Danske Bank
Markets

Investment Research

27 February 2017

Market Guide

French election has market fretting

- Uncertainty is rising ahead of the French election
- German yields trade lower and DKK strengthens
- Higher yields is an H2 17 theme
- EUR/USD to trade lower near term but still higher longer term

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Statistical sources: Macrobond Financial, OECD, IMF, Statistics Denmark and other national statistical institutions plus Danske Bank calculations.

The next issue of the Market Guide is due at end-March 2017.

Market overview

No US rate hike until June

Economic data, including the numbers for employment growth, continue to point to a buoyant US economy. Inflation has risen slightly recently, though without feeding through to wage growth. Hence, the economy looks ready for another rate hike from the Federal Reserve and indeed several FOMC members have recently begun to edge towards hiking rates once again. In our view, the Fed will most likely wait hiking rates until June and then deliver another hike in December. The financial markets are also pricing two rate hikes this year. If we and the markets are proved correct, US monetary policy should not have any great significance for the USD this year. We still expect EUR/USD to rise to around 1.12 in the coming 12 months.

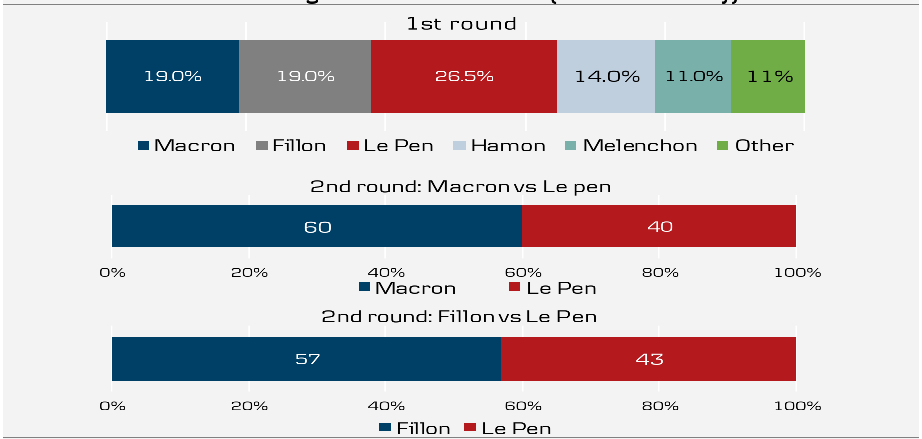
Oil price has stabilised

Brent oil prices have stabilised at around USD55-57/bbl over the past month. OPEC and a number of non-OPEC producers appear to have implemented their planned production cuts more or less fully. Nevertheless, oil inventories in the US are rising again despite stocks normally being drained lower in the winter. Moreover, the number of active oil rigs in the US has continued to climb, indicating that US oil production is set to increase in coming years. All in all, there is still ample supply in the market, which should tend to dampen oil price increases for now and in coming years.

French election has market fretting

The French are due to cast their votes in the first round of the presidential elections in April. While French presidential elections are not normally a big attention grabber for the financial markets, this time is different as Le Pen has declared that she would like to pull France out of the euro and reintroduce a national currency. According to the polls, it is most likely that either the independent Emmanuel Macron or the Republican Francois Fillon will become France's next president. However, polls also indicate that it is a close race between the candidates, and thus there is a significant risk that Marine Le Pen will win the presidential election. Uncertainty on France's commitment to the euro has pushed French government bond yields up, while sending yields on German government bonds lower and weakening the EUR. Whether Le Pen will/can actually hold an EU/euro referendum will to a large degree depend on the National Front's performance in the parliamentary elections in June and support from the PM. The road to 'Frexit' is long and it is questionable whether the public would vote in favour of such a step. In *Le Pen - What If? Implications for Euro and Nordic markets*, 23 February, we lay out our take on the market implications if Le Pen wins, with a particular focus on the euro and Nordic markets.

Poll still shows Le Pen losing second round run-off (19-22 February)



Source: Ifop Fiducial, Danske Bank Markets

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Interest rate hedging

- **We expect long yields to trend up in H2 17 and continue to recommend being overweight liability duration on the EUR curve. We continue to see most value at the long end of the yield curve.**
- **The forthcoming French elections have stirred new political uncertainty. If opinion polls begin to consistently show a dead heat between Marine Le Pen and her contestant (probably François Fillon or Emmanuel Macron) in the second round, German yields could be pushed down further. Our yield forecast and hedging recommendation assumes that Le Pen will lose the second round (based on current opinion polls).**

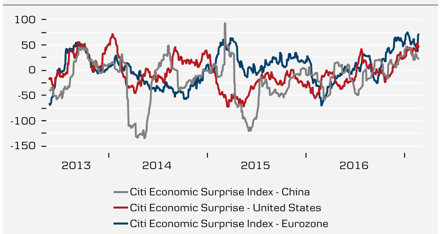
Higher yields an H2 17 theme

Following a sharp increase in both German and US yields in Q4 16 driven by global growth optimism, less fear of deflation and, not least, the election of Donald Trump as US president, the picture has been less clear so far this year.

There are several reasons for market optimism weakening at the beginning of 2017 relative to Q4 16. First, political uncertainty in Europe has increased. The election of Donald Trump as US president has sharpened focus on the presidential race in France. While this has prompted safe haven inflows into Bunds and Treasuries, French yields have increased significantly. Second, it seems that expectations had become stretched after a relatively long period of positive data surprises in both Europe and the US. This is illustrated by the surprise indices, which show whether analysts are positively or negatively surprised by economic numbers. After surging to high levels, the surprise indices now seem to be edging down a bit. One of the economic numbers that have helped dampen yield increases is US pay rises, which fell back somewhat in December, reducing the likelihood of the Fed hiking rates as early as March 2017. We continue to expect the Fed to wait to hike until June 2017 and then to hike once again in December and three times in 2018.

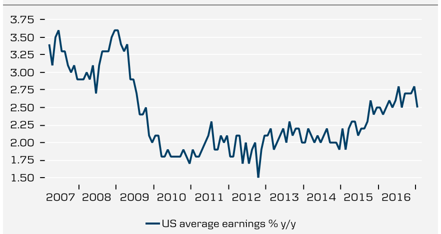
Third, one should not underestimate the effect of the ECB continuing its QE programme, buying government bonds worth EUR80bn a month. Fourth, the need for collateral for repo transactions is currently prompting exceptionally high demand for German Bunds, pushing German yields down further. Finally, the ECB has emphasised that it has absolutely no plans to start any normalisation of its easy monetary policy.

Global surprise indices have levelled off



Source: Bloomberg

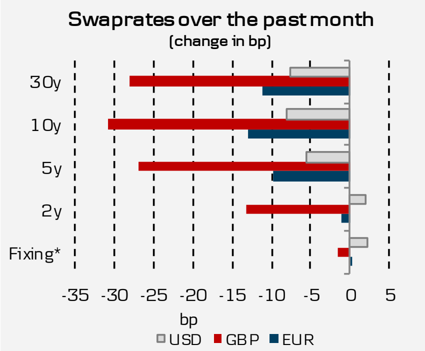
Lower US pay rises have reduced fear of an imminent Fed rate hike



Source: Bloomberg

From our viewpoint, the recent downward correction in yields is now coming to an end. While we do not expect any notable increase in yields within the next three to six months, higher yields look set to remain a H2 17 theme.

Downward correction in the EUR and GBP yield curve over the past month



** EUR: 6M Euribor, GBP: 6M Libor, USD: 3M Libor*
Source: Bloomberg

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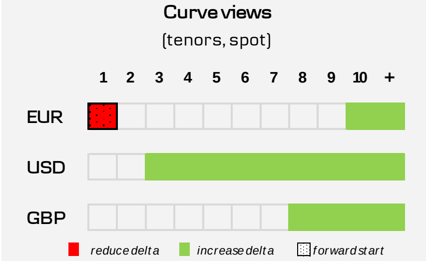
There are several reasons why we do not anticipate yields falling further over the next few months. On the political front, President Trump has now announced that his long-awaited tax plan is underway. That news alone prompted a positive reaction from equity markets. In addition, we believe the market has now positioned itself for the political uncertainty in France. On the other hand, the market is definitely not positioned for Marine Le Pen winning the French presidency. Our forecast is based on Le Pen losing out in the second round, in line with what all the opinion polls clearly indicate. As the market is only too well aware, the ECB will be tapering QE this spring from EUR80bn to EUR60bn per month. Although the asset purchase programme is set to continue throughout 2017, there is little doubt that fears of a negative inflationary spiral have fallen significantly and euro area inflation climbed to 1.8% in January. Also, we expect the global manufacturing recovery to continue over the next two quarters.

However, actual QE purchases will probably not be the most important 'ECB factor' for the fixed income market in 2017. It will be equally important whether 'tapering' (scaling down or ceasing purchases) will be a theme in the market. We still expect the market to start focusing on the prospect of tapering in 2017 and look ahead to the turn of the year, which should in itself serve to push up long-term German yields. However, we are convinced that the ECB will go through with its current QE programme. The question is what will happen in 2018.

Hedging recommendation

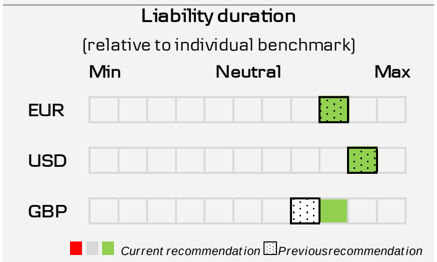
The pricing or fear of ECB tapering and higher US yields are two of the reasons we continue to expected a steeper 2-10Y EUR yield curve in 2017. The ECB still has a tight grip on the short end of the curve but this is not the case for the 10Y segment. As such, we maintain our general recommendation to overweight liability duration on the EUR and US curves. We continue to see most value at the long end of the EUR curve and at maturities from 2Y and beyond on the US curve. As our forecast of EUR money market rates is slightly below the forward curve, one could consider hedging interest rate exposure via forward-starting swaps.

Hedge only very long end in EUR



Source: Danske Bank Markets

Moderate overweight duration in EUR



Source: Danske Bank Markets

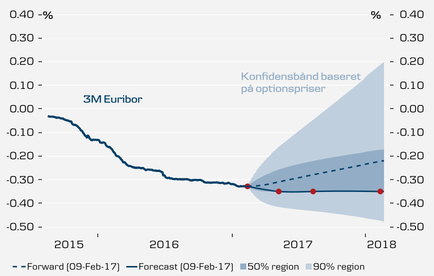
Interest rate outlook on 6-12M horizon

	EUR	GBP	USD
Money markets	With ample liquidity due to the ECB's QE programme and the ECB set to maintain its deposit rate at -0.40% throughout the forecast period, we expect Euribor fixings to remain unchanged at around current levels for the next 12 months.	We expect the Bank of England (BoE) to remain on hold for the next 12 months. While we think it is unlikely it will tighten monetary policy in a time of elevated political uncertainty, we think we need to see substantially slower growth and/or higher unemployment before easing becomes likely again.	We continue to expect two Fed rate hikes this year (in June and December) but believe the risk is skewed towards three hikes, given that Fed Chair Yellen sounded more hawkish than we had expected at the December FOMC meeting (see also *FOMC Review: Hawkish Fed even without Trump's fiscal boost*, 14 December 2016). Given that Trump's economic plan is likely to boost USD growth mainly in 2018, we expect three to four hikes in 2018.
Curves	We continue to expect a steeper 2Y10Y EUR yield curve in 2017. The ECB still has a tight grip on the short end of the curve, especially as the ECB is now buying below the deposit rate of minus 0.4%, but this is not the case for the 10Y segment of the curve, which we expect to be pushed up by higher US yields and a market slowly pricing in a greater probability of the ECB tapering QE purchases in 2018. We expect higher 10Y EUR swap rates to materialise primarily on a 12M horizon. We expect 10Y EUR swap rates to increase to 1.30% and 10Y German yields to reach 0.90% on a 12M horizon.	We expect UK gilt yields to stay at current levels for now, before eventually moving higher in 6-12M, driven by higher yields in the US and Europe. We expect the 2Y10Y and 5Y10Y yields curve to steepen, as we expect the short end of the curve to stay low.	We expect yields to remain close to just above current levels for the next 3M before moving higher again on a 6-12M horizon. We still expect 10Y US Treasuries to reach 3.0% in 12M. We expect the yield curve to flatten over a 6-12M horizon, as there is a limit to how high long-term yields can go, especially as 30Y US Treasuries are already trading above the 'neutral rate', as estimated by the Fed.

Source: Danske Bank Markets

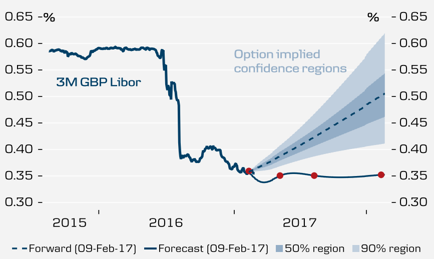
Danske Bank Markets' interest rate forecasts

3M Euribor and forecast



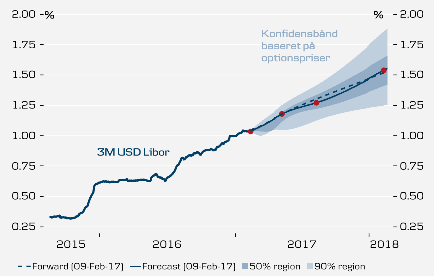
Source: Danske Bank Markets

3M GBP Libor and forecast



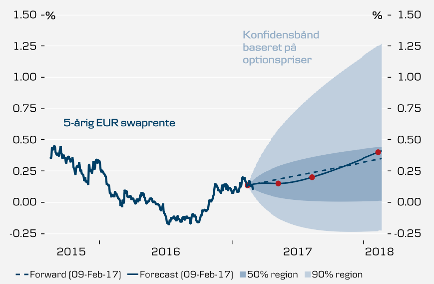
Source: Danske Bank Markets

3M USD Libor and forecast



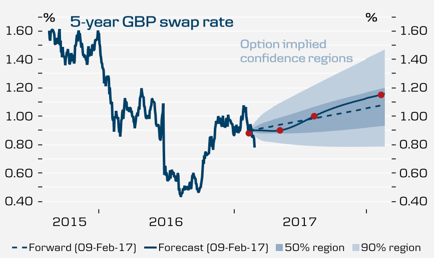
Source: Danske Bank Markets

5Y EUR swap rate and forecast



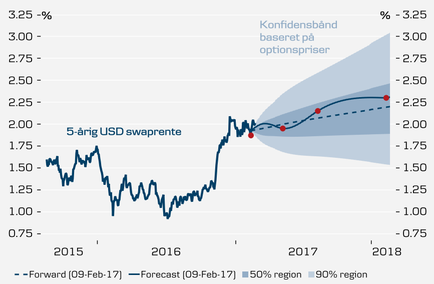
Source: Danske Bank Markets

5Y GBP swap rate and forecast



Source: Danske Bank Markets

5Y USD swap rate and forecast



Source: Danske Bank Markets

Danske Bank's yield forecast (9 February 2017)

	Horizon	Policy rate	3m xlbor	2-yr swap	5-yr swap	10-yr swap	2-yr gov	5-yr gov	10-yr gov
USD	Spot	0.75	1.04	1.47	1.92	2.29	1.16	1.83	2.36
	+3m	0.75	1.18	1.50	1.95	2.40	1.20	1.90	2.50
	+6m	1.00	1.27	1.75	2.15	2.50	1.50	2.10	2.60
	+12m	1.25	1.54	2.15	2.30	2.90	1.90	2.25	3.00
EUR *	Spot	0.00	-0.33	-0.15	0.13	0.73	-0.78	-0.44	0.31
	+3m	0.00	-0.35	-0.10	0.15	0.80	-0.70	-0.45	0.40
	+6m	0.00	-0.35	-0.10	0.20	1.00	-0.70	-0.40	0.60
	+12m	0.00	-0.35	0.00	0.40	1.30	-0.60	-0.20	0.90
GBP	Spot	0.25	0.36	0.63	0.90	1.29	0.11	0.48	1.24
	+3m	0.25	0.35	0.60	0.90	1.30	0.15	0.50	1.30
	+6m	0.25	0.35	0.60	1.00	1.55	0.15	0.65	1.50
	+12m	0.25	0.35	0.60	1.15	1.85	0.20	0.90	1.80

Note: * German government bonds are used, EUR swap rates are used

Source: Danske Bank Markets

USD – in the hands of Trump and the Fed

The new Trump administration remains a focus point, as only few concrete policy plans have been announced. Meanwhile, the Fed is attracting attention as markets are beginning to discuss whether we will see two or three hikes in 2017. We target the cross at 1.04 in 1M, 1.05 in 3M, 1.08 in 6M and 1.12 in 12M.

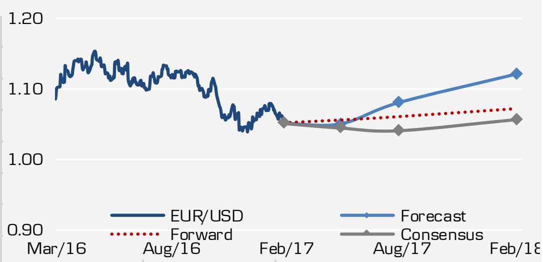
Outlook for EUR/USD

- US GDP slowed in Q4 16 to an annualised pace of 1.9% from 3.5% in Q3 16. Leading indicators such as ISM and PMI figures have come out slightly stronger than expected and economic surprise indices remain at elevated levels. Eurozone growth slowed slightly in Q4 16 to 1.7% y/y from 1.8% y/y previously and recent survey indicators have been slightly weaker than expected, albeit at elevated levels.

- We expect two hikes from the Fed this year (June and December) but believe risk is skewed towards three hikes as Fed Chair Janet Yellen sounded slightly more hawkish than expected at the semi-annual monetary policy testimony to US Congress. Given that Trump's economic plan is likely to boost growth mainly in 2018, we expect three to four hikes in 2018. One of the uncertain factors is how the Fed will react to the stronger US dollar. We see risk on the upside for US interest rates relative to market pricing, which currently implies a June hike with a 94% probability and slightly more than two 25bps hikes in total before end-2017. We believe that the ECB is firmly on hold and that focus will be on US monetary policy.

- Over the coming one to three months, we maintain our call that EUR/USD should move lower, supported by relative rates and our expectation that the Trump administration is likely to announce details about corporate tax reforms, border tax adjustments and HIA2. Longer term, we maintain our long-held view that the undervaluation of the EUR and the wide eurozone-US current account differential are EUR positives.

EUR/USD



	3M	6M	12M
DB forecast	1.05	1.08	1.12
Forward	1.06	1.06	1.07
Cons. Forecast	1.04	1.04	1.06

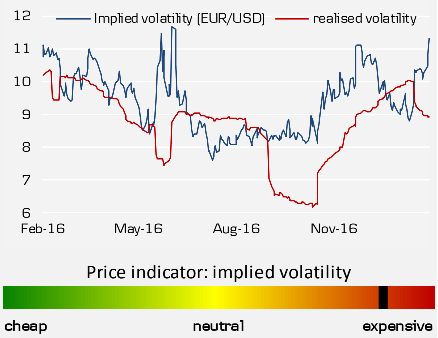
Source: Bloomberg, Danske Bank Markets

Hedging recommendations

Income	Expenses
We generally recommend to increase the hedge ratio of USD income and to consider increasing the hedge horizon. Specifically, we recommend hedging USD income via a risk-reversal strategy.	We recommend hedging USD expenses for the coming months with FX forwards. On a longer horizon, we recommend hedging via knock-in forwards.

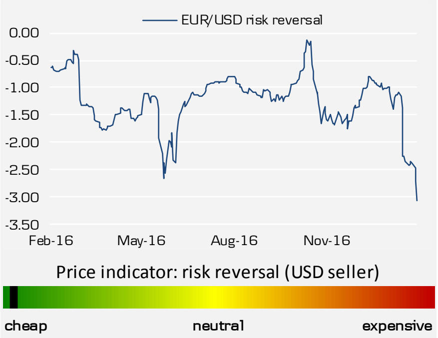
Source: Bloomberg, Danske Bank Markets

3M volatility



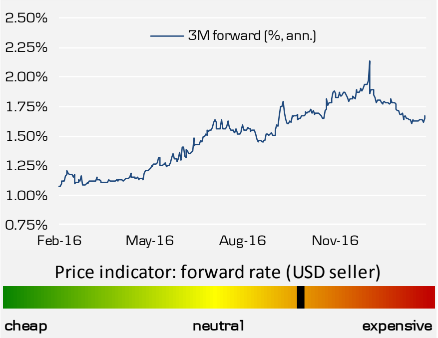
Source: Bloomberg, Danske Bank Markets

3M risk reversal



Source: Bloomberg, Danske Bank Markets

3M forward premium (% p.a.)



Source: Bloomberg, Danske Bank Markets

GBP – Brexit moves closer

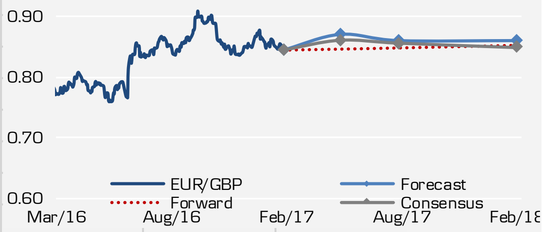
Article 50 is expected to be triggered by mid-March, after which markets will turn their attention towards the negotiations between the UK and EU. We target EUR/GBP at 0.87 in 1M, 0.87 in 3M, 0.86 in 6M and 0.86 in 12M.

Outlook for EUR/GBP

- The UK economy has been remarkably resilient to Brexit uncertainty so far and, against expectations, growth continued at the same pace in H2 16 as before the EU vote. We expect GDP growth to slow but stay positive this year. We also expect private consumption growth to slow, as the weaker GBP corresponds to a de facto wage cut. We also expect business investment growth to slow, as firms are likely to remain reluctant to invest due to the high uncertainty on the future UK/EU.
- We expect the Bank of England (BoE) to remain on hold for the next 12 months. While we think it is unlikely that the BoE will tighten monetary policy in a time of elevated political uncertainty, we think we need to see slower growth and/or higher unemployment before easing becomes likely again. At the February meeting, BoE Governor Mark Carney repeated that one of the reasons the UK has been resilient to Brexit uncertainties so far is due to the significant monetary easing by the BoE. Markets have priced in an accumulated 5bp rate hike this year, while a 25bp rate increase is priced in by January 2019. As such, we think the market pricing is too hawkish and we see little prospect of higher UK money market rates in the coming 12 months.

  The government's Brexit bill to authorise the triggering of Article 50 cleared a major hurdle in the UK Parliament on 8 February, as lawmakers in the House of Commons approved the bill. In the coming weeks, the bill is set to be discussed in the House of Lords and could receive final approval in mid-March. This means Prime Minister Theresa May could potentially trigger Article 50 at the 9-10 March EU summit.

EUR/GBP



	3M	6M	12M
DB forecast	0.87	0.86	0.86
Forward	0.85	0.85	0.85
Cons. Forecast	0.86	0.86	0.85

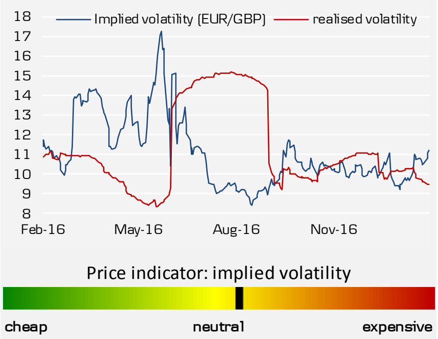
Source: Bloomberg, Danske Bank Markets

Hedging recommendations

Income	Expenses
We recommend hedging GBP income for the next six months with FX forwards and to use knock-in forwards beyond six months. Alternatively, one may consider a boosted risk-reversal strategy beyond six months. See Market Guide: Global recovery as the world waits for Trump (31 January) for additional details.	We recommend hedging GBP expenses payable over the coming 12 months via knock-in forwards.

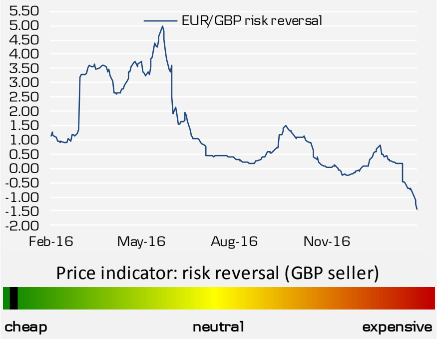
Source: Bloomberg, Danske Bank Markets

3M volatility



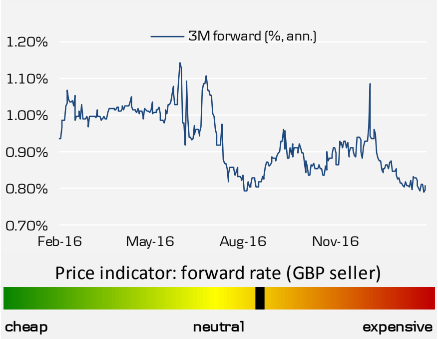
Source: Bloomberg, Danske Bank Markets

3M risk reversal



Source: Bloomberg, Danske Bank Markets

3M forward premium (% p.a.)



Source: Bloomberg, Danske Bank Markets

JPY – weaker on Trumponomics, Fed and reflation

We expect risk appetite and the global reflation theme to affect the yen going forward. We target EUR/JPY at 121 in 1M, 124 in 3M, 127 in 6M and 132 in 12M.

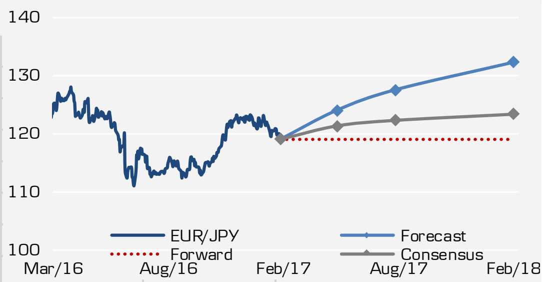
Outlook for EUR/JPY

- Japan's economic recovery remains solid, although the preliminary GDP estimate showed that real GDP growth slowed to 0.2% q/q in Q4 16, from 0.3% q/q in Q3. Thereby, GDP expanded by 1.0% y/y in 2016 in line with our estimate. We still expect the Japanese economy to continue growing above trend in coming years, supported by the government's fiscal stimulus package. We estimate annual GDP growth of 1.1% in 2017 and 0.9% in 2018 (FY 2016 1.3%, FY 2017 1.1%).

- We expect the Bank of Japan (BoJ) to keep its monetary policy unchanged throughout our 12-month forecast horizon. This implies it will keep its target for the short-term policy interest rate unchanged at -0.1% and continue to purchase Japanese government bonds (JGBs) so that yields on 10Y JGB remain around 0%. We expect the BoJ to remain on an easing bias but we think it would require significant negative inflation or growth surprises for the BoJ to cut rates further into negative territory.

- With global yields on the increase, growth above trend in Japan and potentially rising inflation expectations in Japan, the BoJ's willingness to maintain its yield curve control (YCC) policy, through which it targets both the policy interest rate and the 10-year yield on Japanese government bonds, could be tested by the market this year.

EUR/JPY



	3M	6M	12M
DB forecast	123.90	127.44	132.16
Forward	118.94	118.97	119.02
Cons. Forecast	121.28	122.28	123.38

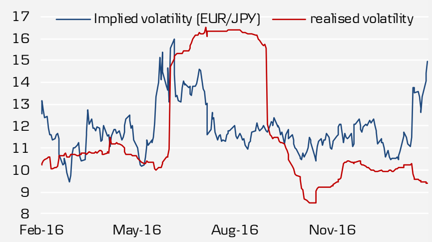
Source: Bloomberg, Danske Bank Markets

Hedging recommendations

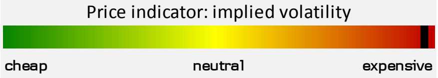
Income	Expenses
We recommend hedging JPY income via FX forwards	We recommend hedging JPY expenses via knock-in forwards

Source: Bloomberg, Danske Bank Markets

3M volatility

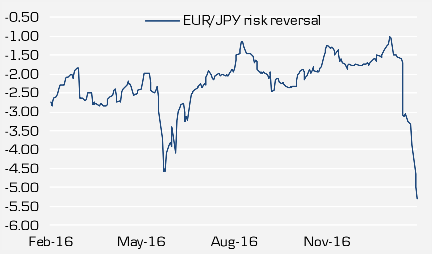


Price indicator: implied volatility



Source: Bloomberg, Danske Bank Markets

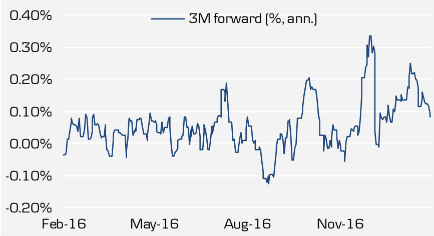
3M risk reversal



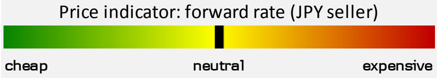
Price indicator: risk reversal (JPY seller)

Source: Bloomberg, Danske Bank Markets

3M forward premium (% p.a.)



Price indicator: forward rate (JPY seller)



Source: Bloomberg, Danske Bank Markets

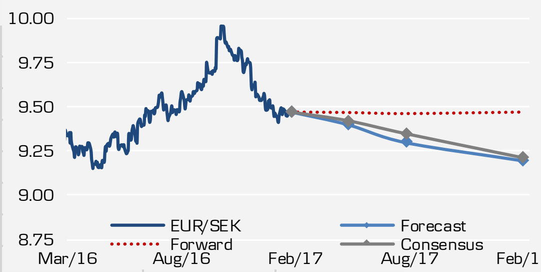
SEK – consolidating

We look for a gradual strengthening of the SEK, with Sweden showing decent growth, and based on our expectation of the Riksbank ending QE this summer. We target EUR/SEK at 9.40 in 1M, 9.40 in 3M, 9.30 in 6M and 9.20 in 12M.

Outlook for EUR/SEK

- The krona was under cyclical pressure for a large part of 2016 but a turnaround in growth momentum in Q4 helped to stabilise the battered krona. While it is mainly soft data that has impressed, further growth-induced SEK appreciation warrants a pickup in hard data as well. We forecast GDP growth of c.2-2.5% this year, which is more or less back to normal but still decent relative to peers.
- The Riksbank left QE and repo rates unchanged at its February meeting, as expected. The near-term repo rate path was left unchanged as well, suggesting a -6bp easing bias. We think the Riksbank will use the April meeting to signal an end to the bond-buying programme after June. We do not expect the repo rate to be cut further. The first hike remains distant – in our view, well into 2018.
- The decision to keep the easing bias intact at -6bp was somewhat dovish, but market impact was muted. The Riksbank will probably end QE this summer, but at the same time it will not hike rates before well into 2018, in our view. The former decision could lend support to the krona, but that effect would be mitigated by signalling a very slow hiking path, including maintaining the current easing bias for longer.

EUR/SEK



	3M	6M	12M
DB forecast	9.40	9.30	9.20
Forward	9.47	9.47	9.47
Cons. Forecast	9.42	9.35	9.21

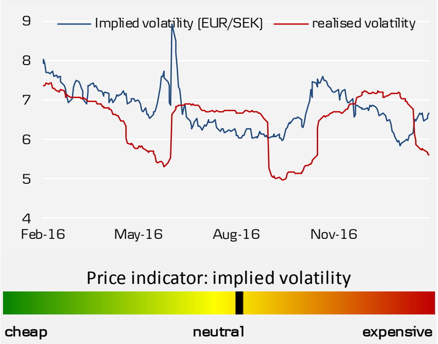
Source: Bloomberg, Danske Bank Markets

Hedging recommendations

Income	Expenses
We recommend hedging SEK income via knock-in forwards.	We recommend hedging SEK expenses via FX forwards.

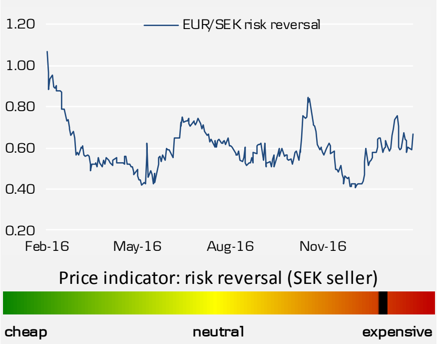
Source: Bloomberg, Danske Bank Markets

3M volatility



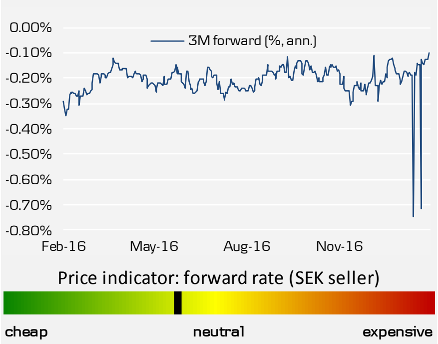
Source: Bloomberg, Danske Bank Markets

3M risk reversal



Source: Bloomberg, Danske Bank Markets

3M forward premium (% p.a.)



Source: Bloomberg, Danske Bank Markets

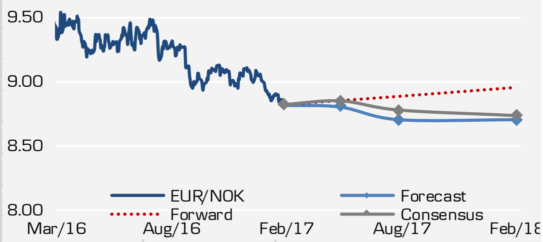
NOK – fundamental forces to drag cross lower in 2017

We still see the NOK range-bound for now but strengthening during the coming year on the back of normalising GDP growth, real rates and valuation. We target EUR/NOK at 8.90 in 1M, 8.80 in 3M, 8.70 in 6M and 8.70 in 12M.

Outlook for EUR/NOK

- The latest GDP release revealed more broad-based growth in Norway with a headline print close to Norges Bank's (NB) and markets' expectations. For this year, we look for just below potential growth around 1.5-2.0%. Meanwhile, core inflation continues to drop in a move driven not least by a stabilising NOK and volatile food prices. The housing market remains tight, especially in Oslo, with the latest house price release showing a yearly rise of 12.4%.
- As widely expected, NB left the sight deposit rate unchanged at the December meeting while reiterating its neutral bias by stating 'the key policy rate will most likely remain at today's level in the period ahead'. We still expect NB to leave rates unchanged in the near future (at least next 12M) and emphasise that the 40% rate cut probability embedded into the December rate path reflects an insurance premium against a substantial weakening in data and/or an unwarranted strengthening of the NOK. Also, we think house prices in Oslo would have to cool off for NB to cut rates further even if inflation continues to disappoint.
- While the 2016 GDP release out of Norway, as expected, revealed the lowest annual mainland growth rate (0.8%) since the financial crisis, we think the Q4 details had some positive aspects worth mentioning. In particular, growth now seems more broad-based rather than driven by housing investments and public spending alone. For instance, the release showed the first aggregated yearly rise in business investment since 2012 and given that oil investment rose in Q4 (for the first time since 2013) is encouraging given the large supply side's dependence on petroleum industries. As headwinds gradually fade for the oil sector, consumer purchasing power should improve and as global growth rebounds, we look for just below potential growth this year around 1.5-2.0%.

EUR/NOK



	3M	6M	12M
DB forecast	8.80	8.70	8.70
Forward	8.85	8.88	8.96
Cons. Forecast	8.84	8.77	8.73

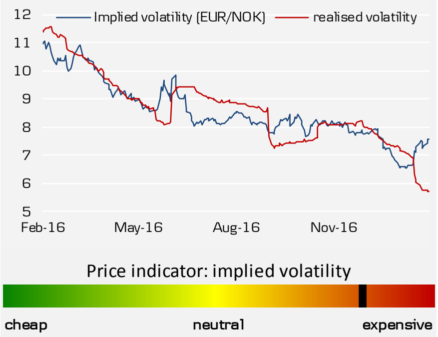
Source: Bloomberg, Danske Bank Markets

Hedging recommendations

Income	Expenses
We recommend hedging NOK income via knock-in forwards	We recommend hedging NOK expenses via FX forwards

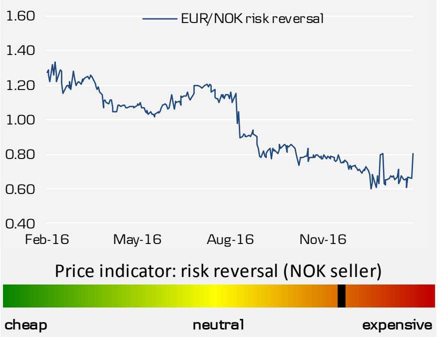
Source: Bloomberg, Danske Bank Markets

3M volatility



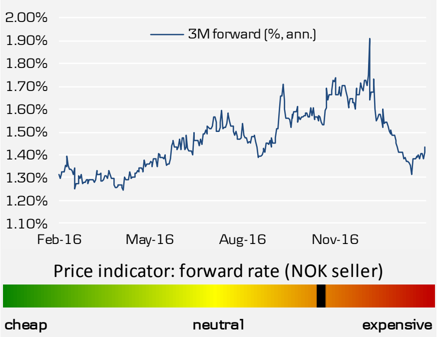
Source: Bloomberg, Danske Bank Markets

3M risk reversal



Source: Bloomberg, Danske Bank Markets

3M forward premium (% p.a.)



Source: Bloomberg, Danske Bank Markets

Danske Bank Markets' hedging recommendations: other majors

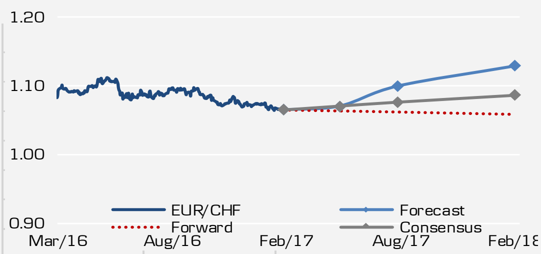
CHF

Currency	Instrument: Income	Instrument: Expenses
CHF	We recommend hedging CHF income via a risk-reversal strategy.	Hedge CHF expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (CHF seller)
forward rate (CHF seller)

Forecasts



	3M	6M	12M
DB forecast	1.07	1.10	1.13
Forward	1.06	1.06	1.06
Cons. Forecast	1.07	1.08	1.09

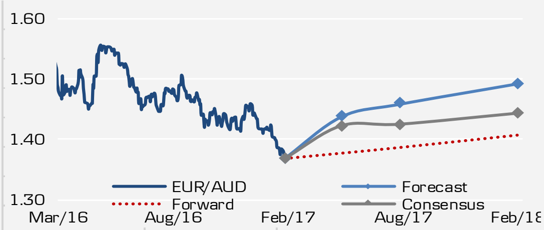
AUD

Currency	Instrument: Income	Instrument: Expenses
AUD	We recommend hedging AUD income via FX forwards.	We recommend hedging AUD expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (AUD seller)
forward rate (AUD seller)

Forecasts



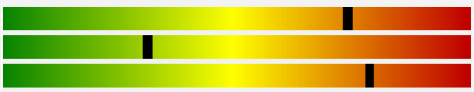
	3M	6M	12M
DB forecast	1.44	1.46	1.49
Forward	1.38	1.39	1.41
Cons. Forecast	1.42	1.42	1.44

NZD

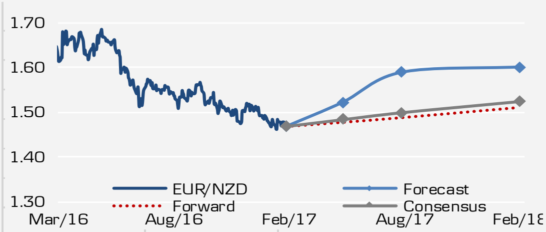
Currency	Instrument: Income	Instrument: Expenses
NZD	We recommend hedging NZD income via FX forwards.	Hedge NZD expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (NZD seller)
forward rate (NZD seller)



Forecasts



	3M	6M	12M
DB forecast	1.52	1.59	1.60
Forward	1.48	1.49	1.51
Cons. Forecast	1.48	1.50	1.52

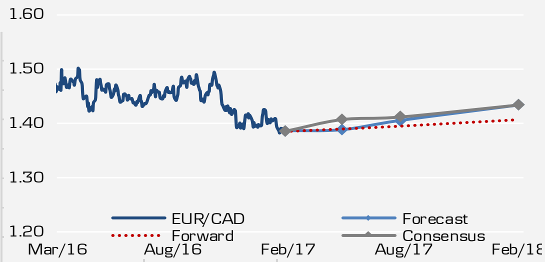
CAD

Currency	Instrument: Income	Instrument: Expenses
CAD	Hedge CAD income via a risk-reversal strategy.	We recommend hedging CAD expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (CAD seller)
forward rate (CAD seller)

Forecasts



	3M	6M	12M
DB forecast	1.39	1.40	1.43
Forward	1.39	1.39	1.41
Cons. Forecast	1.41	1.41	1.43

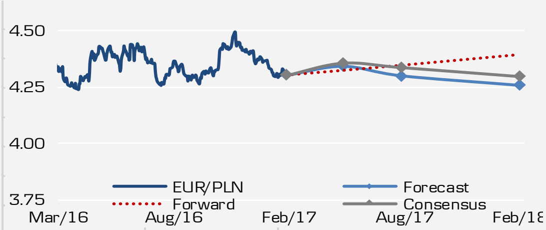
Source: Danske Bank Markets

Danske Bank Markets' hedging recommendations: EMEA

PLN

Currency	Instrument: Income	Instrument: Expenses
PLN	We recommend hedging PLN income via knock-in forwards.	We recommend hedging PLN expenses for the coming 3 months via a risk-reversal strategy. On a longer horizon we recommend hedging via FX forwards.

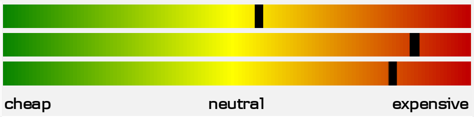
Forecast



	3M	6M	12M
DB forecast	4.34	4.30	4.26
Forward	4.32	4.35	4.40
Cons. Forecast	4.36	4.34	4.30

Price indicators

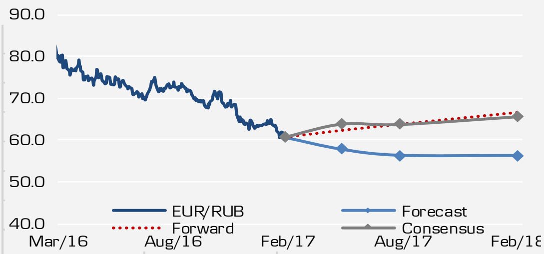
implied volatility
risk reversal (PLN seller)
forward rate (PLN seller)



RUB

Currency	Instrument: Income	Instrument: Expenses
RUB	We recommend hedging RUB income via knock-in forwards.	We recommend hedging RUB expenses via FX forwards.

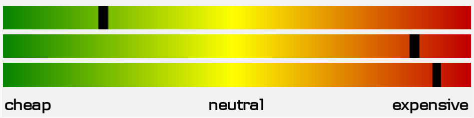
Forecast



	3M	6M	12M
DB forecast	57.75	56.21	56.17
Forward	62.40	63.86	66.68
Cons. Forecast	63.72	63.64	65.39

Price indicators

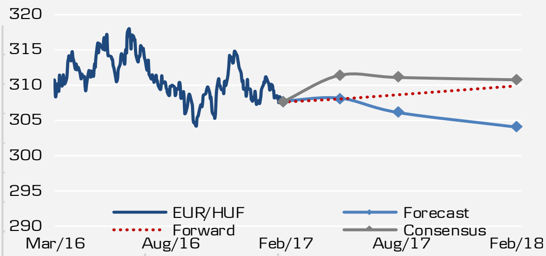
implied volatility
risk reversal (RUB seller)
forward rate (RUB seller)



HUF

Currency	Instrument: Income	Instrument: Expenses
HUF	We recommend hedging HUF income via knock-in forwards.	We recommend hedging HUF expenses via risk-reversal strategies.

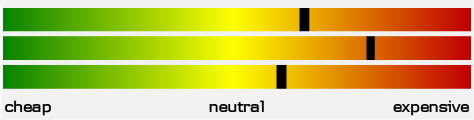
Forecast



	3M	6M	12M
DB forecast	308.00	306.00	304.00
Forward	308.00	308.58	309.78
Cons. Forecast	311.36	311.05	310.73

Price indicators

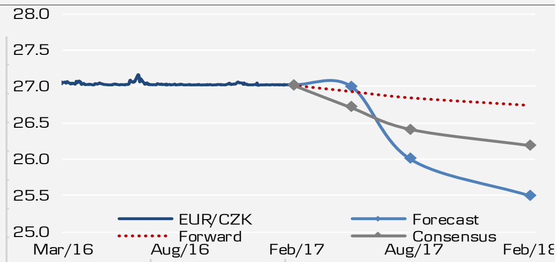
implied volatility
risk reversal (HUF seller)
forward rate (HUF seller)



CZK

Currency	Instrument: Income	Instrument: Expenses
CZK	We recommend hedging CZK income via risk-reversals.	We recommend hedging CZK expenses via FX forwards. Given the risk of a removal of the EUR/CZK floor during 2017 we recommend to increase the hedge ratio and hedge horizon for CZK expenses. See *FX Strategy: Prepare for a lifting of the EUR/CZK floor* (24 October) for details.

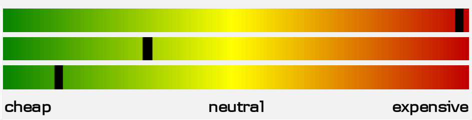
Forecast



	3M	6M	12M
DB forecast	27.00	26.00	25.50
Forward	26.94	26.85	26.74
Cons. Forecast	26.71	26.41	26.19

Price indicators

implied volatility
risk reversal (CZK seller)
forward rate (CZK seller)



Source: Danske Bank Markets

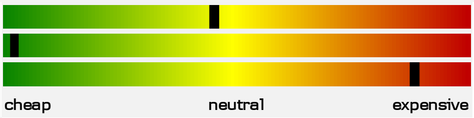
Danske Bank Markets' hedging recommendations: other emerging markets

CNH (CNY)

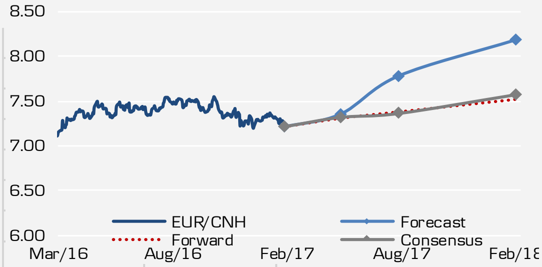
Currency	Instrument: Income	Instrument: Expenses
CNH (CNY)	We recommend hedging CNH income via FX forwards.	We recommend hedging CNH payables via a risk-reversal strategy.

Price indicators

implied volatility
risk reversal (CNH seller)
forward rate (CNH seller)



Forecast



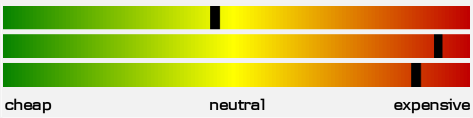
	3M	6M	12M
DB forecast	7.35	7.78	8.18
Forward	7.30	7.37	7.51
Cons. Forecast	7.32	7.36	7.58

ZAR

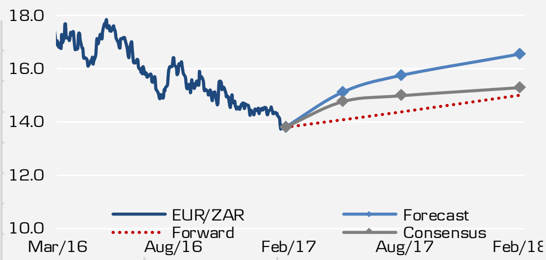
Currency	Instrument: Income	Instrument: Expenses
ZAR	Hedge ZAR income with FX forwards.	We recommend hedging ZAR expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (ZAR seller)
forward rate (ZAR seller)



Forecast



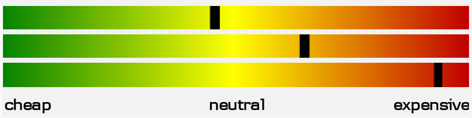
	3M	6M	12M
DB forecast	15.12	15.77	16.58
Forward	14.07	14.37	15.01
Cons. Forecast	14.77	15.00	15.31

TRY

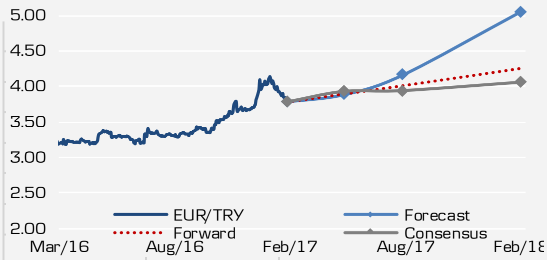
Currency	Instrument: Income	Instrument: Expenses
TRY	Hedge TRY income with FX forwards.	We recommend hedging TRY expenses via knock-in forwards.

Price indicators

implied volatility
risk reversal (TRY seller)
forward rate (TRY seller)



Forecast



	3M	6M	12M
DB forecast	3.89	4.16	5.04
Forward	3.89	4.01	4.24
Cons. Forecast	3.93	3.94	4.05

Source: Danske Bank Markets

FX forecasts

G10			Last Update:	16/02/2017	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.061	1.04	1.05	1.08	1.12
EUR/JPY	120.9	121	124	127	132
EUR/GBP	0.850	0.87	0.87	0.86	0.86
EUR/CHF	1.066	1.070	1.070	1.100	1.130
EUR/SEK	9.453	9.40	9.40	9.30	9.20
EUR/NOK	8.844	8.90	8.80	8.70	8.70
EUR/DKK	7.434	7.4350	7.4350	7.4400	7.4400
EUR/AUD	1.378	1.387	1.438	1.459	1.493
EUR/NZD	1.469	1.486	1.522	1.588	1.600
EUR/CAD	1.386	1.373	1.386	1.404	1.434
EM					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.314	4.32	4.34	4.30	4.26
EUR/HUF	308	308	308	306	304
EUR/CZK	27.022	27.00	27.00	26.00	25.50
EUR/RUB	60.754	58.55	57.75	56.21	56.17
EUR/TRY	3.901	3.69	3.89	4.16	5.04
EUR/ZAR	13.743	14.47	15.12	15.77	16.58
EUR/BRL	3.237	3.38	3.47	3.67	4.03
EUR/CNY	7.280	7.18	7.35	7.78	8.18
EUR/INR	71.014	70.15	71.93	74.52	78.40

Source: Danske Bank Markets

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S (‘Danske Bank’). The authors of the research report are Thomas Harr (Global Head of FICC Research), Mathias Røn Mogensen (Analyst) and Morten Thrane Helt (Senior Analyst).

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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