

Market Guide

Scandies to face challenging autumn

Market overview

Peak expansion

As expected, markets have moved closer to our expectation of peak expansion and peak easy liquidity with momentum in global manufacturing growth slowing. Combined with the boost from stimulus fading, supply chain bottlenecks hampering production and the delta variant creating headwinds for the global economy, the risk of high inflation becoming more persistent and thus leading to stagflation has risen. The Fed was more hawkish than anticipated at the September meeting supporting our call that the Fed is about to start a tightening cycle including both tapering and rate hikes. With the increasing likelihood of Chinese real estate developer Evergrande defaulting the Chinese credit market is showing deterioration in investor confidence adding to souring Asian sentiment with spill-over to global markets. The European gas market is under immense pressure due to supply shortage and rising demand pushing up natural gas and electricity prices.

Scandi-clouds in the horizon

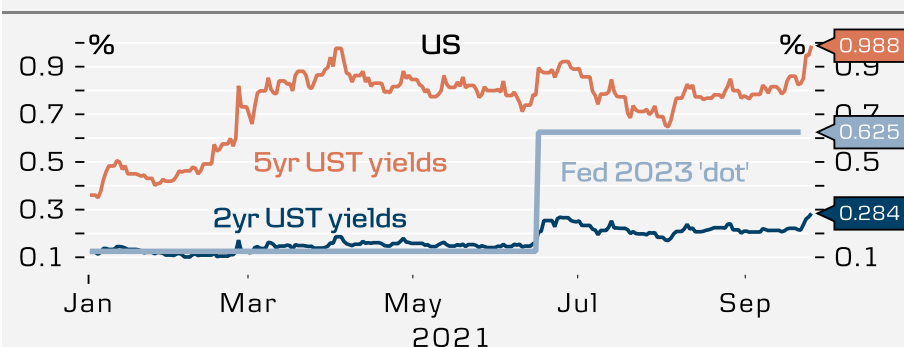
The increasingly hawkish stance from the Fed continues to support our expectation of a stronger dollar and weaker Scandinavian currencies in H2. However, NOK has recently experienced a rally supported by Norges Bank initiating its hiking cycle raising policy rates by 25bp driving EUR/NOK below the 10.10 mark. EUR/SEK has also moved lower, but continues to trade in the recent 10.15-10.25 range. As expected, EUR/GBP has moved down to 0.85 since our last update and has traded very narrowly within the 0.85-0.86 range.

We lower our profile on EUR/USD to target 1.10-1.15 in a year in favour of USD strength, as we expect further move towards a tightening of global liquidity conditions, lower PMIs, peak inflation concerns and further recovery in US jobs. We expect both EUR/SEK and EUR/NOK will move higher from here targeting 10.50 in 12M. EUR/GBP is expected to move down to 0.83 in 12M.

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Chart 1. Fed is set to begin tightening monetary policy



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

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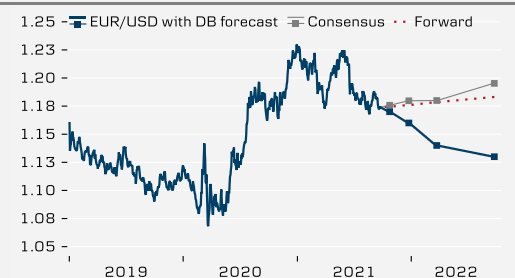
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USD – lower forecast to target 1.10-1.15 in a year

- The US and the euro area economies are running at growth rates well above the trend as both regions remain in a mode of recovery, but the pace of expansion is slowing across regions, led by China.
- The Fed has begun discussions on the timing of rate hikes and tapering of asset purchases: Tapering is very likely to be announced during Q4. This will continue to shift the market's attention towards USD on a theme of monetary divergence vis-à-vis EU.
- As we expect further move towards a tightening of global liquidity conditions, lower PMIs, peak inflation concerns and further recovery in US jobs we lower our profile on EUR/USD from 1.15 to 1.13 in 12M in favour of USD strength.
- The key upside risk to take EUR/USD above 1.20 is a renewal of the cross-asset reflation trade, which has faded over recent months. Such could come from a substantial loosening of Chinese credit conditions, a pivot from Fed (e.g. in response to a slow US recovery), EU growth proving much stronger than currently is the case and/or renewed surge in global industry.

EUR/USD



	1M	3M	6M	12M
Danske Bank	1.17	1.16	1.14	1.13
Consensus	1.18	1.18	1.18	1.20
Forward	1.17	1.18	1.18	1.18

Hedging recommendations

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

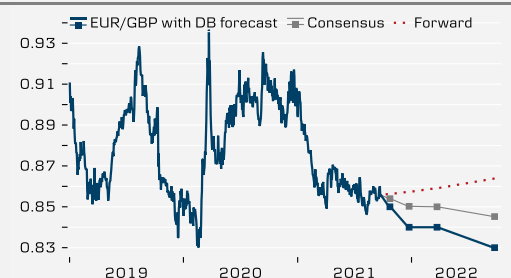
Source: Macrobond, Bloomberg, Danske Bank

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GBP – Bank of England to start tightening monetary policy

- We expect the UK recovery to continue (e.g. payroll employment is now higher than pre-covid) although delta still creates uncertainty about the outlook. Also the bottlenecks are hitting the UK hard, as the UK is not only affected by the global bottlenecks but also bottlenecks created by Brexit. Inflation is already high (core inflation now 3.1% y/y) and is expected to increase further due to increasing energy prices.
- Like the Fed, the Bank of England (BoE) is about to start tightening monetary policy. QE bond buying is set to end by the end of the year and markets are pricing in approximately two rate hikes before year-end 2022, which seems fair at the moment.
- As expected, EUR/GBP has moved down to 0.85 since our last update and overall traded very narrowly within the 0.85-0.86 range. We still have a bullish view on GBP, as the USD-positive environment is usually also benefitting GBP.
- We continue to target EUR/GBP at 0.83 in 12M.
- A risk to our forecast is a hit to global risk sentiment and/or if Bank of England keeps monetary policy accommodative for longer than currently expected. EU-UK tensions also remain a risk.

EUR/GBP



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

Hedging recommendations

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

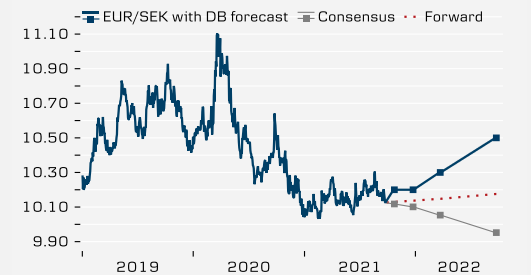
Source: Macrobond, Bloomberg, Danske Bank.

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SEK – EUR/SEK to move higher

- There are increasing signs that we have passed the peak in global growth and that momentum is slowing down, not least within the manufacturing sector. The export-oriented Swedish economy is likely to follow suit and Q3 GDP growth will probably mark the peak for now, with our full-year 2021 estimate at 3.7%.
- EUR/SEK remains in an orderly uptrend channel, which we expect will stick in the coming quarters. With the peak in global industrial cycle as well as fading support from equities, we see headwinds for the export-exposed and pro-cyclical Swedish currency.
- In addition, the Riksbank made clear this week that they will err on the side of caution, while, for example, the Fed and Norges Bank move ahead.
- We thus forecast a weakening of SEK, leaving the short-end forecast profile unchanged and raise 12M to 10.50 (from 10.40) on the account of a stronger USD.
- The upside risk to our forecast is the market underestimating the risk of the Riksbank going back to negative as well as the risk for a meltdown in equities. The key downside risk is inflation getting stuck above target leading to monetary policy being tightened faster and more aggressively than the market is currently pricing.

EUR/SEK



	1M	3M	6M	12M
Danske Bank	10.20	10.20	10.30	10.50
Consensus	10.12	10.10	10.05	9.95
Forward	10.13	10.14	10.15	10.18

Hedging recommendations

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

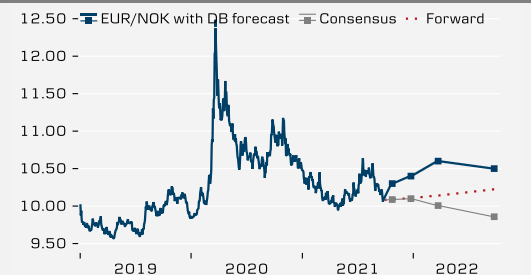
Source: Macrobond, Bloomberg, Danske Bank.

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NOK – Q4 weakness to return to NOK

- While mainland growth is set to ease on the impact of ‘reopening’ fading and the economy returning to potential, activity levels overall remain strong.
- At the September meeting Norges Bank (NB) raised policy rates by 25bp bringing the sight deposit rate to 0.25% and lifted its rate path signalling more rate hikes in the coming years. As a result NOK has experienced a late summer comeback.
- However, we think autumn will prove far more challenging. Not only will some of the temporary tailwinds to NOK fade but we also expect the global investment environment to increasingly weigh on the Norwegian currency.
- We thus leave our forecast profile unchanged forecasting EUR/NOK to 10.50 in 12M.
- The biggest risk factors to our forecasts lie in the global reflation theme and thereby USD real rates, risk appetite, oil and delta/vaccine-news. Better news and/or a more patient Fed than in our baseline would support reflation underpinning a stronger NOK. On the other hand, marked risk-off could trigger a larger-than-projected setback.

EUR/NOK



	1M	3M	6M	12M
Danske Bank	10.30	10.40	10.60	10.50
Consensus	10.09	10.10	10.01	9.86
Forward	10.09	10.11	10.14	10.22

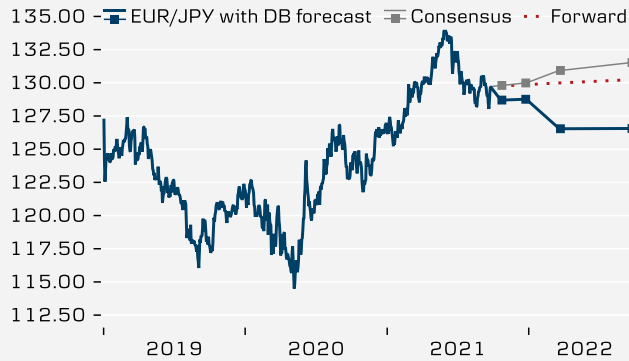
Hedging recommendations

- **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	128.70	128.76	126.54	126.56
Consensus	129.80	129.99	130.93	131.52
Forward	129.76	129.86	129.99	130.24

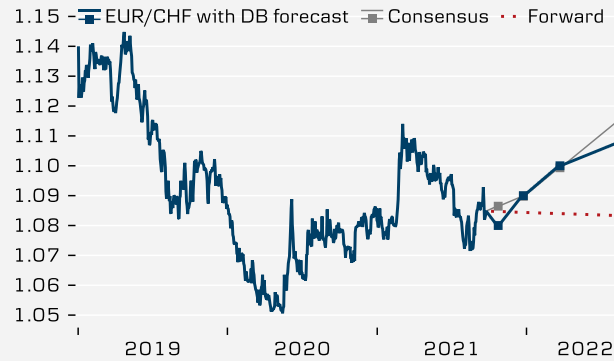
Hedging recommendations

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

Source: Bloomberg, Danske Bank.

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EUR/CHF



	1M	3M	6M	12M
Danske Bank	1.08	1.09	1.10	1.11
Consensus	1.09	1.09	1.10	1.12
Forward	1.08	1.08	1.08	1.08

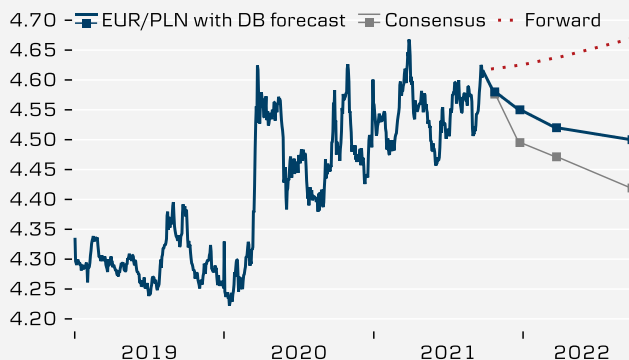
Hedging recommendations

- **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	4.55	4.52	4.50
Consensus	4.58	4.50	4.47	4.42
Forward	4.62	4.62	4.64	4.67

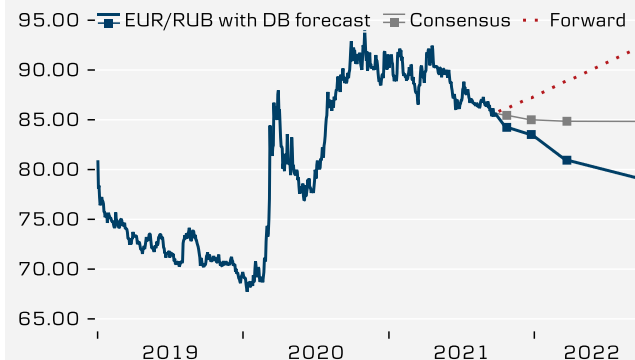
Hedging recommendations

- **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	84.24	83.52	80.94	79.10
Consensus	85.44	85.00	84.85	84.84
Forward	86.17	87.21	88.88	92.28

Hedging recommendations

- **Income:** Sell RUB via forwards. We expect RUB to strengthen and one may consider option-based strategies.
- **Expenses:** Buy RUB via forwards.

Source: Bloomberg, Danske Bank.

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Danske Banks' FX forecasts

Last Update: <u>27/09/2021</u>					
G10					
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.169	1.17	1.16	1.14	1.13
EUR/JPY	129.8	129	129	127	127
EUR/GBP	0.854	0.85	0.84	0.84	0.83
EUR/CHF	1.085	1.08	1.09	1.10	1.11
EUR/SEK	10.18	10.20	10.20	10.30	10.50
EUR/NOK	10.07	10.30	10.40	10.60	10.50
EUR/DKK	7.4359	7.4360	7.4400	7.4450	7.4450
EUR/AUD	1.612	1.63	1.66	1.65	1.66
EUR/NZD	1.671	1.67	1.68	1.68	1.69
EUR/CAD	1.482	1.49	1.50	1.50	1.50
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.595	4.58	4.55	4.52	4.50
EUR/HUF	358	355	355	360	363
EUR/CZK	25.4	24.4	25.3	25.1	25.0
EUR/RUB	85.0	84	84	81	79
EUR/TRY	10.35	10.3	10.4	10.5	10.6
EUR/ZAR	17.63	17.6	17.4	17.7	18.6
EUR/CNY	7.56	7.66	7.66	7.64	7.68
EUR/INR	86.4	87.2	86.4	85.5	85.9

Source: Bloomberg, Danske Bank

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Date of first publication

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Report completed: 27 September 2021, 14:45 CET

Report first disseminated: 27 September 2021, 15:15 CET