4 February 2020

# Flash Comment Denmark

## FX intervention continues – we now expect a hike in H1

- **Danmarks Nationalbank drew DKK12.1bn on the FX reserve in January to intervene in the FX market to cap EUR/DKK topside.**
- **This marks the fourth month in a row of FX intervention. Danmarks Nationalbank has intervened for a total of DKK17.8bn since October.**
- **We now forecast Danmarks Nationalbank will make a 10bp independent rate hike to minus 0.65% in H1 this year – moved forward from H2 previously.**

Danmarks Nationalbank has published January's FX reserve data and central bank balance sheet figures. The FX reserve was DKK426bn in January, down from DKK435bn in December. Danmarks Nationalbank drew DKK14.9bn on the FX reserve – DKK12.1bn due to FX intervention. Value adjustment increased the FX reserve by DKK5.8bn. Government deposits rose to DKK85bn, up from DKK70bn in December.

The DKK12.1bn in FX intervention in January marks the fourth consecutive month that Danmarks Nationalbank has drawn on the FX reserve to intervene in the FX market. FX intervention since October 2019 now totals DKK17.8bn. Danmarks Nationalbank has intervened in the FX market to cap EUR/DKK topside.

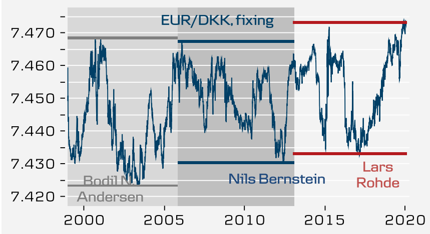
In our view, the main reason for the persistent weak DKK is that interest rates in Denmark are too low – the introduction of negative rates on personal deposits since December has further contributed to the weak DKK (see *Reading the Markets Denmark – Negative rates on personal deposits increase rate hike risk*, 30 January). Hence, we do not expect the tide to turn for the DKK before Danmarks Nationalbank raises its policy rate.

Danmarks Nationalbank can afford patience due to the still-high level of FX reserve. In our view, it can opt to allow the FX reserve to fall another DKK20bn before it needs to hike its policy rates. In that case, a rate hike is still some time away – two to four months at the current pace of intervention. However, it may also conclude that a rate hike is warranted regardless and hike on one of the coming Thursdays. In *FX Edge Rules or discretion? A look at past rate hikes in Denmark*, 8 January, we concluded that there is no strong evidence of a systematic relationship between the amount of FX intervention and when Danmarks Nationalbank hikes rates.

We now forecast a 10bp independent hike in the rate of interest on certificates of deposit to minus 0.65% in H1 this year – before today's data release we had expected the hike to come in H2 20. In our view, the front end of the CITA-EONIA swap curve does not fully price the high chance of a rate hike in Denmark this year (or a decline in the net position) (see more in *Reading the Markets Denmark – Short-term rates set to rise – – maintain 1Y non-callable bullets vs DGBs and pay 1Y DKK-EUR swaps*, 15 January).

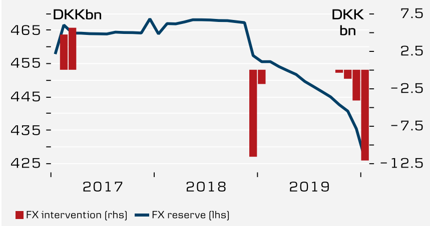
Finally, note that government deposits rose DKK14bn in January, due mainly to large seasonal tax payments. Danish pension funds pay taxes on pension returns in Q1 – the payments are likely to be record high this year due to the strong returns seen in 2019.

**EUR/DKK stuck at the top end of the historical trading range**



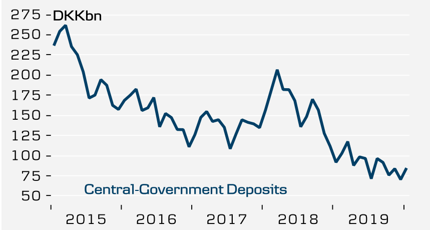

*Source: Macrobond Financial*

**Fourth months of FX reserve outflow**




*Source: Macrobond Financial*

**Large seasonal tax payment raises government deposits**




*Source: Macrobond Financial*

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