months. Underlying inflation pressures remain elevated with core inflation accelerating by 1.2% m/m SA in April.
- The Bank of England (BoE) has hiked the Bank Rate by a total of 440bp over the past 12 meetings. We expect the BoE to hike the Bank Rate by a 25bp in June and August bringing the policy rate to 5.00%. This is less than current market pricing, which is pricing a peak at 5.75%. Combined with the, in our view, slightly dovish pricing on the ECB, we see relative rates as a positive for the cross.
- The past month, EUR/GBP has continued its move lower, now trading around mid-0.85. We attribute the move lower to the outperformance of the UK economy and rates markets pricing in more rate hikes from the BoE. In the near-term, we expect the GBP momentum to continue and the cross to trade around the 0.86 figure. However, we believe it is only a question of time before the gap between surprise indices closes and markets will scale back on BoE rate hike expectations. We do not see the global investment environment nor the relative growth outlook to create significant divergence between EUR and GBP. We thus expect the cross to move back towards 0.87-0.88 over the coming 12 months.
- The key risk that could see EUR/GBP trade substantially above our projection is a sharp sell-off in risk where capital inflows fade and liquidity becomes scarce.

### EUR/GBP



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

### Hedging recommendations

**Income:** Sell GBP via FX forwards.

**Expenses:** Buy GBP via risk reversals. Alternatively consider hedging via forwards.

Source: Macrobond, Bloomberg, Danske Bank

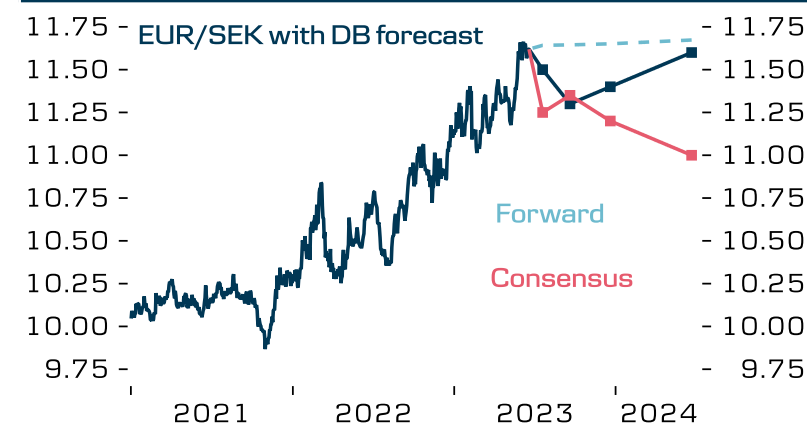
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## We remain negative on the SEK in the medium-term

- We are upping our 2023 Sweden growth estimate, ranging around -1% to 0%, based on better outcomes than expected. It suggests SEK would be less of a black sheep. However, Sweden is still among the laggards compared to peers. Moreover, the outlook is fragile and lined with downside risk, exposed to any global setback, but with no cushion from the domestic side of the economy. Sweden may still best be described as a two-speed economy. On the one hand, the industrial sector is doing okay. On the other hand households and real estate are the weak spots and these remain very much in focus for SEK.
- Inflation has probably peaked and consecutive price changes seem to lose momentum. However, the job is not done yet, hence we expect two additional hikes, 25bp in June and in September. The Riksbank will continue to express concerns with the weak krona, but refrain from actual interventions. Relative rates and monetary policy is still not a tailwind for the SEK.
- EUR/SEK has moved sharply higher the past month following weak inflation data and bad news for the Swedish real estate sector. We think the rally is overdone as it has pushed EUR/SEK to overbought territory vs. relative rates and normal correlations. Insufficient support from monetary policy, the gloomy growth picture and domestic headwinds related to households' debt and the housing market suggest that the SEK will stay weak.
- We expect EUR/SEK to move towards 11.60 over the coming year.
- Risks are two-sided and substantial not least related to risk sentiment and central bank surprises.

### EUR/SEK



	1M	3M	6M	12M
Danske Bank	11.50	11.30	11.40	11.60
Consensus	11.25	11.35	11.20	11.00
Forward	11.64	11.64	11.65	11.67

### Hedging recommendations

**Income:** Utilise any rebound in SEK to sell SEK via FX forwards.

**Expenses:** Buy SEK via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank

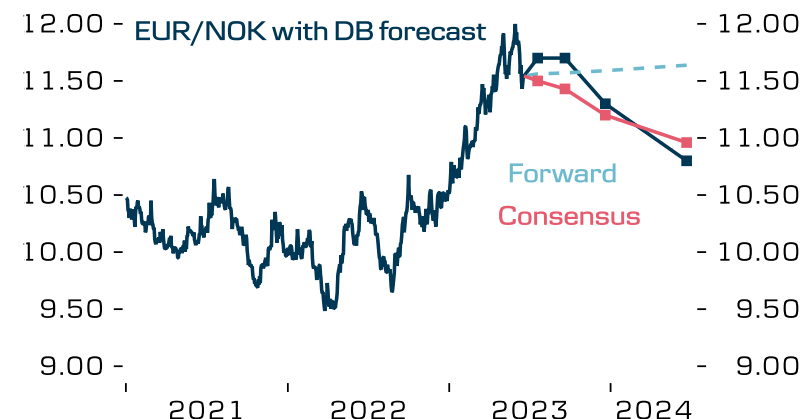
Note: Past performance is not a reliable indicator of current or future results



## Near-term weakness

- The monthly national account figures showed that mainland GDP in May was lower than in September 2022. Also unemployment has slowly begun to tick higher. That said, the latest Regional Network Survey showed an accelerating growth outlook with the main indicator pointing to Q3 growth of 0.3% - fairly close to estimates of potential growth. The details also showed large sector differences with service sectors and not least petroleum industries reporting strong and improved growth prospects while the outlook for retail and construction activity is very poor. Capacity utilisation metrics are still moving lower but not as quickly as earlier envisioned.
- In May, Norges Bank (NB) hiked the sight deposit rate to 3.25% whilst signalling that the balance of risk clearly has become skewed to the topside. This suggests that NB could not only hike policy rates in June but that the hiking cycle could extend into Q3 with hikes in September and/or August. Given recent developments it has become a close call as to whether NB could hike policy rates by 50bp in June albeit we still think a 25bp rate hike is the most likely.
- While NOK has enjoyed the rebound in energy prices and higher NOK rates over the last month we think it is still too early to position for a stronger NOK. We have a negative stance on NOK the coming months given a mismatch in fiscal FX transactions, weaker global sequential growth and tighter global liquidity conditions. Further out, we pencil in a move lower on both EUR strength fading and the NOK making a 2023 comeback.
- We forecast EUR/NOK at 11.70 in 3M and 10.80 in 12M.
- Near-term risks are closely connected to the global investment environment and changes to the fiscal NOK FX sales amount.

### EUR/NOK



	1M	3M	6M	12M
Danske Bank	11.70	11.70	11.30	10.80
Consensus	11.50	11.43	11.20	10.96
Forward	11.56	11.57	11.59	11.64

### Hedging recommendations

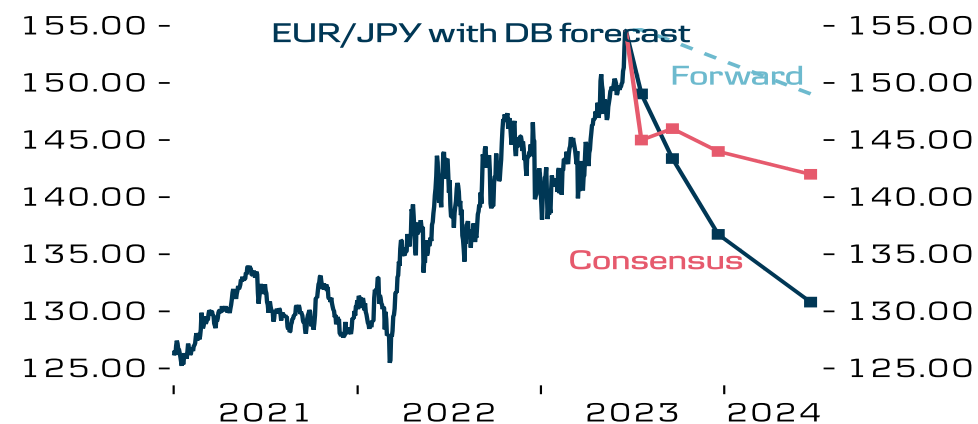
**Income:** Sell NOK via knock-in forwards.

**Expenses:** Buy NOK via FX forwards. Consider hedging short-term 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

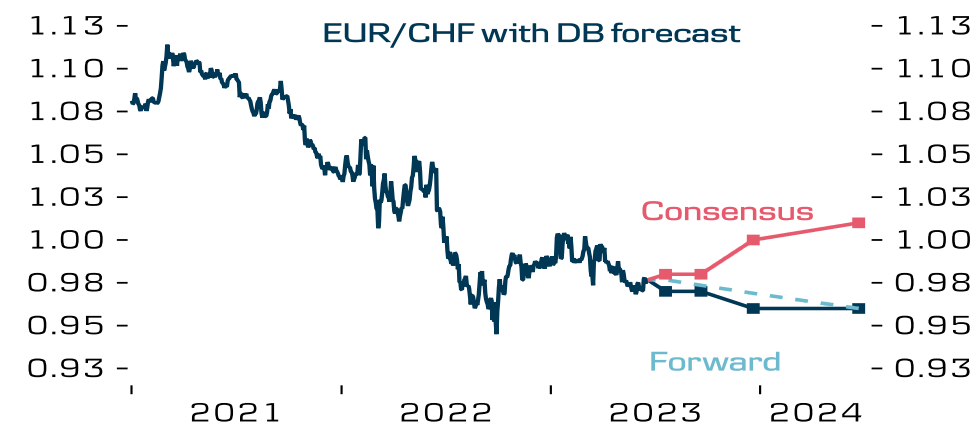
**Income:** Sell JPY via risk reversals.

**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.

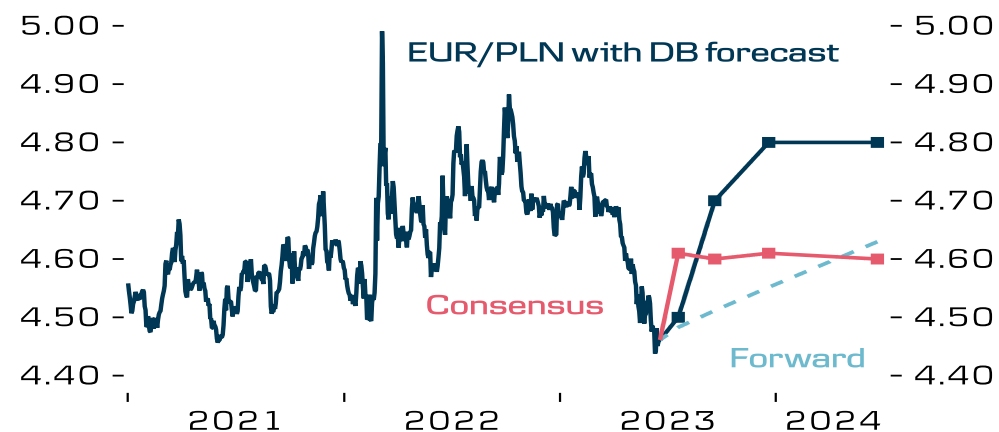
**Expenses:** Buy CHF via forwards.

Source: Macrobond, Bloomberg, Danske Bank

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

# Others

## EUR/PLN



## Hedging recommendations

**Income:** Sell PLN via forwards, alternatively via KI-forwards.

**Expenses:** Buy PLN via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank

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



# FX Forecast Table

## Exchange rates vs EUR

Last Update: 21/06/2023					
G10	Spot	+1m	+3m	+6m	+12m
<b>Exchange rates vs EUR</b>					
EUR/USD	1.09	1.08	1.07	1.06	1.03
EUR/JPY	155.32	149	143	137	131
EUR/GBP	0.86	0.86	0.87	0.88	0.88
EUR/CHF	0.98	0.97	0.97	0.96	0.96
EUR/SEK	11.79	11.50	11.30	11.40	11.60
EUR/NOK	11.72	11.70	11.70	11.30	10.80
EUR/DKK	7.45	7.4450	7.4450	7.4450	7.4500
EUR/AUD	1.61	1.59	1.60	1.63	1.61
EUR/NZD	1.77	1.74	1.75	1.77	1.75
EUR/CAD	1.45	1.46	1.46	1.45	1.41
EM	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.44	4.50	4.70	4.80	4.80
EUR/HUF	371.18	380	390	400	420
EUR/CZK	23.77	23.6	23.6	23.8	24.0
EUR/TRY	25.79	25.9	26.8	27.6	28.8
EUR/ZAR	20.07	19.8	19.5	19.3	18.7
EUR/CNY	7.86	7.78	7.76	7.74	7.62
EUR/INR	89.63	89.0	88.3	88.0	86.0

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