Danske Bank

FX Forecast Update
Scandi tailwinds eventually set to ease in 2021

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Important disclosures and certifications are contained from page 20 of this report

FX market overview

Recent developments: markets still looking through current COVID-19 pandemic developments

- Since *FX Forecast Update*, 18 December, vaccinations have slowly started up across most countries but the more contagious COVID-19 mutation first detected in the UK has now spread across Europe, causing the near-term outlook to remain dire. As hospitals are under severe pressure in both the EU and US, we expect restrictions to remain for most of the winter. Nevertheless, markets continue to look through the current COVID-19 situation and risk appetite has remained decent on fading risk factors, such as the passing of an EU-UK trade deal, the democratic victory in Georgia clearing the road for more US fiscal stimuli and a brightening vaccination outlook. In addition, the global manufacturing cycle remains strong for now and keeps adding tailwinds to the global economy despite the Chinese cycle seemingly being past the peak.

FX implications: USD weakness may have peaked for now

- EUR/USD reached 1.23 right after the Democratic win in Georgia but has grinded lower recently, as markets have begun questioning the Fed's plan to keep rates low for as long as it currently signals. Nevertheless, as long as global risk factors are fading, we believe we are likely to continue seeing the USD on a weak footing near term. A weak USD has been supportive of commodities and oil in particular has gained recently, helped along by OPEC production cuts. This has caused strong tailwinds for currencies such as the CAD and NOK and headwinds for the JPY. The GBP saw only minor Brexit-deal relief amid the UK outbreak of the more contagious COVID-19 virus. However, sterling has gained recently on a strong UK COVID-19 pandemic response and a fast vaccination pace.

Outlook: Scandi tailwinds near term but stronger USD in H2 set to become a Scandi headwind eventually

- EUR/USD upside risks have faded somewhat, although not entirely. We see EUR/USD around 1.22 in 1-3M, before a move towards 1.16 in 12M on US economic outperformance in H2. The near-term outlook is SEK supportive and we expect EUR/SEK to be 10.00 in 3M, before monetary policy divergence weighs on SEK in H2. We see EUR/SEK at 10.30 in 12M. Seasonal factors, Norges Bank's NOK buying, higher NOK rates and bid oil add tailwinds for the NOK near term and we see EUR/NOK moving to 10.10 in 3M. That said, we identify NOK headwinds further out from a fading global industrial cycle, stronger USD and US shale oil re-entering the market. Hence, we now see EUR/NOK at 10.30 in 12M. We still believe GBP will strengthen in 2021 on higher short-term rates, a fast UK vaccination process and much lower Brexit uncertainties. We see EUR/GBP moving down towards 0.87 in 12M.

Key risks to our forecasts: Fed can send USD on a path of further weakness

- Upside risks to our view of a lower EUR/USD include the EU proving to be an engine of world growth and/or the Fed strongly backtracking on the recent optimism for H2, fuelling further broad USD decline.

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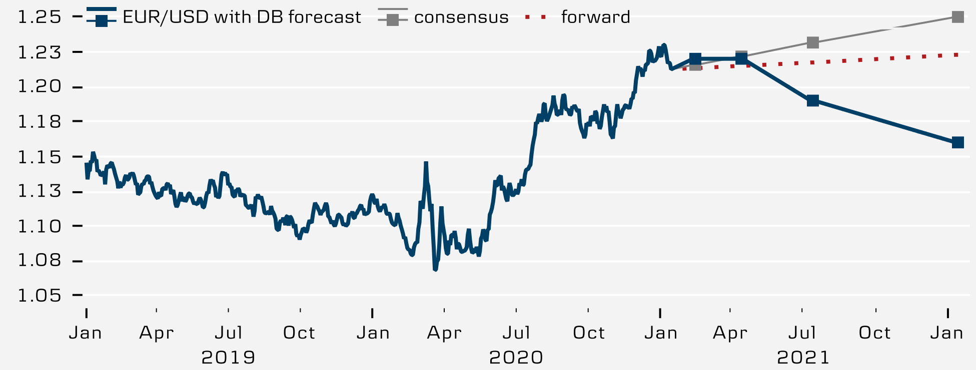
EUR/USD – USD supported by 'blue sweep', Fed and Chinese peak stimulus

- **Cyclical outlook.** Since the introduction of new lockdowns in Europe, we are clearly seeing negative effects on domestic demand, leaving exports as the key driver of growth. Following the Georgia run-off in the US, Biden now holds a slim majority. This has increased expectations of a strong US economic recovery (more fiscal easing) and US rates are starting to price a scenario where the Fed may raise rates and taper bond purchases. Such tapering was unthinkable only a few months ago. Further, we are seeing clear signs the Chinese tailwind is slowing, which would be likely to affect Europe more negatively than it affects the US. Thus, there is a likely scenario where the US yet again pulls ahead of the EU's economic recovery, starting in H2. The US is vaccinating around 1.4pp of the population per week, while the EU is slower.
- **Monetary policy.** The US central bank is discussing when to end asset purchases in expectation of a potentially rapid recovery in H2. Meanwhile, the ECB is unlikely to change any parameters. If this divergence between expectations on the path of future policy rates continues, we would expect the USD to go higher. This theme has supported the USD recently.
- **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. In our view, 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.

Forecast: 1.22 (1M), 1.22 (3M), 1.19 (6M), 1.16 (12M)



	1M	3M	6M	12M
Danske Bank	1.22	1.22	1.19	1.16
Consensus	1.22	1.22	1.23	1.25
Forward	1.21	1.21	1.22	1.22

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

- **Risks.** Upside risks to take spot above 1.24 include the EU proving to be an engine of world growth and/or the Fed strongly backtracking on the recent optimism for H2, fuelling a further broad USD decline. Details on Biden-led fiscal easing also remain sparse and will matter as we move in to Q1 vis-à-vis its impact on pricing of US policy rates and relative economic recovery.
- **Conclusion.** With the Fed leaning into the new narrative of a strong US economy and the high likelihood we will see more US easing, EUR/USD upside risks have faded somewhat, although not entirely. Evidence has also increased that we should indeed expect to see lower Chinese PMIs and thus fading tailwinds for global manufacturing. We shift our 1M EUR/USD forecast from 1.24 to 1.22 on these factors as a level shift. Our view of a stronger USD remains primarily centred as a H2 story, with 12M at 1.16.

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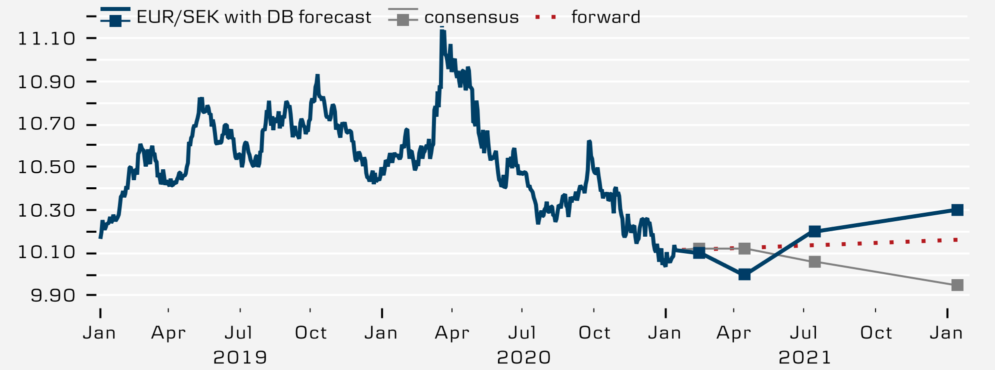
Overview | USD | SEK | NOK | DKK | GBP | JPY | CHF | CAD | AUD | RUB | PLN | CNY | Oil | Tables

Danske Bank

EUR/SEK – monetary policy divergence set to weigh on SEK in H2 21

- **Cyclical outlook.** We believe that the second wave of the coronavirus pandemic and the ensuing tightening of recommendations will have a modest impact on the Swedish economy. We assume the recovery loses steam in Q4-Q1 (although leading indicators point to a rather strong finish to 2020) before picking up pace again from Q2 21 onward. We see no indications of a Swedish 'double-dip' and short term the SEK may see modest tailwinds from cyclical outperformance versus Europe.
- **Monetary policy.** There is a case for monetary policy divergence to begin anew in 2021, at least in terms of market pricing. In such a scenario, we deem it reasonable to assume that the Riksbank will fall behind its peers (such as Norges Bank). With weak domestic inflation dynamics and the recent SEK strengthening, which implies a negative contribution from imported inflation, we see no case for the Riksbank to be able to motivate a hike in coming years. If anything, we believe that markets should discount the possibility of a cut (although this is not our base case), especially if the SEK strengthens further.
- **External balances.** We expect the Riksbank's buying of foreign currencies for the FX reserves (SEK5bn per month) to be smoothed over time in order to minimise the impact on markets. The positive net equity position still implies underlying demand for SEK when global equities rise.
- **Valuation.** The MEVA model indicates that EUR/SEK is relatively close to medium-term 'fair value'. This is echoed by the Riksbank as well. Interestingly, the Riksbank did not expect to see the current KIX level until end-2023, so, in our view, the case for an undervalued SEK has clearly diminished.
- **Risks.** If, contrary to what we believe, inflation picks up and inflation expectations move towards 2% in 2021, alongside the projected recovery, our forecast profile is probably on the high side. If these three factors turn for the worse, EUR/SEK could go higher than expected. Apart from fundamental arguments, there is always risk sentiment.

Forecast: 10.10 (1M), 10.00 (3M), 10.20 (6M), 10.30 (12M))



	1M	3M	6M	12M
Danske Bank	10.10	10.00	10.20	10.30
Consensus	10.12	10.12	10.06	9.95
Forward	10.12	10.12	10.14	10.16

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

- **Conclusion.** In our opinion, 2021 is set to write a new chapter for FX markets. Economic and monetary policy convergence and risk dominance defined 2020. The global recovery is set to continue in 2021, at a slower pace but with different implications for central banks. We expect to see markets starting to price in monetary policy divergence (to some extent they already have), although we do not believe it will be a straight line. At the end of the day, we expect the Fed and Norges Bank to be relative frontrunners, with the ECB and Riksbank relative laggards. Actually, we see room for pricing in higher *probability of a rate cut* in Sweden. In all, we keep our forecast profile intact at 1M 10.10, 3M 10.00, 6M 10.20 and 12M 10.30.

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EUR/NOK – downside limited by USD, oil and industrial cycle prospects

- **Cyclical outlook.** The Norwegian economy is one of the smallest losers on the COVID-19 crisis. Mainland GDP fell less than expected in November when Norway introduced new restrictions and the mainland activity level is only 2.4% below the pre-COVID-19 level. As vaccines roll out, we expect Norwegian activity to accelerate and we pencil in mainland GDP growth of 4.0% in 2021, after a fall of 3.3% in 2020. The housing market remains hot, with the national index now almost 7% above the pre COVID-19 pandemic level. This, alongside higher private debt growth, is likely to accelerate the timing of the first interest rate hike. At 3.0%, core inflation remains above the monetary policy target of 2.0%, yet it is widely expected that inflation will decline in 2021 on lower wage growth and a stronger currency.
- **Monetary policy.** In 2020, Norges Bank cut policy rates by 150bp, bringing the sight deposit rate to a historical low of 0%. At the December meeting Norges Bank moved forward its signal for the first rate hike by signalling a roughly 75% probability that it will deliver the first 25bp rate in March 2022. The central bank also indicated around four hikes until the end of 2023. As we are slightly more upbeat on capacity utilisation and the vaccine rollout, we now forecast the first hike will come in September 2021 – six months earlier than indicated by Governor Øystein Olsen.
- **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 pandemic fiscal bill has proved lower than feared and NOK purchases have been cut.
- **Valuation.** We deem the NOK to be fairly in line with long-term valuation metrics that incorporate relative unit labour cost levels between Norway and Norway's closest trading partners.
- **Positioning.** We regard speculative NOK positioning to be absolute long, albeit not yet stretched long from an historical perspective.

Forecast: 10.20 (1M), 10.10 (3M), 10.20 (6M), 10.30 (12M)

	1M	3M	6M	12M
Danske Bank	10.20	10.10	10.20	10.30
Consensus	10.38	10.46	10.28	10.10
Forward	10.31	10.33	10.36	10.41

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

- **Risks.** The biggest risks 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 be likely to drive a reflationary global investment environment underpinning a sharper NOK comeback. However, vaccine/risk-off could trigger sizeable setbacks.
- **Conclusion.** NOK remains a high beta derivative of the global reflation theme and we believe seasonal aspects such as Norges Bank's NOK buying, higher NOK rates and bid oil add more downside near term. Meanwhile, further out, a turn in the industrial cycle, a stronger USD and US shale oil re-entering the market limit the potential. Also key to watch is the impact on risk appetite of higher US real rates. We project EUR/NOK at 10.2 in 1M (was 10.4), 10.1 in 3M (was 10. 3), 10.2 in 6M (unchanged) and 10.3 in 12M (was 10.2).

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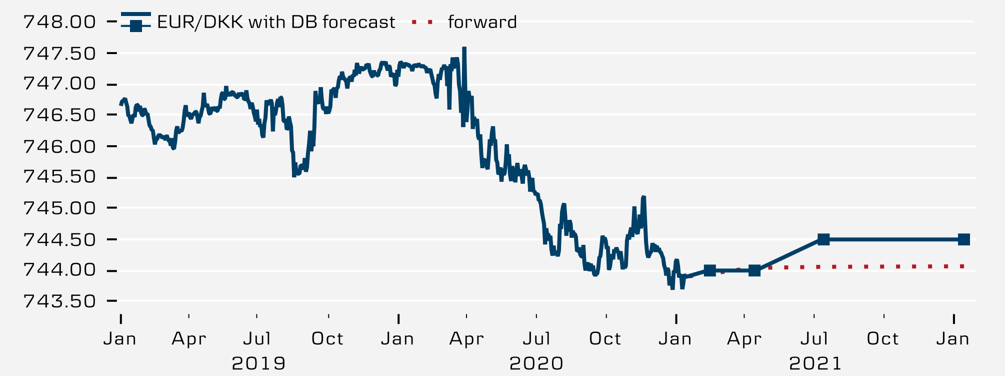
EUR/DKK – range trading close to FX intervention levels

- **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 US and in USD/DKK will be important for the earnings potential in the Danish economy in light of the significant net exports of, in particular, pharmaceuticals but also the large investment in US stocks.
- **Monetary policy.** Danmarks Nationalbank sold DKK65bn of EUR in FX intervention in the first half of March 2020, before hiking policy rates by 15bp. In April, the need for FX intervention stopped. Tighter liquidity and the rate hike have created positive carry on short EUR/DKK positions. We look for Danmarks Nationalbank to keep policy rates unchanged on 12M. We expect it to maintain the tight fluctuation band of 7.4325-7.4350 and 7.4730. The FX reserve has started to fall due to redemptions on the government's extraordinary issuance of foreign commercial paper in 2020. We expect the government to wind down fully its commercial paper programme in 2021.
- **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 would remove around 1% of total exports.
- **Valuation.** The strong Danish external balances keep a 'DKK appreciation risk premium' vis-à-vis the 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 Q3 and lowered slightly their EUR hedge ratio. The EUR hedge ratio is currently at the low end of the historical range.

Forecast: 7.4400 (1M), 7.4400 (3M), 7.4450 (6M), 7.4450 (12M)



	1M	3M	6M	12M
Danske Bank	744.00	744.00	744.50	744.50
Consensus	744.36	745.00	745.00	745.00
Forward	743.95	744.04	744.06	744.07

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 tends to push EUR/DKK lower, while higher long-term bond yields support a higher EUR/DKK. Over coming months, DKK liquidity conditions are set to be a key focus. We look for liquidity to tighten further and plan to keep a positive carry on short EUR/DKK positions.
- **Conclusion.** We look for EUR/DKK to trade in the 7.4400-7.4450 range in the coming year. Positive and negative factors are well balanced. Carry and positioning among Danish life and pension funds support DKK, while payouts of vacation money and the transmission of negative rates to retail deposits weigh on DKK. In our view, equity and bond market rebalancing effects have been about neutral over the past couple of months.

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EUR/GBP– we still see a case for a stronger GBP after Brexit

- **Cyclical outlook.** Near-term, the economic outlook appears grim amid the third national lockdown and the new more infectious UK COVID-19 strain. However, the UK is vaccinating at a much faster pace than the rest of Europe, which, combined with the Brexit deal, means the UK may outperform the rest of Europe beyond Q1 21.
- **Brexit.** The EU and UK reached a permanent free trade agreement (covering mostly goods) on 24 December. While companies are struggling to fill out paperwork correctly, creating some friction at the borders currently, we believe the Brexit deal will eventually reduce the uncertainty that has been weighing on UK businesses in particular for many years now, once the near-term adjustment to the new relationship is over. Some things still need to be sorted out; for instance , the future co-operation on financial services. Talks have begun, with the ambition of reaching an agreement here in Q1 21.
- **Monetary policy.** The major Bank of England uncertainty of the year is whether the BoE will cut the Bank Rate into negative territory. We are in the camp that believes the BoE will keep it unchanged at +0.1%, which means higher short-term gilt yields are likely to support the GBP.
- **External balances.** The UK runs a large current-account deficit, which makes the GBP vulnerable when capital flows fade as seen at the height of the COVID-19 driven risk sell-off. This keeps GBP at risk versus surplus-EUR in the wake of a risk sell-off.
- **Valuation.** In our view, the GBP remains fundamentally undervalued, although Brexit still makes it difficult to estimate the fair value for GBP. Our Brexit-corrected MEVA estimate for EUR/GBP is close to 0.83. Our PPP estimate is around 0.76.
- **Positioning.** Non-commercial positioning is neutral.

Forecast: 0.89 (1M), 0.88 (3M), 0.87 (6M), 0.87 (12M)

	1M	3M	6M	12M
Danske Bank	0.89	0.88	0.87	0.87
Consensus	0.89	0.90	0.90	0.91
Forward	0.89	0.89	0.89	0.89

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 the GBP, as sterling has been very sensitive to risk sentiment over the past year.
- **Conclusion.** While the Brexit deal did not send the GBP higher to the extent that we thought it would, we still believe GBP will strengthen in 2021, driven by a higher short-term interest rate spread, a faster COVID-19 vaccination process and much lower Brexit uncertainties. That said, we lift our projections, now forecasting 0.89 in 1M, 0.88 in 3M and 0.87 in 6-12M.

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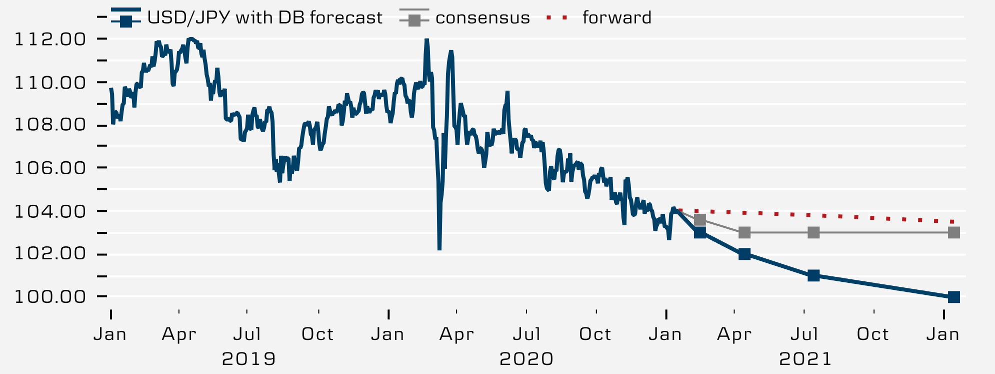
USD/JPY– strong JPY set to continue as 'Asia factor' intact

- **Cyclical outlook.** Moves in global risk aversion, commodities and domestic fiscal response have thrown USD/JPY back and forth. 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 104.
- **Asia factor.** We are still 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, not being commodity exporters and having stable political regimes, strong productivity and low debt have been boons for a rebound in FX. In this environment, USD/JPY reflects USD/CNH and other Asian cyclicals.
- **Monetary policy.** There is plenty of flexibility within the QE programme and the Bank of Japan (BoJ) is unlikely to cut rates further, which has arguably reached reversal rate levels. Next up is the March meeting, where the BoJ is set to release its policy review. We should not expect revolutions to monetary policy like those we saw in 2016, when it introduced yield-curve control, but the bank has surprised before and it is going to have to come up with something to regain some credibility with regard to the inflation target. It is a fine balance though, because policies need to remain durable.
- **External balances.** Japan runs a current account surplus.
- **Positioning.** Speculators are stretched long JPY.
- **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 is a more reasonable estimate for such.

Forecast: 103 (1M), 102 (3M), 101 (6M), 100 (12M)



	1M	3M	6M	12M
Danske Bank	103.00	102.00	101.00	100.00
Consensus	103.60	103.00	103.00	103.00
Forward	103.99	103.92	103.80	103.51

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

- **Risks.** To take JPY towards 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%, currently.
- **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 USD60s per barrel for Brent. Jointly, on the back of this, we see little upside risk for EUR/JPY.

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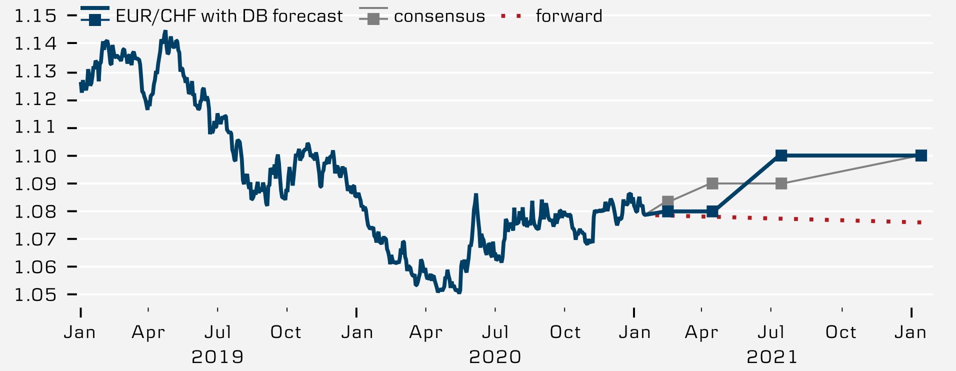
EUR/CHF

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



	1M	3M	6M	12M
Danske Bank	1.08	1.08	1.10	1.10
Consensus	1.08	1.09	1.09	1.10
Forward	1.08	1.08	1.08	1.08

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

- Following the relief rally in EUR/CHF since early summer 2020, spot has been unchanged and intervention remains the key policy tool. Swiss policy rates are thus set to stay unchanged at the longstanding -0.75%. Going into Q1, EUR/USD took a step lower and with it EUR/CHF too. Currently, upside risk to European inflation and demand seems very limited (due to lockdowns). In turn, the near-term potential to see a weaker CHF also appears limited. We see balanced risks to EUR/CHF near term. If EUR/CHF is to move higher, it would be likely to happen in tandem with opening up the European economy from H2 onward. The key for the pair is if global and European macro become so good that markets start talking about ECB rate hikes. Today, such a scenario is not in play.

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USD/CAD

Forecast: 1.26 (1M), 1.25 (3M), 1.27 (6M), 1.30 (12M)

	1M	3M	6M	12M
Danske Bank	1.26	1.25	1.27	1.30
Consensus	1.27	1.27	1.27	1.26
Forward	1.27	1.27	1.27	1.27

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

- USD/CAD has been trading in close tandem with (reverse) EUR/USD over past months. We expect this pattern to continue and still regard USD/CAD as a low beta version of USD/NOK. Consequently, we expect the cross to move lower in coming quarters before rebounding on renewed USD strength. Given the close connection between the Canadian economy and the US economy, we pencil in a sharper rise in USD/NOK than in CAD/NOK.
- We forecast USD/CAD at 1.26 in 1M (unchanged), 1.25 in 3M (unchanged), 1.27 in 6M (was 1.26) and 1.30 in 12M (was 1.27).

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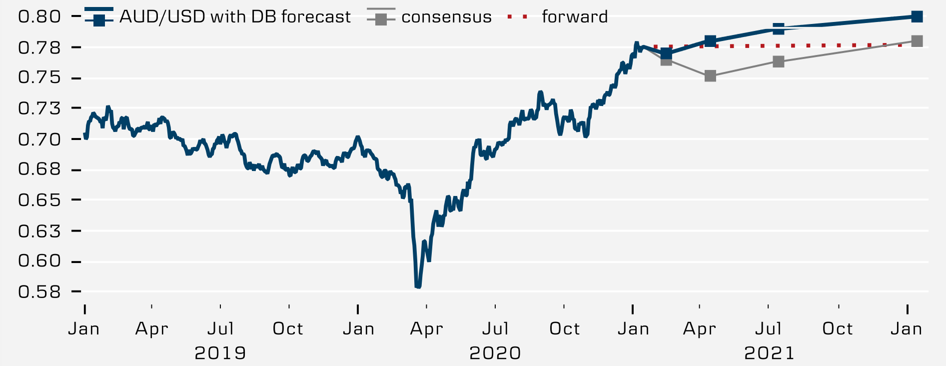
AUD/USD

Forecast: 0.77 (1M), 0.78 (3M), 0.79 (6M), 0.80 (12M)



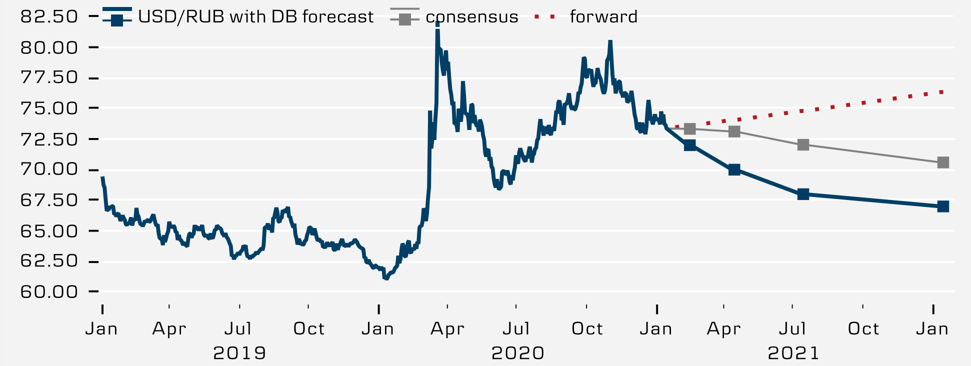
	1M	3M	6M	12M
Danske Bank	0.77	0.78	0.79	0.80
Consensus	0.76	0.75	0.76	0.78
Forward	0.78	0.78	0.78	0.78

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

- Since March, the AUD has rebounded strongly in line with risk sentiment and prices of industrial and precious metals. Thus, changing terms of trade have been strongly AUD positive. Australian labour markets have strongly recovered since seeing the worst crisis in 20 years. Indeed, the labour market is more or less back to pre-COVID employment. Activity indicators also suggest continued improvement. We keep our upbeat AUD/USD profile. The key indicators to watch for a reversal lower in AUD/USD remain the usual: Chinese credit data, USD/CNH, prices of metals and the general risk sentiment towards commodity currencies. We expect AUD to stay strong and probably strengthen further as we move through Q1, in line with the above.

USD/RUB

Forecast: 72.00 (1M), 70.00 (3M), 68.00 (6M), 67.00 (12M)



	1M	3M	6M	12M
Danske Bank	72.00	70.00	68.00	67.00
Consensus	73.33	73.12	72.04	70.59
Forward	73.61	74.06	74.79	76.34

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

- The possibility of more RUB strength lies with upside for oil prices, fading sanction risks and stronger-than-expected global demand. The RUB has faced a number of headwinds since mid-2020: inflation has come up (due to prior currency weakness), oil prices have been low and activity has remained weak – in contrast to, for example, Australia or Sweden. Foreign policy has also been RUB-negative. We see these factors possibly turning in to a RUB-positive narrative over coming quarters, as vaccines roll out. The risk scenario is a weak Russian/oil recovery amid too strong US economic performance from which US yields and the USD start increasing. The pace at which we see further RUB strength is highly dependent on a continued push higher in oil prices.

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EUR/PLN – NBP's new FX focus limits downside for EUR/PLN near term but not permanently

- **Cyclical outlook.** The Polish economy is currently strained by the second wave of the coronavirus, which is much more severe than the first wave in spring 2020, in terms of the number of both cases and deaths. The restrictions put in place have particularly hurt service sector activity, while the manufacturing sector is performing better, driven in part by strong external demand. In November, retail sales contracted by more than 5% compared with October, while industrial production fell by 1.6%. However, manufacturing PMI edged up to 51.7 in December, above the 50% benchmark indicating expansion. The Ministry of Finance has just announced restrictions are likely to remain in place until at least the end of Q1. We expect the recovery in the Polish economy to accelerate from Q2 onward as vaccinations roll out and restrictions ease.
- **Monetary policy.** The central bank revealed a change to its reaction function, putting more focus on the level of the PLN exchange rate and signalling a dovish bias in Q1, amid concerns about the economic growth outlook for the Polish economy. Despite the dovish bias, our base case would not be a cut in the central bank's policy rate. The governor has backtracked somewhat on his dovish comments early in the new year and there are other MPC members who are clearly against cutting interest rates. Furthermore, as long as the new COVID-19 restrictions are not needed and the virus situation does not worsen significantly again, we are expecting economic momentum to strengthen.
- **Risks.** The balance of risk for PLN is fairly even. A significant worsening in coronavirus cases and further tightening of the restrictions could trigger a rate cut and weakening of the PLN. However, stronger global economic growth momentum would boost the Polish economy and put downward pressure on EUR/PLN.

Forecast: 4.50 (1M), 4.50 (3M), 4.45 (6M), 4.40 (12M)

	1M	3M	6M	12M
Danske Bank	4.50	4.50	4.45	4.40
Consensus	4.50	4.44	4.39	4.35
Forward	4.55	4.55	4.56	4.57

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

Source: Macrobond Financial, Danske Bank

- Conclusion. The FX intervention announced before Christmas, more explicit mentioning of the level for EUR/PLN (4.50 was mentioned by one of the MPC members) together with dovish signals from the governor and other members of the NBP policy committee before new year sent EUR/PLN to 4.60. However, it has since retracted to around 4.53. Going forward, we believe the central bank will stick to its new signal and prevent a sharp strengthening of the exchange rate in the short term. In our view, EUR/PLN will trade in a range of 4.48-4.60 in coming months. However, as we expect the recovery in Poland and globally to strengthen in the spring, we believe the central bank will be more open to letting the PLN strengthen and, therefore, we see the EUR/PLN falling to 4.45 in 6M and 4.40 in 12M.

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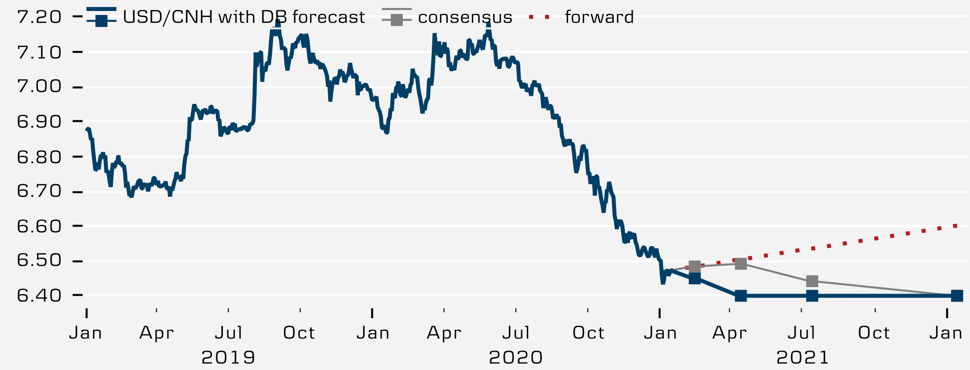
USD/CNY – most of the decline in USD/CNY is behind us

- **Growth.** The Chinese economy saw a strong recovery in 2020, following the collapse in Q1 20. We look for growth to move lower in 2021, with PMI peaking in Q1 on the back of fading stimulus and an end to the 'catch-up effect' related to the normalisation of the economy. China also benefitted from high consumption of consumer goods in US and Europe in H2 20, as money saved on service consumption increased consumption of items such as electronics and tools for home construction. Still, being the 'factory of the world' Chinese exports have seen a boost. This effect will probably fade in 2021, as the service sector opens up again globally and less money goes to spending of goods. We have already seen the first signs of a growth moderation as momentum in total credit came down in Q4.
- **Monetary policy.** China has signalled 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. However, the spread has stabilised, as US rates have moved sideways and Chinese rates have declined slightly. A stabilisation indicates that the majority of the CNY appreciation versus USD is behind us.
- **FX policy**. CNY continues to be a 'managed peg' against a basket of currencies. Since 2016, the People's Bank of China has increasingly let the market determine the CNY rate and has almost not intervened in the market. At the end of 2020, it lowered the reserve requirement ratio on selling CNY forward from 20% to zero and removed the counter-cyclical factor in the daily fixing. It has used both tools to dampen CNY depreciation but this is no longer an issue after the recent appreciation.
- **Flows.** FX reserves have increased as investors have increasingly moved into Chinese equities and bonds and the trade surplus has increased.
- **Valuation.** The CNY is still close to a long-term fair valuation. China's current account surplus has declined to around 1% of GDP in 2020.

Forecast: 6.45 (1M), 6.40 (3M), 6.40 (6M), 6.40 (12M)



	1M	3M	6M	12M
Danske Bank	6.45	6.40	6.40	6.40
Consensus	6.48	6.49	6.44	6.40
Forward	6.48	6.50	6.54	6.60

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 faster than we expected, mirroring the rapid depreciation of the USD. While relative rates still favour CNY, we believe the majority of the decline in USD/CNY is behind us, as we look for the USD cycle to turn stronger on a 12-month horizon. We lower our short-term forecasts on the back of the recent moves but stick to a target of 6.40 in 6M and 12M. We expect EUR/CNY to decline from 7.87 to 7.42 in 12M, as we expect CNY to strengthen broadly in tandem with the USD versus the EUR.

- **Risks.** Compared with our forecasts, we see the risks as broadly balanced. The main upside risk is a faster reversal of USD weakness. A downside risk is that the slowdown in China materialises later than we expect.

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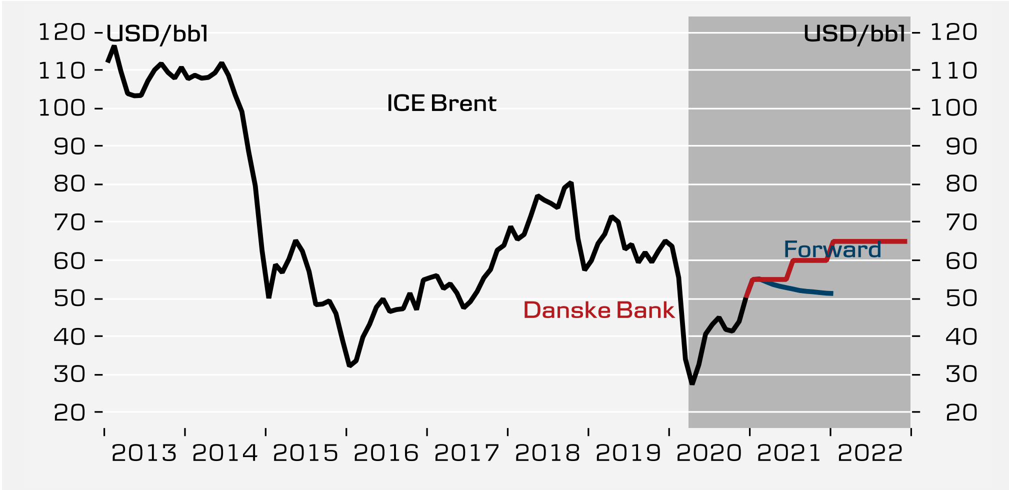
Oil – full support near term

- **Macro.** Short term, a resurgence in 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. It seems that policymakers are keen on keeping tight restrictions for the next 2-3M. Medium term, the vaccine rollout provides a light at the end of the tunnel for the oil market and a basis for a full reopening in Q2 and Q3.
- OPEC+, led by Saudi Arabia, is keeping output tight to avoid a near-term growing surplus on the oil market balance. OPEC+ is due to meet again on 4 March to reassess its stance. Drilling activity has slowly started to increase for US shale oil. Inventory levels still have some way to go before they are normalised. On a medium- to long-term horizon, the current low investment activity may result in supply shortages.
- **Risks.** The oil market remains in uncharted waters, current lockdowns in Europe and the US could drag out and new lockdowns might be needed in China. Given the recent surge in oil prices, we could see more division on the strategy when OPEC+ meets again on 4 March.
- **Conclusion.** The ongoing vaccine rollout has brightened the outlook for oil prices. Together with a weaker USD and output cuts from Saudi Arabia, it provides a strong backdrop for the oil price. However, on the way to a rollout of vaccines and full reopening of economies, we believe the oil market will have to endure lengthy 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 year. We keep our forecasts for Brent and look for Brent to average USD55/bbl in Q1 and Q2 (revised up from USD45/bbl) and Q2 next year, USD60/bbl in Q3 (revised up from USD55/bbl) and USD60/bbl in Q4 (unchanged). We forecast Brent will average USD65/bbl in 2022.

Forecast: 55 (Q1 21), 55-(Q2 21), 60 (Q3 21), 60 (Q4 21) and 65 (2022)



Note: 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	Spot	+1m	+3m	+6m	+12m
				Last Update:	15/01/2021
Exchange rates vs EUR					
EUR/USD	1.214	1.22	1.22	1.19	1.16
EUR/JPY	125.8	126	124	120	116
EUR/GBP	0.890	0.89	0.88	0.87	0.87
EUR/CHF	1.077	1.08	1.08	1.10	1.10
EUR/SEK	10.12	10.10	10.00	10.20	10.30
EUR/NOK	10.32	10.20	10.10	10.20	10.30
EUR/DKK	7.4389	7.4400	7.4400	7.4450	7.4450
EUR/AUD	1.567	1.58	1.56	1.51	1.45
EUR/NZD	1.688	1.68	1.66	1.60	1.54
EUR/CAD	1.540	1.54	1.53	1.51	1.51
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.546	4.50	4.50	4.45	4.40
EUR/HUF	359	365	370	372	374
EUR/CZK	26.1	26.0	25.7	25.5	25.3
EUR/RUB	89.0	88	85	81	78
EUR/TRY	8.97	9.2	9.5	9.5	9.4
EUR/ZAR	18.38	18.3	17.7	16.7	16.2
EUR/CNY	7.86	7.87	7.81	7.62	7.42
EUR/INR	88.7	89	88	85	82

Source: Danske Bank

Danske Bank FX forecasts vs DKK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	15/01/2021
Exchange rates vs DKK					
USD/DKK	6.13	6.10	6.10	6.26	6.42
JPY/DKK	5.91	5.92	5.98	6.19	6.42
GBP/DKK	8.36	8.36	8.45	8.56	8.56
CHF/DKK	6.91	6.89	6.89	6.77	6.77
SEK/DKK	0.73	0.74	0.74	0.73	0.72
NOK/DKK	0.72	0.73	0.74	0.73	0.72
EUR/DKK	743.89	744.00	744.00	744.50	744.50
AUD/DKK	4.75	4.70	4.76	4.94	5.13
NZD/DKK	4.41	4.43	4.49	4.66	4.84
CAD/DKK	4.83	4.84	4.88	4.93	4.94
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/DKK	1.64	1.65	1.65	1.67	1.69
HUF/DKK	2.07	2.04	2.01	2.00	1.99
CZK/DKK	0.28	0.29	0.29	0.29	0.29
RUB/DKK	8.36	8.47	8.71	9.20	9.58
TRY/DKK	0.83	0.81	0.78	0.78	0.79
ZAR/DKK	0.40	0.41	0.42	0.45	0.46
CNY/DKK	0.95	0.95	0.95	0.98	1.00
INR/DKK	0.084	0.084	0.085	0.088	0.090

Source: Danske Bank

Danske Bank FX forecasts vs SEK

Last Update: 15/01/2021

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	8.34	8.28	8.20	8.57	8.88
JPY/SEK	8.05	8.04	8.04	8.49	8.88
GBP/SEK	11.38	11.35	11.36	11.72	11.84
CHF/SEK	9.40	9.35	9.26	9.27	9.36
EUR/SEK	10.12	10.10	10.00	10.20	10.30
NOK/SEK	0.98	0.99	0.99	1.00	1.00
DKK/SEK	1.36	1.36	1.34	1.37	1.38
AUD/SEK	6.46	6.37	6.39	6.77	7.10
NZD/SEK	6.00	6.01	6.03	6.39	6.70
CAD/SEK	6.57	6.57	6.56	6.75	6.83
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.23	2.24	2.22	2.29	2.34
HUF/SEK	2.82	2.77	2.70	2.74	2.75
CZK/SEK	0.39	0.39	0.39	0.40	0.41
RUB/SEK	0.11	0.11	0.12	0.13	0.13
TRY/SEK	1.13	1.10	1.05	1.07	1.10
ZAR/SEK	0.55	0.55	0.57	0.61	0.63
CNY/SEK	1.289	1.284	1.281	1.339	1.387
INR/SEK	0.114	0.113	0.114	0.120	0.125

Source: Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	15/01/2021
Exchange rates vs NOK					
USD/NOK	8.50	8.36	8.28	8.57	8.88
JPY/NOK	8.20	8.12	8.12	8.49	8.88
GBP/NOK	11.60	11.46	11.48	11.72	11.84
CHF/NOK	9.58	9.44	9.35	9.27	9.36
SEK/NOK	1.02	1.01	1.01	1.00	1.00
EUR/NOK	10.32	10.20	10.10	10.20	10.30
DKK/NOK	1.39	1.37	1.36	1.37	1.38
AUD/NOK	6.59	6.44	6.46	6.77	7.10
NZD/NOK	6.11	6.07	6.09	6.39	6.70
CAD/NOK	6.70	6.64	6.62	6.75	6.83
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.27	2.27	2.24	2.29	2.34
HUF/NOK	2.87	2.79	2.73	2.74	2.75
CZK/NOK	0.39	0.39	0.39	0.40	0.41
RUB/NOK	0.12	0.12	0.12	0.13	0.13
TRY/NOK	1.15	1.11	1.06	1.07	1.10
ZAR/NOK	0.56	0.56	0.57	0.61	0.63
CNY/NOK	1.313	1.296	1.294	1.339	1.387
INR/NOK	0.116	0.115	0.115	0.120	0.125

Source: Danske Bank

Danske Bank FX forecasts vs USD

G10			Last Update:	15/01/2021	
	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.2137	1.22	1.22	1.19	1.16
USD/JPY	103.7	103	102	101	100
GBP/USD	1.365	1.37	1.39	1.37	1.33
USD/CHF	0.888	0.89	0.89	0.92	0.95
USD/SEK	8.342	8.28	8.20	8.57	8.88
USD/NOK	8.502	8.36	8.28	8.57	8.88
USD/DKK	6.129	6.10	6.10	6.26	6.42
AUD/USD	0.775	0.77	0.78	0.79	0.80
NZD/USD	0.719	0.73	0.74	0.75	0.75
USD/CAD	1.269	1.26	1.25	1.27	1.30
EM					
	Spot	+1m	+3m	+6m	+12m
USD/PLN	3.746	3.69	3.69	3.74	3.79
USD/HUF	296	299	303	313	322
USD/CZK	21.540	21.31	21.07	21.43	21.81
USD/RUB	73.307	72.00	70.00	68.00	67.00
USD/TRY	7.391	7.50	7.80	8.00	8.10
USD/ZAR	15.147	15.00	14.50	14.00	14.00
USD/CNY	6.47	6.45	6.40	6.40	6.40
USD/INR	73.07	73.00	72.00	71.50	71.00

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs GBP

G10	Spot	+1m	+3m	+6m	+12m
				Last Update:	15/01/2021
Exchange rates vs GBP					
GBP/USD	1.36	1.37	1.39	1.37	1.33
GBP/JPY	141.47	141	141	138	133
EUR/GBP	0.89	0.89	0.88	0.87	0.87
GBP/CHF	1.21	1.21	1.23	1.26	1.26
GBP/SEK	11.38	11.35	11.36	11.72	11.84
GBP/NOK	11.60	11.46	11.48	11.72	11.84
GBP/DKK	8.36	8.36	8.45	8.56	8.56
GBP/AUD	1.76	1.78	1.78	1.73	1.67
GBP/NZD	1.90	1.89	1.88	1.84	1.77
GBP/CAD	1.73	1.73	1.73	1.74	1.73
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
GBP/PLN	5.11	5.06	5.11	5.11	5.06
GBP/HUF	403.92	410	420	428	430
GBP/CZK	29.39	29.21	29.20	29.31	29.08
GBP/RUB	100.02	98.70	97.05	93.01	89.33
GBP/TRY	10.08	10.28	10.81	10.94	10.80
GBP/ZAR	20.67	20.56	20.10	19.15	18.67
GBP/CNY	8.83	8.84	8.87	8.75	8.53
GBP/INR	99.74	100.07	99.82	97.80	94.67

Source: Danske Bank

Disclosures

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