

Market Guide

A hawkish Fed drives stronger USD, weaker Scandies

Market overview

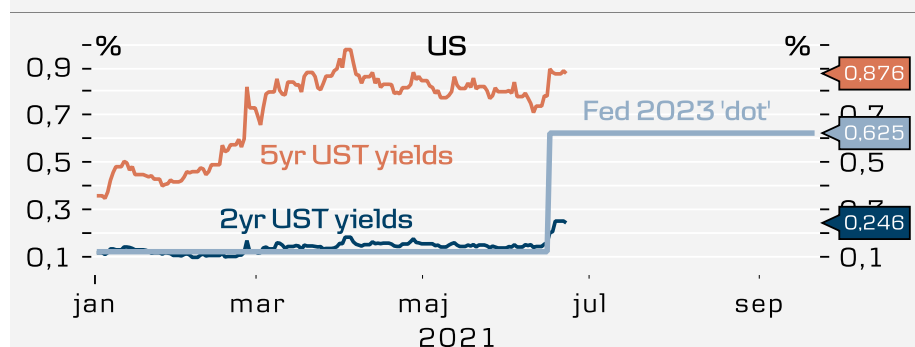
Higher inflation

As expected, the economy recovery in the developed countries have continued since our last update, as the COVID-19 situation is improving (due to vaccines and warmer weather), mass vaccination continues and restrictions are eased gradually. The most important event since last month was the hawkish shift from the Fed. The Federal Reserve now signals two rates hikes in 2023 and seven out of 18 policymakers expect a hike already next year. Simultaneously, the Fed is now openly discussing when to start QE tapering (the bond buying pace is USD120bn per month currently). The Fed still thinks the higher inflation is transitory so the biggest change, in our view, is that the Fed now expects a stronger labour market recovery, especially when the temporarily higher unemployment benefits expire (no later than early September). US yields and the USD both moved higher, as de facto no one had expected such a major policy shift already now. We think the meeting marked the beginning of the end of the Fed's very accommodative policy.

The developments in FX markets have been very much in line with our expectations of a stronger USD and weaker SEK and NOK due to higher US real rates. As we wrote last month, the timing of a hawkish shift from the Fed would be very important for markets – we also believe that is the case when the Fed takes the next steps in the gradual removal of accommodation. In addition, we are likely to see a peak in manufacturing both due to the re-opening and tighter monetary and credit policies in China.

We have not made big revisions to our FX forecasts since May. We still expect EUR/USD to move lower targeting 1.15 in 12M. We expect both EUR/SEK and EUR/NOK will move higher from here targeting 10.40 in 12M. EUR/GBP is expected to move down to 0.83 in 12M.

Chart 1. Fed now signals two rate hikes by year-end 2023



Note: Past performance is not a reliable indicator of current or future results.
Sources: Federal Reserve, Bloomberg, Macrobond Financial

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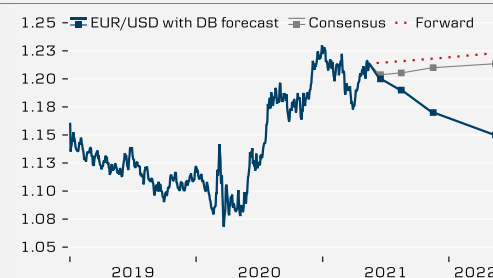
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USD – hawkish Fed strengthens the dollar

- Not long ago EUR/USD traded above 1.22 but the cross is now trading around 1.19. The main explanation is the more hawkish Fed at the June meeting. The Fed is now signalling two rates hikes in 2023 (and some policymakers are signalling rate hikes next year) and is openly discussing QE tapering.
- As we have been arguing for a while, the timing of a hawkish shift from the Fed would be extremely important for USD. We expect the Fed will turn more and more hawkish in coming months due to a very strong labour market recovery. This will also lead to higher US real rates.
- In addition, we expect a peak in manufacturing and still slower growth in China, which are also positive for USD. We expect EUR/USD to fall further targeting 1.15 in 12M.
- We are in particular monitoring the US labour market recovery. If it turns out to be weaker than anticipated, we are likely to see the Fed to be more patient removing accommodation, which will weigh on USD. Another factor which could lead to a higher EUR/USD is a stronger-than-anticipated recovery in the euro area.

EUR/USD



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

Hedging recommendations

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

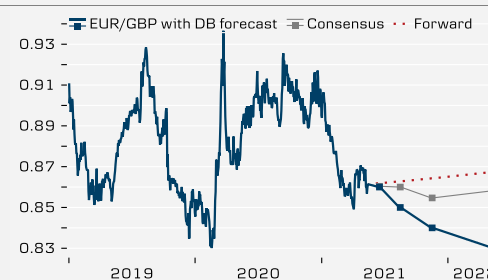
Source: Macrobond, Bloomberg, Danske Bank

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GBP – still bullish

- EUR/GBP has moved sideways since our last update (although perhaps more down than up). On one hand, the delay of the full re-opening and the political discussions between the EU and the UK on the Northern Ireland protocol have likely supported EUR/GBP. On the other hand, we like to see GBP as a “mini USD” (at least to some extent) so EUR/GBP moves lower than USD appreciates. We saw that after the FOMC meeting where EUR/GBP moved lower.
- We still expect EUR/GBP to move lower in H2, although the declines will be more gradual than what we saw in Q1, when GBP benefitted from investors pricing out the no deal Brexit risk premium and the fast mass vaccinations in the UK. In addition, the Bank of England is not
- The reason why we expect EUR/GBP to move lower is that the UK is likely to grow faster than the euro area, partly because the UK is still ahead with its vaccination programme. The delta variant has delayed, not derailed, the full re-opening. In addition, the Bank of England (BoE) is not struggling with low inflation and is expected to tighten monetary policy earlier than the ECB.
- We expect EUR/GBP fall towards 0.83 in 12M.
- Risk is that both the Fed and the BoE are more patient removing accommodation than what we expect right now. There are also political risks from the negotiations between the EU and the UK on the Northern Ireland protocol.

EUR/GBP



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

Hedging recommendations

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

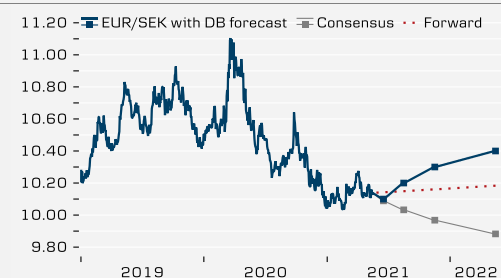
Source: Macrobond, Bloomberg, Danske Bank.

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SEK – EUR/SEK moving higher medium term

- EUR/SEK fell below 10.05 in early June but is now closer to 10.20 (and was for a short period even above 10.20).
- We still expect EUR/SEK to move higher from here despite our expectation of a strong economic recovery in Sweden (like in other developed countries).
- The reason is a combination of a stronger USD, the Fed removing accommodation and a peak in manufacturing. The Riksbank is likely to keep monetary policy unchanged, as inflation is set to fall.
- We do not expect the political crisis in Sweden will weigh on SEK.
- We expect EUR/SEK to move towards 10.40 in 12M.
- A risk to our forecast is if the Fed is more patient removing accommodation than what we expect. That would lead to a weaker USD and a stronger SEK.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	10.10	10.20	10.30	10.40
Consensus	10.09	10.03	9.97	9.88
Forward	10.14	10.15	10.16	10.18

Hedging recommendations

- **Income:** Sell SEK via forwards.
- **Expenses:** Buy SEK via risk reversals.

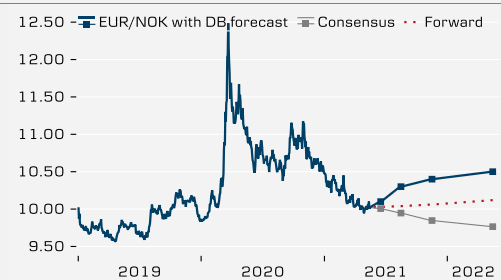
Source: Macrobond, Bloomberg, Danske Bank.

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NOK – weaker despite rate hikes from Norges Bank

- The Norwegian economy is improving and Norges Bank is signalling roughly four rate hikes over the coming year with the first one arriving in September. Despite the more hawkish Norges Bank, EUR/NOK has moved higher (especially after the FOMC meeting) and is now trading around 10.25.
- We still expect EUR/NOK to move gradually higher from here. As we have been arguing for a while, market participants had already priced in tighter monetary policy in Norway and global factors are more important for NOK than Norges Bank.
- Higher US real rates as the Fed removes accommodation and a stronger USD are headwinds for NOK.
- We expect EUR/NOK to move towards 10.40 in 12M.
- A risk to our forecast is if the Fed is more patient removing accommodation than what we expect. That would lead to a weaker USD and a stronger NOK.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	10.10	10.30	10.40	10.50
Consensus	10.01	9.95	9.85	9.77
Forward	10.03	10.04	10.06	10.12

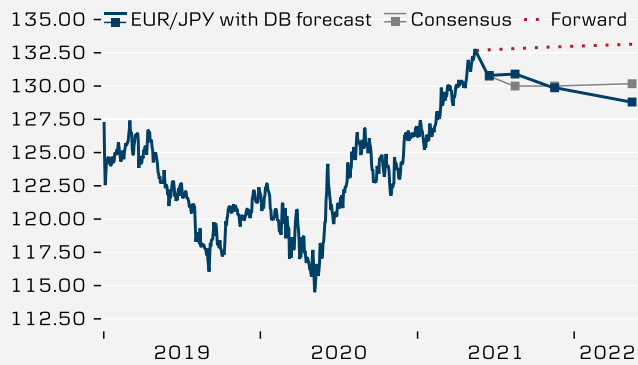
Hedging recommendations

- **Income:** Sell NOK via forwards.
- **Expenses:** Buy NOK via risk reversals.

Source: Macrobond, Bloomberg, Danske Bank.

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EUR/JPY



	1M	3M	6M	12M
Danske Bank	130.80	130.90	129.87	128.80
Consensus	130.73	130.00	130.00	130.17
Forward	132.73	132.81	132.94	133.14

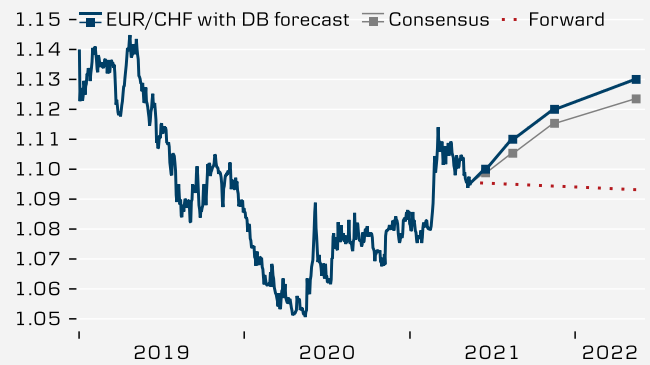
Hedging recommendations

- **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	1.11	1.12	1.12
Forward	1.10	1.09	1.09	1.09

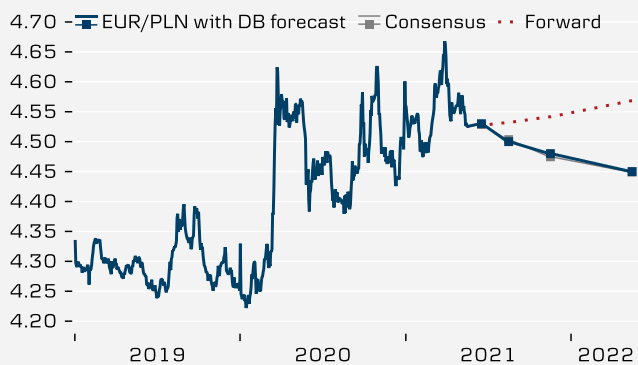
Hedging recommendations

- **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	4.53	4.50	4.48	4.45
Consensus	4.53	4.50	4.47	4.45
Forward	4.53	4.53	4.54	4.57

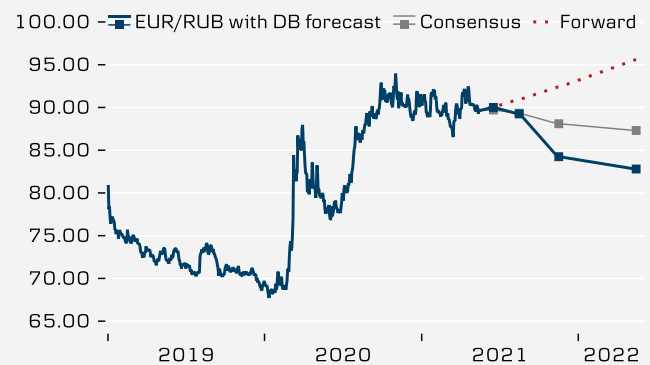
Hedging recommendations

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

Source: Bloomberg, Danske Bank.

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EUR/RUB



	1M	3M	6M	12M
Danske Bank	90.00	89.25	84.24	82.80
Consensus	89.70	89.33	88.09	87.31
Forward	90.06	90.93	92.39	95.57

Hedging recommendations

- **Income:** Sell RUB via forwards. We expect a slightly stronger RUB, but higher political uncertainty (which has become a permanent risk factor for RUB) may weigh on RUB.
- **Expenses:** Buy RUB via forwards.

Source: Bloomberg, Danske Bank.

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Danske Banks' FX forecasts

Last Update: <u>23/06/2021</u>						
G10						
	Spot	+1m	+3m	+6m	+12m	End 2020
Exchange rates vs EUR						
EUR/USD	1.194	1.19	1.18	1.17	1.15	1.17
EUR/JPY	132.4	131	131	130	129	131
EUR/GBP	0.855	0.85	0.84	0.84	0.83	0.86
EUR/CHF	1.096	1.10	1.11	1.12	1.13	1.12
EUR/SEK	10.11	10.20	10.20	10.30	10.40	10.10
EUR/NOK	10.15	10.20	10.30	10.40	10.40	10.40
EUR/DKK	7.4361	7.4360	7.4400	7.4450	7.4450	7.4550
EUR/AUD	1.579	1.57	1.57	1.58	1.58	1.52
EUR/NZD	1.696	1.70	1.71	1.72	1.72	1.64
EUR/CAD	1.468	1.46	1.46	1.49	1.47	1.54
EM						
	Spot	+1m	+3m	+6m	+12m	
EUR/PLN	4.519	4.51	4.48	4.42	4.45	4.35
EUR/HUF	349	358	360	365	370	375
EUR/CZK	25.4	25.5	25.3	25.1	25.0	25.5
EUR/RUB	86.7	87	86	83	81	81
EUR/TRY	10.28	10.4	10.6	10.6	10.8	10.2
EUR/ZAR	16.95	16.7	16.5	16.1	15.5	18.1
EUR/CNY	7.74	7.68	7.67	7.72	7.71	7.72
EUR/INR	88.7	88.1	87.9	87.8	87.4	83.1

Source: Bloomberg, Danske Bank

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