

Danske FX Trading Portfolio

Short EUR/PLN: Central Bank to turn hawkish

- We see fundamentals as supportive of PLN and see a pivot from the central bank in July as a catalyst for this to strengthen PLN.
- We add a short EUR/PLN to the Danske FX Trading Portfolio.
- The key risk is the lack of a hawkish shift and/or a strong decline in EUR/USD.

In Poland, the easing of restrictions amid an increasing level of vaccinations has led to a resumption in activity, which is now at the highest level since the start of the COVID-19 crisis. Meanwhile, core inflation has accelerated to 4.0%, given also the high weight of goods in the CPI basket. PLN has remained a laggard among risk assets and the central bank has been very dovish. We see fundamentals as supportive of PLN and see a pivot from the central bank as a catalyst for this to strengthen PLN. We thus add a short EUR/PLN.

The NBP may be about to change its accommodative monetary policy stance. Following the June meeting, governor Glapinsky said that the update of macro/inflation projections in early July will be important for the trajectory of monetary policy. There was also a slight change in his rhetoric on possible rate hikes, as he did not repeat his usual message that rates will remain unchanged until mid-next year. Instead, he only mentioned that an imminent rate hike was not needed. We think the NBP will raise the inflation trajectory somewhat in the updated July projections, which might be followed by a hawkish twist by NBP. We also expect a hawkish twist in the accompanying statement.

Looking beyond domestic drivers as a catalyst, we see the global macro recovery as remaining supportive of risk assets. The post-FOMC dollar strength also spilled into weakness in PLN and we like the notion of using this to enter a long PLN. There has always been a large beta from EUR/USD to EUR/PLN but we expect spot dollar to be more range bound in the very near-term, following the shift to 1.19, while forecasting 1.15 in 12M.

In our view, there are two key risks to this trade. Firstly, though we see less need for dovish tones, the NBP may want to take its time before turning hawkish and such a pivot is in our view key to taking PLN higher. If so, we may even see a rising EUR/PLN as high inflation is passed on to spot FX. Secondly, the dollar has strengthened after the FOMC and if this continues, it will probably be a headwind in taking EUR/PLN lower.

In conclusion, Poland is in the first group of countries to normalise GDP, unemployment and production after the COVID shock. Cyclically, the economy is firing on all cylinders and inflation is hot. In our view, global and domestic factors are turning increasingly positive for PLN, at a point in time where PLN is somewhat weak. Hence, we add a short EUR/PLN to the Danske FX Trading Portfolio. This adds to our present long in CZK and our general view that Eastern Europe has idiosyncratic drivers, which are able to buffer minor moves in global risk sentiment and the dollar. We target 4.37 and not a full normalisation to e.g. 4.25 as spot has in our view seen a level shift in the fair-value, on the back of a minor shift in relative wages and price levels.

Short EUR/PLN spot

- Spot ref. 4.5269
- Hard stop loss 4.6300
- Hard target 4.3700

EUR/PLN trade



Source: Danske Bank

Poland macro update

Poland Macro Update - Firing on all cylinders, 23 June

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Open trades

Trade	Opened	Entry	Closed	Current	PnL
Short NOK vs USD and EUR (equal weighted)	06/04/21	100.00		100.73	0.7%
Long GBP/CHF via 6m call	26/04/21	1.2700		1.2821	0.2%
Short EUR/CZK spot	18/05/21	25.4240		25.4170	0.0%

Source: Danske Bank

Closed trades

Trade	Opened	Entry	Closed	Close level	PnL
Short CAD/NOK spot	02/12/20	6.8516	11/02/21	6.6623	2.8%
Long EUR/HUF spot	02/12/20	357.8500	26/02/21	361.7000	0.7%
Short EUR/NOK via 3M 10.45-11.00 risk reversal	02/12/20	10.7019	25/02/21	10.1913	2.5%
Long RUB spot vs HUF, TRY, ZAR	02/12/20	100.0000	03/11/21	103.1834	1.0%
Short AUD/USD spot	08/03/21	0.7681	18/03/21	0.7832	-2.0%
Long trade weighted EUR and JPY basket	02/12/20	100.0000	18/03/21	94.6145	-4.4%
Long NOK/SEK spot	11/02/21	0.9820	24/03/21	0.9930	1.2%
Short EUR/GBP spot	02/12/20	0.9048	07/04/21	0.8650	4.8%
Long USD/JPY 3M ATMS call	23/02/21	105.21	21/04/21	108.00	1.4%
Long EUR/HUF spot	07/03/21	360.32	17/05/21	354.80	-1.7%
Short EUR/USD via sold 6M 1.1800-1.2059-1.2350 seagull	02/12/20	1.2059	02/06/20	1.1945	-1.2%
Long USD/SEK via 6M 8.5328-9.0000 call spread	02/12/20	8.5328	02/06/20	8.4785	-1.8%
Sell EUR/USD 3week straddle	25/05/21	1.2259		1.1945	0.0%

Source: Danske Bank

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