

Flash Comment Denmark

No FX intervention in November

- The FX reserve was unchanged in November at DKK450bn.
- Danmarks Nationalbank (DN) thus refrained from intervening in the FX market as EUR/DKK continued to trade at the low end of the historical trading range.
- We forecast EUR/DKK at 7.4425 on 3-12M and the key policy rate to stay unchanged at minus 0.65% on 12M.

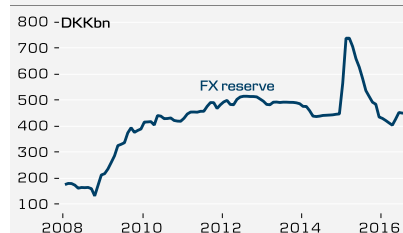
Danmarks Nationalbank (DN) has just published November's FX reserve and central bank balance sheet. In November, the FX reserve was DKK450bn, which was unchanged from October. DN did not need to intervene in the FX market as EUR/DKK traded around 7.4380-7.4440 through November, just above the recent intervention target.

In November, the Danish Debt Management Office (DMO) bought back Danish Government Bonds (DGBs) worth DKK4bn, which has contributed positively to the DKK net position and negatively to government deposits at the central bank correspondingly. That has eased conditions on the money market further in the same way that FX intervention purchase of EUR/DKK would, i.e. supported EUR/DKK over the past month when it has traded at the low end of the historic trading range and thus further limited the need to intervene in the FX market. In November, government deposits at the central bank were DKK132bn – unchanged from October.

Over the coming 12M we look for EUR/DKK to trade around the present level, i.e. at the lower end of the historic trading range, and forecast it at 7.4425 on 3-12M. At that level we look for DN to remain on the sidelines, which further means that we forecast the key policy rate, the rate of interest on certificates of deposit, to stay unchanged at minus 0.65% on 12M.

Political risk in Europe has been a key driver of downwards pressure on EUR/DKK in recent years. The market for EUR/DKK will monitor the outcome of the Austrian presidential elections and Italian constitutional referendum this weekend, negotiations on the withdrawal of the UK from EU membership and elections in France and Germany next year. If concerns in the market over political stability in Europe start to re-emerge it may spur demand for DKK and lead to downwards pressure on EUR/DKK. We look for DN to set a lower bound for EUR/DKK of around 7.4350.

FX reserve unchanged in November



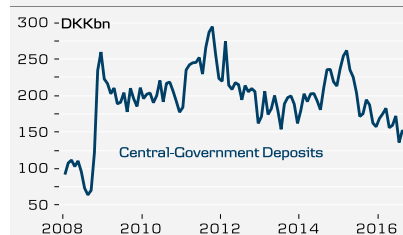
Source: Macrobond Financial

EUR/DKK at the low end



Source: Macrobond Financial

Government deposits trending lower



Source: Macrobond Financial

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None.

Date of first publication

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