

FX Forecast Update

Light at the end of the risk tunnel

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FX market overview

Recent developments: uncertainties fading despite rising COVID-19 numbers and restrictions

- Since we published *FX Forecast Update – Fed's USD debasement 'paused' – US politics key joker* on 5 October, COVID-19 numbers have risen sharply in Europe and the US, leading to the imposition of new restrictions and partial lockdowns. Despite recent positive vaccine news, a full rollout of vaccine programmes is still some way off and current restrictions are set to weigh on growth in coming months. Recent Phase-3 vaccine trials are showing promising results and although consensus suggests a vaccine will come around New Year, markets have now started to price in some of the tail risks of subdued activity long into 2021. In our view, the coming months will be a balancing act between bad numbers on COVID-19, growth and so on and (one hopes) positive news on vaccine trials.
- The outcome of the recent US election has led to political uncertainties about China, trade, US COVID-19 handling and so on fading but with a leaning towards a Republican-led Senate, incoming president Joe Biden may see himself a lame duck when taking office in January. There has been progress on the EU budget but there are still hurdles left for the recovery fund. Notable among the remaining uncertainty is the Brexit process, which has the potential to rock the boat around New Year.

Market implications: market relief from fading uncertainties

- Market relief on the back of realised US election uncertainty has led risky assets to perform and volatility to decrease notably. Recent positive vaccine news added fuel to the fire but current negative COVID-19 developments cap the upside for now. EUR/USD has moved towards 1.19 on the back of the US election but grinded marginally lower again despite positive vaccine developments. A weakening USD and fading short-term uncertainty have been tailwinds to emerging market FX, Scandies and cyclical lately, but such FX moves may not extend without further direction set by reflationary forces, fiscal policy and/or sustained signs of global economic recovery.

Outlook: USD weak for now but remains long-term winner

- We still see EUR/USD around 1.20 in 3M but longer term the USD is still 'the winner' and we forecast 1.16 in 12M. We target EUR/SEK around 10.30 in 1-3M before a move towards 10.10 in 6-12M on recovery tailwinds. Meanwhile, we see EUR/NOK on a downward trajectory supported by the external environment and strong domestics and project 10.40 in 12M. We expect EUR/GBP to go towards 0.86 on a resolved Brexit.

Key risks to our forecasts: more balanced outlook as political fog clears

- Progress across US fiscal policy, Brexit and the global COVID situation may cause a test of 1.20 in EUR/USD but deteriorating risk sentiment, e.g. due to adverse vaccine news, remains a key downside risk.

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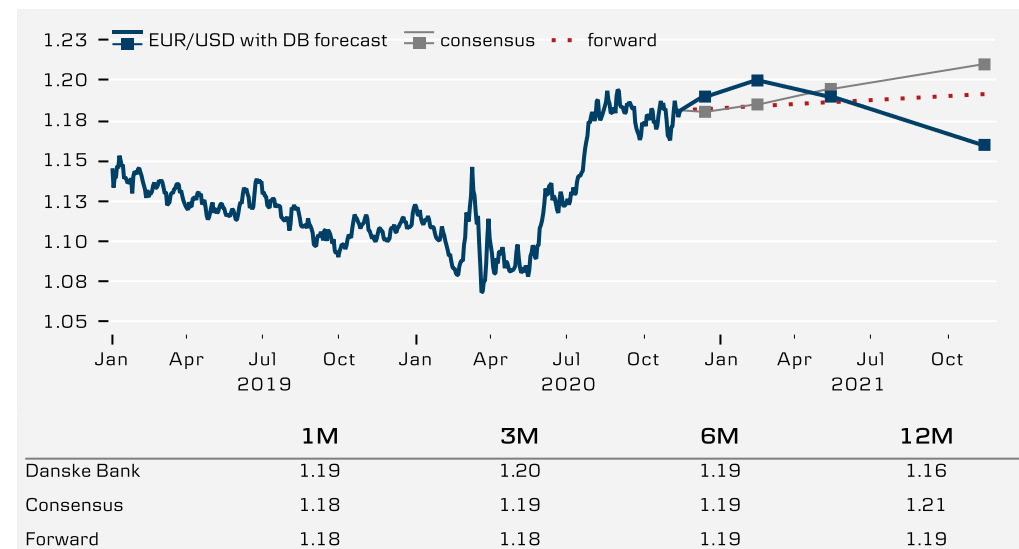
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EUR/USD – short-term upside but USD is still the long-term winner

- **Cyclical outlook.** Since the introduction of new lockdowns in Europe, we have seen a tapering in indicators of domestic demand. Specifically, we expect euro area Q4 GDP at -1.4 versus Q3. However, external demand (exports) and the manufacturing sector remain tailwinds for Europe, notably demand from Asia. We are starting to see a small peak in the expansion of demand from China but we have moved closer to EU fiscal support (the EU budget) and we may also see a (small) fiscal package from the US in Q1. In our view, the latter two factors and the potential for a coronavirus vaccine will underpin a slow but continued European economic rebound in 2021.
- **Monetary policy.** The Fed has proven itself more hawkish than we expected and, in turn, the USD has strengthened a little. US real rates have slightly increased vis-à-vis EU peers and this is somewhat USD positive. The ECB is very likely to add further support at its December meeting, but we do not believe they will lower interest rates, nor substantially change the economic path that we are already seeing for Europe. We suspect the ECB will be a slightly EUR-negative factor in December, but it is external/global developments, which remain key.
- **External balances.** Fundamentally, the US should continue to be a high(er) interest rate market and equities continue to appeal to foreign investors. This means the US is likely to attract capital, which generally helps the USD.
- **Valuation.** We view fair value for EUR/USD to be a 1.08-1.20 range, depending on the model employed. Either way, at current levels, valuation is neutral if not an outright headwind for spot. US assets' trend performance continues to be strong relative to European counterparts and the COVID-19 pandemic has fast-forwarded the adoption of technology, favouring flows into the US. EUR/USD thus faces structural decline due to a lack of competitiveness. A valuation reversal (lower EUR/USD) could come from rising US real rates, fading EU optimism, and/or falling equities.
- **Positioning.** Speculators have slightly tapered long EUR/USD positions.

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Forecast: 1.19 (1M), 1.20 (3M), 1.19 (6M), 1.16 (12M)



Note: Past performance is not a reliable indicator of current or future results

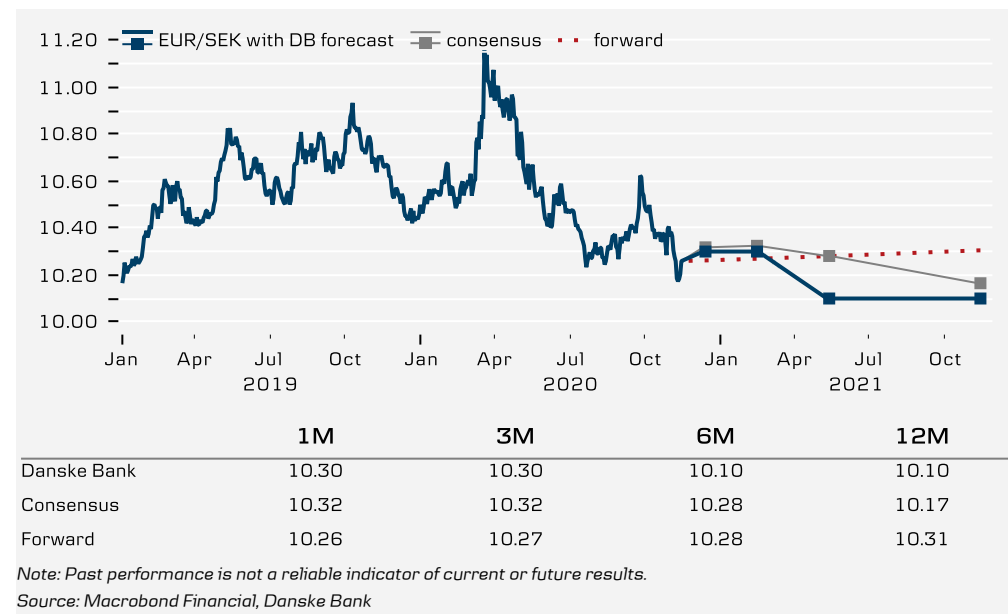
Source: Macrobond Financial, Danske Bank

- **Risks.** Upside risks to take us above 1.20 include the EU proving to be an engine of world growth and/or the Fed credibly committing to inflation overshooting (which it has not as of today). The combination of positive progress across US fiscal policy, Brexit, the coronavirus situation and global growth may culminate by year end. If so, we could see a new test of 1.20.
- **Conclusion.** We see scope for a move to 1.20 near term, if the stars align as discussed above. We have lowered our 6M-12M projections 1-3 figures on valuation headwinds and fading support from the Chinese credit cycle. Note that December holds an unusual number of events that we expect to define risks and direction for EUR/USD as we go in to 2021. Until we see a firm change in the macro narrative, EUR/USD is a 1.15-1.19 range.

EUR/SEK – winter is coming, then a vaccine

- Cyclical outlook.** The global economy is entering a soft patch in Q4 and throughout Q1 on the back of the resurging coronavirus pandemic and ensuing restrictions. The same applies for Sweden, which we believe will also feel repercussions from a slowdown in Europe. Hence, we should see headwinds for pro-cyclical, high-beta currencies through winter. Brighter prospects for a vaccine mean brighter prospects for growth in 2021, lending support to pro-cyclical currencies further out.
- Monetary policy.** We expect the Riksbank to prolong the QE programme through H2 21, but believe it will wait until February to communicate this. The Riksbank has paid less attention to inflation during the pandemic and has thus been reluctant to go back to negative territory. The Riksbank has also allowed SEK appreciation by tweaking its exchange-rate rhetoric. However, if inflation expectations drift further away from target, we doubt prolonged SEK appreciation will be acceptable. Lack of inflation pressure remains a medium-term headwind for the SEK.
- External balances.** Sweden's C/A rose to 4% in 2019 but, importantly, was only 1.7% adjusted for merchanting. A positive net equity position implies underlying Swedish demand for SEK when equities rise in order to maintain hedge ratios. Foreign holdings of Swedish bonds have shrunk below 25% in 2020, though they have remained stable in recent months.
- Valuation.** We argue that part of the trend SEK depreciation has been fundamental in nature, suggesting that EUR/SEK at 10.00-10.50 is medium-term fair. The Riksbank seems to have reached a similar conclusion; see [Reading the Markets Sweden](#) (25 September).
- Risks.** Continued strong risk and sector-rotation sentiment this winter may leave our 1-3M target on the high side. A growth recovery from summer 2021 is a tailwind for the SEK, but this might coincide with the Riksbank responding to too low inflation, i.e. a 6-12M upside risk.

Forecast: 10.30 (1M), 10.30 (3M), 10.10 (6M), 10.10 (12M)



- Conclusion.** EUR/SEK has fallen more than 10% from the peak. The multi-year uptrend is broken technically with vaccine news the final nail in the coffin. Substantial stimulus and risk on have been key drivers for cyclical currencies. However, the COVID-19 situation (alarming) and the growth outlook for Q4-Q1 (slowdown/double dip) suggest a setback in coming months. Later in 2021, we see SEK tailwinds re-emerging amid better global growth prospects and sector rotation, though noting that the SEK is not a strong valuation play. The Riksbank will probably play a secondary role, but we keep it on the radar for further stimulus and as a potential gatekeeper against too much SEK appreciation. On balance, with the vaccine news in mind, we consider it prudent to adjust our forecast profile to 10.30 (10.50 prev.) in 1-3M and 10.10 (10.30) in 6-12M.

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EUR/NOK – vaccine news and reflation the paramount drivers

- Cyclical outlook.** Like those of its peers, the Norwegian recovery is experiencing a setback from new restrictions. That said, Norwegian restrictions are far lighter than in most other European countries, which consolidates Norway as one of the smallest losers from the COVID-19 crisis. We should expect activity and labour market data to level off in coming months – yet, with the latest vaccine news, the downside risks seem much reduced. The housing market remains very hot and the latest data from Real Estate Norway suggest more gains are in store. Inflation has come modestly lower on lower imported inflation but remains above Norges Bank's target. With a stable to stronger NOK and lower capacity utilisation, we expect inflation to move towards the 2% target in the coming year.
- Monetary policy.** Norges Bank has this year cut policy rates by 150bp: by 50bp on 13 March, 75bp on 20 March and 25bp on 7 May. This has brought the sight deposit rate to a new historical low of 0.0%. In September, Norges Bank reiterated its neutral bias, that negative rates are unlikely and that as of now the first rate hike looks set for Q3 22. We see topside risk to this signal and still pencil in the first hike by Q4 21. Markets price the first hike in December 2022.
- External balances.** The energy price collapse weakened Norway's terms of trade. Meanwhile, the COVID-19-induced fiscal spending is funded via the oil fund, which entails direct 1:1 buying of NOK conducted by Norges Bank. As the recovery has been stronger than expected, the COVID-19 fiscal bill has proved lower than feared and NOK purchases have been reduced.
- Valuation.** With the 2020 NOK collapse, we now deem the NOK as undervalued from a competitiveness perspective too. Prior to the COVID-19 pandemic, we had argued this was not the case (unlike PPP signals).
- Risks.** The biggest risk factors to our forecasts lie in the global recovery, risk appetite, oil prices and vaccine developments – all of which are interconnected. Better news than in our baseline would drive a reflationary global investment environment underpinning a sharper NOK comeback. However, vaccine/risk-off could trigger sizeable setbacks.

Forecast: 10.80 (1M), 10.60 (3M), 10.50 (6M), 10.40 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- Positioning.** We believe positioning has become fairly balanced – albeit still absolute long.
- Conclusion.** NOK remains a high-beta derivative of the global reflation theme. Given the encouraging COVID-19 vaccine news and a repriced trade war outlook, NOK has been among the top performers. In our base case, we expect continued support for NOK from the external environment, domestic economic outperformance and Norges Bank to lead the developed world's hiking cycle. However, the topside seems capped by the oil price, limited potential for further USD weakness and relatively high cost levels in Norway. In addition, in the very near term seasonality fears may weigh. We now project EUR/NOK at 10.80 in 1M (from 10.90), 10.60 in 3M (10.80), 10.50 in 6M (10.60) and 10.40 in 12M (10.50).

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EUR/DKK – range trading on the strong side of the central rate

- **Cyclical outlook.** The cyclical environment is broadly neutral for EUR/DKK as relative DKK-US equity prices and long-term bond yields remain broadly stable. Development in the US and in USD/DKK is important for the earnings potential of the Danish economy in light of the significant net exports of in particular pharmaceuticals and the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank sold DKK65bn EUR in FX intervention in the first half of March, before hiking policy rates 15bp. In April, the need for FX intervention stopped. Tighter liquidity and the rate hike have reduced the negative carry on short EUR/DKK positions. We look for Danmarks Nationalbank to keep policy rates unchanged on 12M. Should the ECB decide to cut interest rates (not our base case), we expect Danmarks Nationalbank to mirror the rate cut 1:1 on both the CD rate and extraordinary repo rate. We expect it to maintain the tight fluctuation band of 7.4325-50 and 7.4730. The decision potentially to use foreign-currency issuance to cover the public deficit is a game changer for the money market, as fiscal policy will directly affect excess liquidity over coming months.
- **External balances.** Denmark continues to run a large current-account surplus, which materialises in a large investment need abroad. Strong Danish fundamentals have not changed on the back of the crisis. The potential temporary shutdown of Danish mink production will remove around 1% of total exports.
- **Valuation.** The strong Danish external balances keep a 'DKK appreciation risk premium' vis-à-vis EUR in the FX forward curve. This, in turn, forces Danmarks Nationalbank to keep policy rates lower than the ECB over the long term, resulting in the EUR/DKK forward discount.
- **Positioning.** Danish life and pension companies on aggregate kept their USD hedge ratio unchanged in Q2 and lowered slightly their EUR hedge ratio. The EUR hedge ratio is currently at the low end historically.

Forecast: 7.4450 (1M), 7.4450 (3M), 7.4475 (6M), 7.4550 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Risks.** EUR/DKK remains exposed to large movements in equity and fixed income markets via the FX hedge-rebalancing effect. US equity outperformance will tend to push EUR/DKK lower, while higher long-term bond yields will support a higher EUR/DKK. Over coming months, uncertainty prevails over how large the government short-term funding need will be due to uncertainty about the cost of additional lockdowns and costs related to mink culling. We look for a temporary rise in excess liquidity over coming months, which could push short-term rates temporarily lower.
- **Conclusion.** Our forecasts are unchanged with EUR/DKK at 7.4450 in 1M and 3M, 7.4475 in 6M and 7.4550 in 12M. Rebalancing effects on relative US and DK equity market performance and the developments in long-term EUR rates have not played a role recently, but are still important to watch.

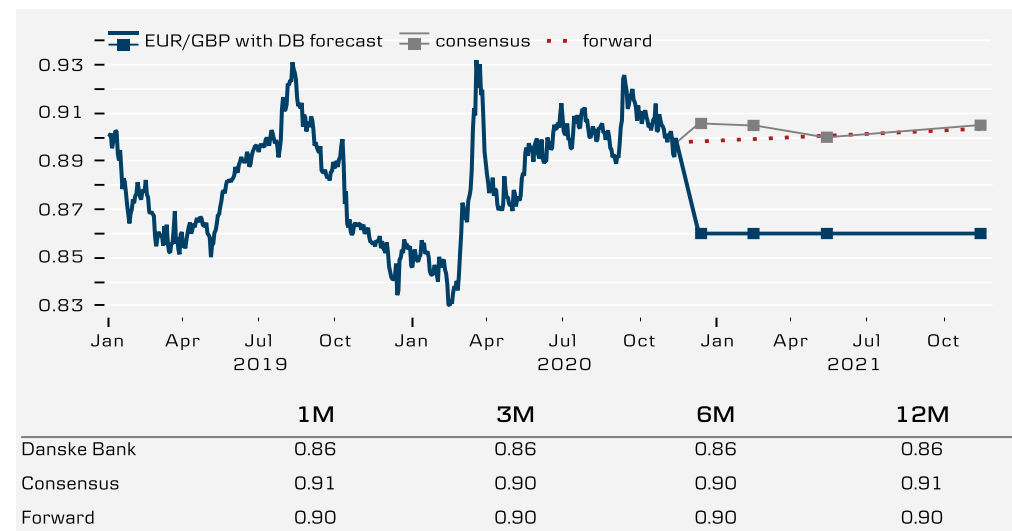
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EUR/GBP – Brexit to determine the fate of GBP

- **Cyclical outlook.** While Q3 GDP data showed a significant rebound, GDP remains below the pre-coronavirus level and, unfortunately, we are likely to see a decline in Q4 after the UK has locked down again. The Bank of England expects a decline in Q4 GDP of -2%. Brexit uncertainties are also weighing on investments, as there is no agreement yet.
- **Brexit.** In line with our expectations, negotiations have extended into November and we are still yet to see a Brexit agreement. With the new 'soft' deadline in 'mid November' looming, the pressure on politicians is starting to rise. We expect a deal in the second half of November but will be more concerned if there is no progress around 1 December, which we believe will weigh on GBP if this is the case. The main obstacles are still fishing and level playing field conditions (e.g. state aid and taxes).
- **Monetary policy.** At the last meeting, the Bank of England (BoE) expanded QE and extended buying into 2021, but it did not reveal any new information about a possible cut into negative. We expect the BoE to keep policy rates unchanged throughout our forecast horizon despite increasing discussions about whether to cut into negative. In the event of no deal, we expect a significant cut down to -0.5%.
- **External balances.** The UK runs a large current-account deficit, which makes the GBP vulnerable when capital flows fade like seen at the height of the COVID-19-driven risk sell-off; this keeps GBP at risk vs surplus-EUR in wake of a risk sell-off.
- **Valuation.** GBP remains fundamentally undervalued with a significant Brexit discount still attached. Our Brexit-corrected MEVA estimate for EUR/GBP is close to 0.83; PPP estimate around 0.76. Thus, if a trade with the EU is eventually sealed, a decent move lower should be in store.

Positioning. Non-commercial positioning is neutral.

Forecast: 0.86 (1M), 0.86 (3M), 0.86 (6M), 0.86 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Risks.** A hit to global risk sentiment could hit GBP, as sterling has been trading very much as a cyclical currency this year. We saw recently that the positive vaccine news sent EUR/GBP significantly lower. That said, we believe the outcome of Brexit is the most important driver near term.
- **Conclusion.** As our base case remains a simple free-trade agreement covering goods and that a deal is finalised over the next two to three weeks, we expect EUR/GBP to move lower in the very near term, supported by the positive vaccine news favouring cyclical currencies. We lower our 1M forecast to 0.86, which we believe will be the new trading midpoint in the coming year, although we believe risk is skewed towards it going lower than 0.86 in the very-near term in the event of a deal. If we are wrong and instead head for no deal, EUR/GBP will move markedly higher (yet stay below parity).

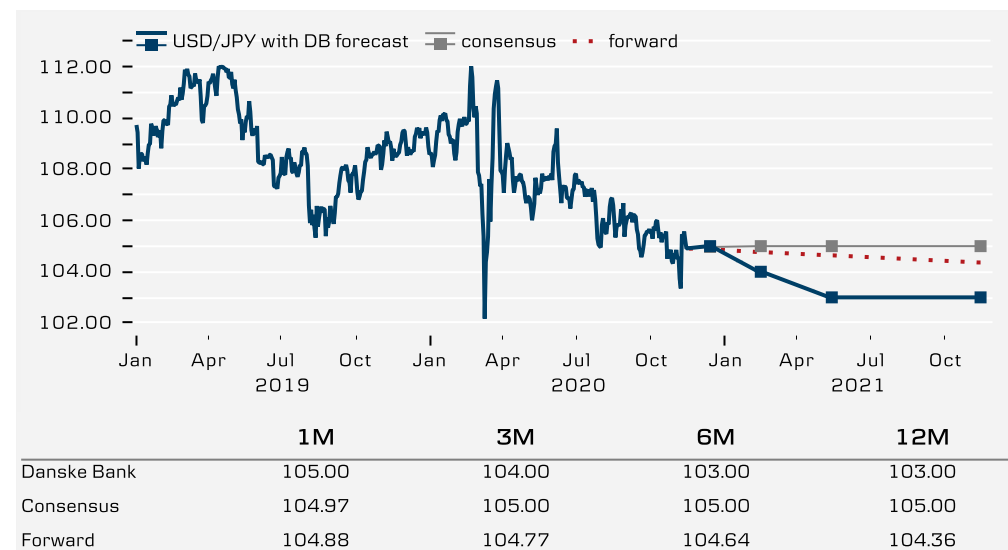
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USD/JPY – strong JPY set to continue as ‘Asia factor’ intact

- **Cyclical outlook.** USD/JPY has been thrown back and forth by moves in global risk aversion, commodities and domestic fiscal response. Notably, nominal US interest rates have remained largely unchanged amid rising inflation expectations and oil prices have consolidated. In turn, the JPY has been left to an ‘Asia factor’ and the decline in real rates, which has been USD negative. These factors are thus USD negative/JPY positive. Recently, rising real rates have led USD/JPY to go from 103 to 105.
- **Monetary policy.** There is plenty of flexibility within the QE programme and we believe it is more likely the BoJ will draw on this before cutting rates, which have arguably already reached reversal rate levels. Focus is set to remain on the ability to supply sufficient funds to businesses affected by the crisis and implementing the new ‘special deposit facility’ installed to give regional banks incentive to merge or cut costs.
- **External balances.** Japan runs a current account surplus.
- **Risks.** To take JPY above 110, we would need a material change in US nominal rates and/or global commodity prices. However, oversupply in the oil market remains a relevant factor, which limits upside risks to oil and thus downside risk to JPY (Japan is a net importer). We do not see US 10Y rising much above 1%, in a best-case macro scenario. A key uncertainty is for how long, for example, the People’s Bank of China will endorse the credit-fuelled Asian recovery. There is tentative evidence credit is being curbed slightly but such is not (yet) relevant for USD/JPY.
- **The Asia factor.** We are currently witnessing a theme of Asian outperformance given the region’s fast recovery from the COVID-19 pandemic, relatively supportive Chinese credit growth and, not least, Asian equities doing well. For Asia in general, and specifically for countries with proximity to China, the lack of being commodity exporters, stable political regimes, strong productivity and low debt are a boon for a rebound in FX. In this environment, USD/JPY reflects USD/CNH and other Asian cyclicals.

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Forecast: 105 (1M), 104 (3M), 103 (6M), 103 (12M)



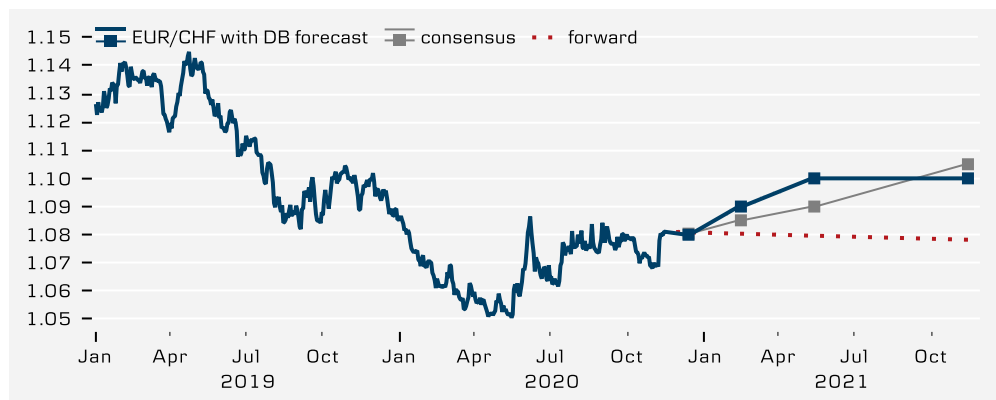
Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

- **Valuation.** Our PPP estimate is around 80, i.e. suggesting an undervalued JPY, while our medium-term valuation model (MEVA) stands at 108. In our view, USD/JPY is at fair value as we emphasise the MEVA estimate as a more reasonable estimate for such.
- **Positioning.** Speculators are long JPY.
- **Conclusion.** We keep our expectations for further JPY strength. This strength is not due to a negative view on global risk sentiment but rather that we expect Asian outperformance to help JPY versus USD. Thus, the key risk to our profile becomes a shock that steepens the US yield curve and/or raises oil prices into the high USD50s per barrel for Brent and/or substantial USD strength. We attach a low probability to all of these. Jointly, this limits upside risk in EUR/JPY from here, as well, in our view.

EUR/CHF

Forecast: 1.08 (1M), 1.09 (3M), 1.10 (6M), 1.10 (12M)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- Positive vaccine news recently caused a significant jump in EUR/CHF but the lack of clear reflation support from the Fed and still no new fiscal boost in the US has left EUR/CHF with little overall direction. The SNB is preparing to continue to sweat out the deflationary pressure in the Swiss economy and intervention remains the key policy tool. With the ECB set to hold rates and opt for other easing tools, Swiss policy rates are also set to stay unchanged at the long-standing -0.75% for an extended period of time.
- We see EUR/CHF range-bound in the absence of a clear reflation or recovery catalyst, still stuck in a 1.07-1.09 range ahead of year-end. Risks remain asymmetric longer term as the SNB holds the downside in check and a global recovery in 2021 may bring some relief to the undervalued pair. However, we flatten our forecast profile further and we now see EUR/CHF at 1.08 in 1M, 1.09 in 3M (previously 1.08), 1.10 in 6M (was 1.10) and 1.10 in 12M (was 1.12).

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USD/CAD

Forecast: 1.30 (1M), 1.27 (3M), 1.27 (6M), 1.28 (12M)



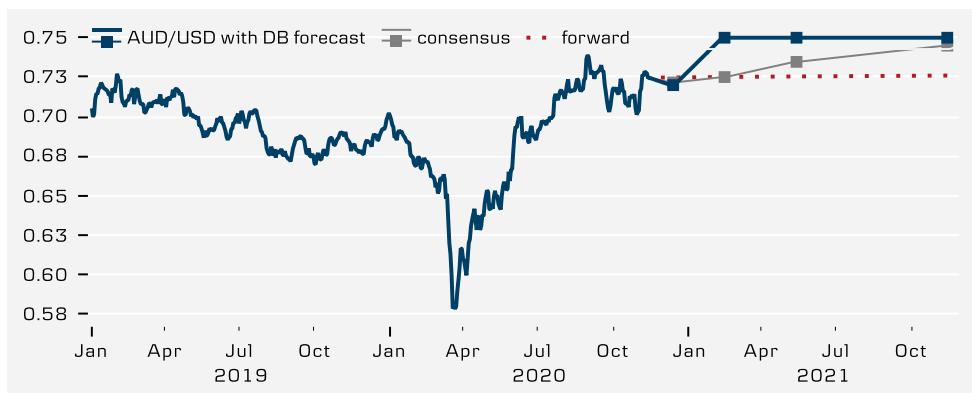
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- In this environment, we fundamentally like to consider USD/CAD as 'USD/NOK but with a lower beta to global risk sentiment and oil prices'. This is due to the CAD's close connection to the USD (Canada-US trade link) and Canada's lower dependence on oil. A way to illustrate the close connection between USD/CAD and USD/NOK is to look at short-dated correlations, which currently run at close to 80%.
- Consequently, in September and October, USD/CAD rose by less than USD/NOK, while the recent spark to the global reflation theme has benefitted NOK more than CAD. Looking ahead, we expect the global reflation theme to remain in the driver's seat, so we pencil in a lower spot especially out until 6M. We forecast USD/CAD at 1.30 in 1M (previously 1.34), 1.27 in 3M (was 1.23), 1.27 in 6M (was 1.32) and 1.28 in 12M (was 1.32).

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AUD/USD

Forecast: 0.72 (1M), 0.75 (3M), 0.75 (6M), 0.75 (12M)

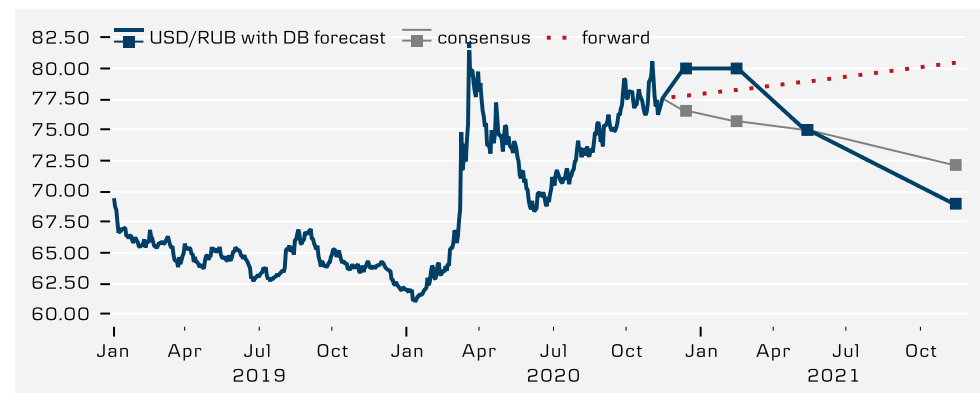


Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

- The coronavirus outbreak had major negative effects on the AUD in Q1, as Chinese activity and declining industrial metal prices weighed further on the currency. Since March, the AUD has rebounded strongly in line with risk sentiment and industrial and precious metals. The key upside risks include a decline in the broad AUD and upside in prices of metals.
- We lower our upbeat AUD/USD profile slightly on concerns about valuation, Chinese credit data and the potential need for further easing by the central bank in order to meet its inflation mandate. For AUD-income, we suggest buying EUR/sell AUD around 1.60-1.61 (the lower end of the recent range).

USD/RUB

Forecast: 80.00 (1M), 80.00 (3M), 75.00 (6M), 69.00 (12M)



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

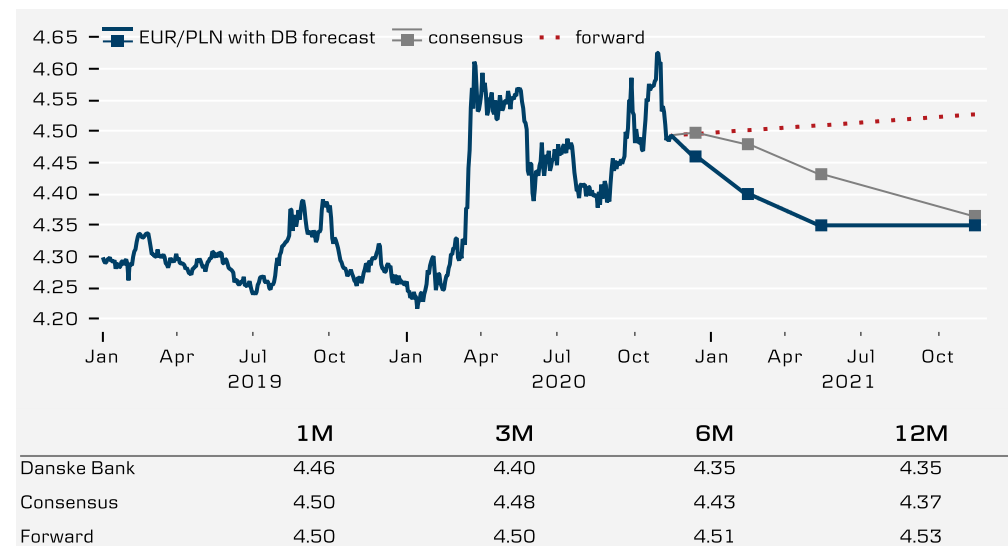
- In our view, the key to understanding USD/RUB is the geopolitical path that Russia has taken (Belarus, Navalny and Afghanistan stories) and similar skirmishes. Amid low oil prices (or at least not rising oil prices) and low domestic inflation; this all adds up to cyclical factors having become increasingly important. As such, it is not that the oil price has fallen and taken RUB lower – but rather – the stability in oil prices has left other drivers (politics) to take over. The Russian easing cycle has probably ended but it is not a major FX driver.
- The possibility of more RUB strength lies with upside for oil prices, fading sanction risks and stronger-than-expected global demand. We keep our profile unchanged. For many, weakness in USD/Scandies is likely to have amplified RUB pessimism. USD/RUB is looking a bit stretched around the 75-level but we do not expect near-term strength, rather that RUB may be less prone to further weakness.

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EUR/PLN – coronavirus clouds darkening over the Polish economy

- Cyclical outlook.** Poland is struggling to contain the second wave of the COVID-19 pandemic, which appears to be seeing a much higher number of deaths than in the spring (unlike many western European countries). The government implemented new restrictions in late October, which are yet to show up in the daily number of COVID-19 cases, which is around 25,000 a day. While restrictions have hurt service sector activity, electricity consumption is holding up so far, indicating that production is continuing (unlike in the spring), with industrial production 6% higher than in September 2019. In the wake of the rise in COVID-19 cases, consumer confidence has fallen back since late summer, which should hit private consumption as well (retail sales declined month on month in September). On the positive side, government schemes are holding unemployment in check and wages were almost 5.5% higher than in 2019. The manufacturing PMI remained constant in October at 50.8, slightly above the important 50% benchmark. Overall, we believe that Poland might well see a new slightly negative GDP print in Q4, before paving the way for a recovery in 2021.
- Monetary policy.** At its meeting on 6 November, the National Bank of Poland signalled a concern that the rise in the number of COVID-19 cases may take a toll on the Polish economy. In our view, it may scale up its QE programme, which has been on pause since July and which has reduced momentum in money growth. Inflation has surprised on the upside during the crisis but seems to have abated in September and we see inflation falling back in year-on-year terms in coming months, which should lend to dovish tones from the MPC.
- Risks.** Near term, we see risks to our EUR/PLN profile as slightly on the upside. The key risk is the coronavirus pandemic and further lockdowns in both Poland and Europe. Among the downside risks to the cross are faster global growth than projected and less of a hit to euro growth from the coronavirus pandemic in Q4.

Forecast: 4.46 (1M), 4.40 (3M), 4.35 (6M), 4.35 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

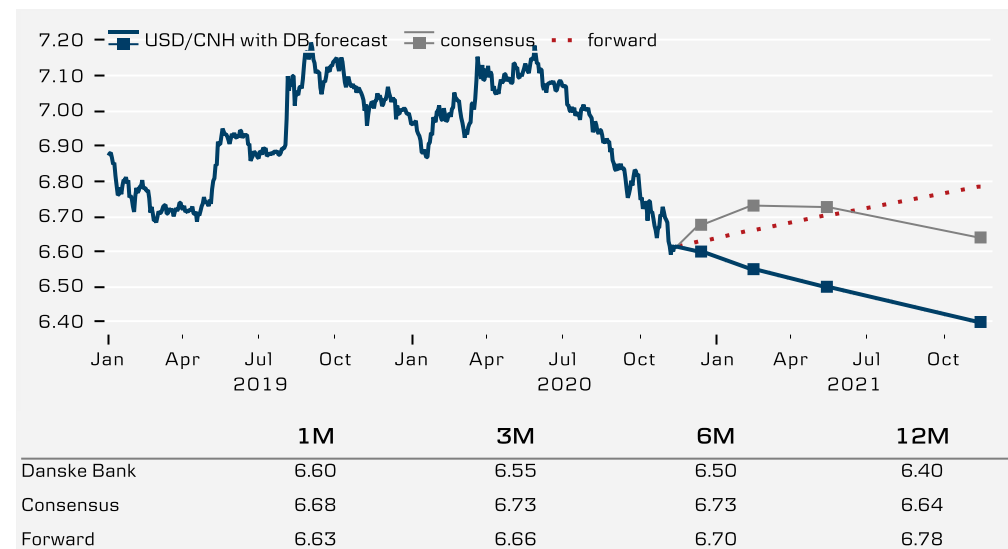
- Conclusion.** The PLN has staged a remarkable recovery following the US election similar to other CEE currencies and emerging market FX more broadly. The driver is some kind of relief rally following the US election paving the way for a Joe Biden administration, which looks to pursue a more predictable foreign policy and try and push aid to the US economy. Moreover, positive coronavirus vaccine news also bolstered global risk appetite benefitting PLN. Meanwhile, the domestic situation in Poland is not lending much support to the PLN. Looking ahead, we believe the EUR/PLN may see a bit of upward pressure. In Q1, as vaccines are rolled out and the Polish economy starts to recover again, we should see the cross moving somewhat lower. Hence, our new profile for EUR/PLN 4.46 (previously 4.42) in 1M, 4.40 in 3M and then 4.35 in 6-12M.

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USD/CNY – recovery and end of ‘Trump premium’ strengthening CNY

- **Growth.** The Chinese economy has recovered further in the autumn months with PMIs reaching new highs and industrial production rising strongly. GDP growth increased to 4.9% in Q3 and China is on track to be one of the few countries with positive growth in 2020. Looking forward, we look for PMIs to peak soon, as stimulus is fading, export growth is likely to come down and the catch-up effect from the COVID-19 collapse in production is coming to an end. However, we still look for growth to stay slightly above potential for most of 2022, as good news on a COVID-19 vaccine should give a lift to global demand.
- **Monetary policy.** China is signalling that an exit of stimulus is close and de facto monetary policy has tightened for some months now with money-market rates pushing higher. It has led to a widening of the China-US 12-month money-market spread, which is an important driver of the USD/CNY. We look for continued policy divergence in H1, as China has focus on exit whereas the Fed is still having an easing bias.
- **FX policy.** CNY continues to be a ‘managed peg’ against a basket of currencies. The People’s Bank of China has increasingly let the market determine the CNY rate and has almost not intervened in the market, as the central bank is showing more openness to a stronger CNY. The reserve requirement ratio on selling CNY forward has been lowered from 20% to zero, and the counter-cyclical factor in the daily fixing has been removed. Both tools were used to dampen CNY depreciation but this is no longer an issue following the recent appreciation.
- **Flows.** FX reserves are moving sideways in broad terms. Capital flows have been in China’s favour lately, as reflected in the upside pressure on the currency.
- **Valuation.** The CNY is close to a long-term fair valuation. China’s current-account surplus has declined from the peak of 10% of GDP in 2007 to around 1% of GDP in 2019.

Forecast: 6.60 (1M), 6.55 (3M), 6.50 (6M), 6.40 (12M)



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

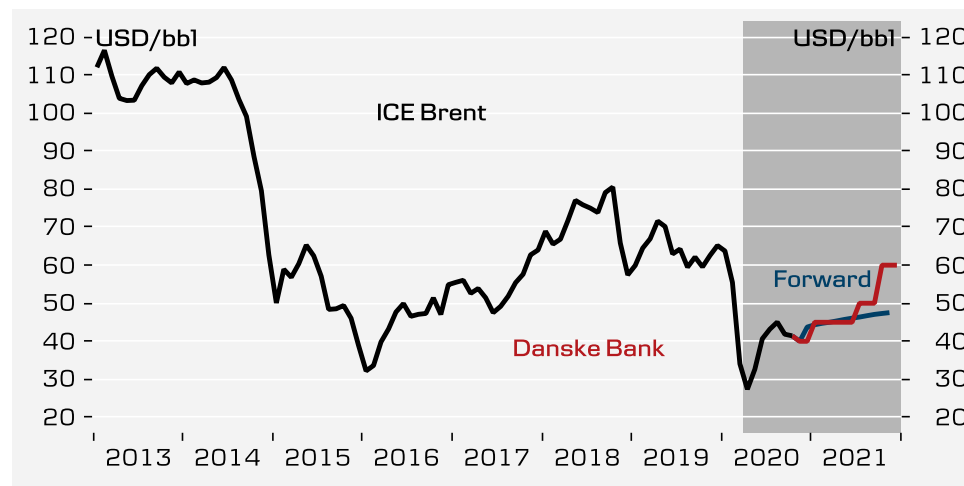
- **Conclusion.** The move lower in USD/CNY has been a bit faster than we expected. Recently it has been supported by a removal of the ‘Trump premium’ that reflected the risk of a restart of the trade war. We expect policy divergence to drive further CNY appreciation, albeit at a slower pace. We see the USD/CNY trajectory as follows: 6.55 in 3M and 6.50 in 6M and 6.40 in 12M.
- **Risks:** Compared with our forecasts, we see the risks as broadly balanced. The main upside risk in the cross is a reversal of the recent overall USD weakness. A downside risk is a new round of easing by the Fed due to potential restrictions related to the flare-up of the COVID-19 pandemic in the US.

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Oil – light at the end of the tunnel

- **Macro.** Short term, a resurgence of infections in Europe and the US (and potentially elsewhere) will continue to weigh on oil demand as it triggers new lockdowns and restrictions on travel and transportation. Medium term, the latest positive news on the COVID-19 vaccine front provides a light at the end of the tunnel for the oil market.
- A number of supply issues are still lingering. OPEC+ has opened up the possibility of extending output cuts. However, a dispute over the lack of compliance remains an issue for the cartel. Drilling activity has slowly started to increase in US shale oil. Inventory levels still have some way to go before they are normalised. On a medium- to long-term horizon, current low investment activity now may result in supply shortages.
- **Risks.** The oil market remains in uncharted waters and the coming months could present a combination of more lockdowns and restrictions, positive news on vaccines and treatments and a change in OPEC+ policy.
- **Conclusion.** Positive news on the COVID-19 vaccine front has brightened the outlook for oil prices. However, on the way to a rollout of vaccines and full reopening of economies, the oil market is likely to have to endure new lockdowns and work through a glut of supplies from elevated inventories, eventual normalisation of OPEC+ production levels and slowly rising shale oil output. Thus, we expect oil prices to stay range-bound for the rest of 2020. We keep our forecasts for Brent and look for Brent to average USD40/bbl in Q4, USD45/bbl in Q1 and Q2 21, USD50/bbl in Q3 21 and USD60/bbl in Q4 21.

Forecast (USD/bbl): 40 (Q4 20), 45 (Q1-Q2 21), 50 (Q3 21) and 60 (Q4 21)



* Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

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Danske Bank FX forecasts vs EUR

G10					
				Last Update: 13/11/2020	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.181	1.19	1.20	1.19	1.16
EUR/JPY	124.2	125	125	123	119
EUR/GBP	0.899	0.86	0.86	0.86	0.86
EUR/CHF	1.081	1.08	1.09	1.10	1.10
EUR/SEK	10.24	10.30	10.30	10.10	10.10
EUR/NOK	10.85	10.80	10.60	10.50	10.40
EUR/DKK	7.4472	7.4450	7.4450	7.4475	7.4550
EUR/AUD	1.633	1.65	1.60	1.59	1.55
EUR/NZD	1.734	1.74	1.68	1.67	1.62
EUR/CAD	1.554	1.55	1.52	1.51	1.48
EUR					
	Spot	+1m	+3m	+6m	+12m
EUR/PLN	4.492	4.46	4.40	4.35	4.35
EUR/HUF	355	354	358	360	370
EUR/CZK	26.5	26.5	26.5	26.2	25.8
EUR/RUB	91.2	95	96	89	80
EUR/TRY	9.05	9.5	9.8	10.0	9.9
EUR/ZAR	18.46	18.6	18.0	17.9	17.4
EUR/CNY	7.81	7.85	7.86	7.74	7.42
EUR/INR	88.2	87	86	85	82

Source: Danske Bank

Danske Bank FX forecasts vs DKK

G10					
				Sidst opdateret:	13/11/2020
	Spot	+1m	+3m	+6m	+12m
Valutakurser mod DKK					
USD/DKK	6.30	6.26	6.20	6.26	6.43
JPY/DKK	6.00	5.96	5.97	6.08	6.24
GBP/DKK	8.29	8.66	8.66	8.66	8.67
CHF/DKK	6.89	6.89	6.83	6.77	6.78
SEK/DKK	0.73	0.72	0.72	0.74	0.74
NOK/DKK	0.69	0.69	0.70	0.71	0.72
EUR/DKK	744.72	744.50	744.50	744.75	745.50
AUD/DKK	4.56	4.50	4.65	4.69	4.82
NZD/DKK	4.30	4.29	4.43	4.47	4.59
CAD/DKK	4.79	4.81	4.89	4.93	5.02
DKK					
	Spot	+1m	+3m	+6m	+12m
PLN/DKK	1.66	1.67	1.69	1.71	1.71
HUF/DKK	2.10	2.10	2.08	2.07	2.01
CZK/DKK	0.28	0.28	0.28	0.28	0.29
RUB/DKK	8.16	7.82	7.76	8.34	9.31
TRY/DKK	0.82	0.78	0.76	0.75	0.76
ZAR/DKK	0.40	0.40	0.41	0.42	0.43
CNY/DKK	0.95	0.95	0.95	0.96	1.00
INR/DKK	0.084	0.086	0.086	0.088	0.091

Source: Danske Bank

Overview

USD

SEK

NOK

DKK

GBP

JPY

CHF

CAD

AUD

RUB

PLN

CNY

Oil

Tables

Danske Bank FX forecasts vs SEK

G10					
				Last Update: 13/11/2020	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	8.67	8.66	8.58	8.49	8.71
JPY/SEK	8.25	8.24	8.25	8.24	8.45
GBP/SEK	11.40	11.98	11.98	11.74	11.74
CHF/SEK	9.48	9.54	9.45	9.18	9.18
EUR/SEK	10.24	10.30	10.30	10.10	10.10
NOK/SEK	0.94	0.95	0.97	0.96	0.97
DKK/SEK	1.38	1.38	1.38	1.36	1.35
AUD/SEK	6.27	6.23	6.44	6.37	6.53
NZD/SEK	5.91	5.94	6.13	6.06	6.22
CAD/SEK	6.59	6.66	6.76	6.68	6.80
SEK					
	Spot	+1m	+3m	+6m	+12m
PLN/SEK	2.28	2.31	2.34	2.32	2.32
HUF/SEK	2.88	2.91	2.88	2.81	2.73
CZK/SEK	0.39	0.39	0.39	0.39	0.39
RUB/SEK	0.11	0.11	0.11	0.11	0.13
TRY/SEK	1.13	1.08	1.05	1.01	1.02
ZAR/SEK	0.56	0.55	0.57	0.57	0.58
CNY/SEK	1.311	1.311	1.310	1.306	1.360
INR/SEK	0.116	0.119	0.119	0.119	0.123

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10					Last Update: 13/11/2020
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs NOK					
USD/NOK	9.18	9.08	8.83	8.82	8.97
JPY/NOK	8.74	8.64	8.49	8.57	8.70
GBP/NOK	12.07	12.56	12.33	12.21	12.09
CHF/NOK	10.04	10.00	9.72	9.55	9.45
SEK/NOK	1.06	1.05	1.03	1.04	1.03
EUR/NOK	10.85	10.80	10.60	10.50	10.40
DKK/NOK	1.46	1.45	1.42	1.41	1.40
AUD/NOK	6.64	6.53	6.63	6.62	6.72
NZD/NOK	6.26	6.22	6.31	6.30	6.40
CAD/NOK	6.98	6.98	6.96	6.95	7.00
NOK					
	Spot	+1m	+3m	+6m	+12m
PLN/NOK	2.42	2.42	2.41	2.41	2.39
HUF/NOK	3.06	3.05	2.96	2.92	2.81
CZK/NOK	0.41	0.41	0.40	0.40	0.40
RUB/NOK	0.12	0.11	0.11	0.12	0.13
TRY/NOK	1.20	1.13	1.08	1.05	1.05
ZAR/NOK	0.59	0.58	0.59	0.59	0.60
CNY/NOK	1.389	1.375	1.349	1.357	1.401
INR/NOK	0.123	0.124	0.123	0.123	0.126

Source: Danske Bank

Danske Bank FX forecasts vs USD

G10					Last Update: 13/11/2020
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.1813	1.19	1.20	1.19	1.16
USD/JPY	105.1	105	104	103	103
GBP/USD	1.314	1.38	1.40	1.38	1.35
USD/CHF	0.915	0.91	0.91	0.92	0.95
USD/SEK	8.673	8.66	8.58	8.49	8.71
USD/NOK	9.185	9.08	8.83	8.82	8.97
USD/DKK	6.305	6.26	6.20	6.26	6.43
AUD/USD	0.723	0.72	0.75	0.75	0.75
NZD/USD	0.681	0.69	0.71	0.71	0.71
USD/CAD	1.316	1.30	1.27	1.27	1.28
USD					
	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.803	3.75	3.67	3.66	3.75
USD/HUF	301	295	298	303	319
USD/CZK	22.456	22.27	22.08	22.02	22.24
USD/RUB	77.246	80.00	80.00	75.00	69.00
USD/TRY	7.664	8.00	8.15	8.40	8.50
USD/ZAR	15.626	15.60	15.00	15.00	15.00
USD/CNY	6.61	6.60	6.55	6.50	6.40
USD/INR	74.65	73.00	72.00	71.50	71.00

Source: Danske Bank

Danske Bank FX forecasts vs GBP

G10					Last Update: 13/11/2020
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs GBP					
GBP/USD	1.31	1.38	1.40	1.38	1.35
GBP/JPY	138.17	145	145	143	139
EUR/GBP	0.90	0.86	0.86	0.86	0.86
GBP/CHF	1.20	1.26	1.27	1.28	1.28
GBP/SEK	11.40	11.98	11.98	11.74	11.74
GBP/NOK	12.07	12.56	12.33	12.21	12.09
GBP/DKK	8.29	8.66	8.66	8.66	8.67
GBP/AUD	1.82	1.92	1.86	1.84	1.80
GBP/NZD	1.93	2.02	1.95	1.94	1.89
GBP/CAD	1.73	1.80	1.77	1.76	1.73
GBP					
	Spot	+1m	+3m	+6m	+12m
GBP/PLN	5.00	5.19	5.12	5.06	5.06
GBP/HUF	395.17	412	416	419	430
GBP/CZK	29.52	30.81	30.81	30.47	30.00
GBP/RUB	101.52	110.70	111.63	103.78	93.07
GBP/TRY	10.07	11.07	11.37	11.62	11.47
GBP/ZAR	20.54	21.59	20.93	20.76	20.23
GBP/CNY	8.69	9.13	9.14	8.99	8.63
GBP/INR	98.10	101.01	100.47	98.94	95.77

Source: Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Christin Kyrme Tuxen (Head of FX Research), Lars Sparresø Merklin (Senior Analyst), Jens Nærvig Pedersen (Chief Analyst), Kristoffer Kjær Lomholt (Chief Analyst), Jakob Ekholdt Christensen (Head of Macro and Emerging Markets Research), Stefan Mellin (Senior Analyst), Allen von Mrhren (Chief Analyst), Andreas Mey Kjøller (Assistant Analyst), Mikael Milhøj (Senior Analyst) and Jesper Petersen (Analyst).

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