

FX Essentials

RB minutes and CPI data won't turn trend for a weaker SEK

On the radar this week

Date	ISO	Description and expectations in an FX context
Tue 19 Feb	SEK	CPI figures from January where we expect CPIF at 2.3% y/y and CPIF ex energy at 1.7% y/y, just below Riksbank's forecast of 2.4% and 1.7%
Tue 19 Feb	GBP	The unemployment figures from UK where we expect it to stay at 4.0% in line with consensus, although it might be a close call to 3.9%
Wed 20 Feb	USD	FOMC meeting minutes will be interesting, as we might hear the different stances within the Fed on further hikes as it has hinted it is 'patient'.
Thu 21 Feb	USD	Markit manufacturing PMI are due and we expect it to stabilise around the current level of 54.9 with a consensus of 55.0
Thu 21 Feb	NOK	Statistics Norway are to release the oil investment survey, which will provide key insights to the business cycle outlook for the NOK.
Thu 21 Feb	EUR	February flash PMIs are due where we see Manufacturing PMI fall to 50.2 from 50.5 and Services PMI to rebound to 51.4 from 51.2.
Fri 22 Feb	SEK	Riksbank minutes from last week's meeting is due and it will be interesting see the arguments for not extending the FX mandate.
Fri 22 Feb	JPY	January inflation figures ticks in. With the large decline in oil prices last year, energy prices are set to weigh on inflation in the coming months.

See *Weekly Focus*, 15 February 2019, for more details on this week's data releases.

Selected short-term market views

- **EUR/NOK** - use rebound to enter or add short strategic positions on relative rates, growth, and structural liquidity.
- **EUR/SEK** - trend is for a weaker krona and it could take a big positive inflation surprise for momentum to turn.
- **EUR/USD** - short-term range but we still see cross as a strategic buy on dips. Triggers: trade deal and stabilisation in EUR data.
- **EUR/GBP** - 0.86-0.89 range to hold near term with Brexit the key driver but also the potential trigger for break of range.
- **USD/JPY** - range trading around 110 as disinflationary trends in Japan counter effect of positive risk sentiment.
- **Oil** - heading higher on OPEC cuts and positive risk sentiment.

FX options

Implied volatility has been trading mostly sideways over the past week in the G4 and Scandi FX space except for the front end (0-1M) of EUR/USD, which trades slightly higher following an increase in realised volatility. As such, FX volatility remains in cheap-(ish) territory and from a risk/reward perspective, we still think it is time to consider buying longer-dated FX options either as alpha trades or proxy hedges for e.g. equity exposure (we generally favour the 1Y segment).

Danske Bank FX Volatility Valuation Monitor

Currency pairs	2W				1M				3M			
	Overall valuation	Implied vol.	1W chg.	Realised vol.	Overall valuation	Implied vol.	1W chg.	Realised vol.	Overall valuation	Implied vol.	1W chg.	Realised vol.
EUR/NOK	Neutral	5.7%	↔	5.6%	Neutral	5.9%	↔	5.1%	Neutral	6.3%	↔	6.2%
EUR/SEK	Neutral	5.7%	↔	5.8%	Neutral	5.7%	↔	5.3%	Neutral	5.8%	↔	6.3%
EUR/USD	Neutral	6.2%	↔	5.1%	Neutral	6.4%	↔	5.4%	Cheap	6.6%	↔	6.5%
EUR/GBP	Neutral	8.6%	↔	5.9%	Expensive	9.4%	↔	6.6%	Expensive	10.8%	↔	7.6%
USD/JPY	Neutral	5.7%	↔	4.9%	Neutral	6.1%	↔	5.2%	Cheap	6.8%	↔	7.4%

Source: Bloomberg, Danske Bank

FX Top Trades

Danske Bank FX Top Trades 2019. The past couple of days' NOK recovery has benefited our short EUR/NOK and long NOK/SEK trades. For details see *Danske Top Trades 2019*, 4 December 2018.

#	Trade	Opened	Entry	Closed	Current	PnL
1	Short EUR/NOK via 3M 9.3500-9.6918-9.9500 1:1:2 bearish seagull	03/12/18	9.6918		9.7580	0.08%
2	Long NOK/SEK spot outright	03/12/18	1.0569		1.0736	1.89%
3	Long EUR/USD via 9M 1.1475 call financed by sold 3M 1.1200 straddle	03/12/18	1.1334		1.1318	0.79%
4	Long USD carry basket vs JPY, SEK, CHF	03/12/18	100.00		100.80	0.80%
5	Sell 1M EUR/GBP 0.8700 put to finance 4M 0.8700 put	03/12/18	0.8912		0.8762	-0.02%

Source: Bloomberg, Danske Bank

Short-term financial models

Short-term valuation suggests that EUR/USD is oversold. USD is also overbought vis-à-vis NOK and SEK.

	Spot	Model	Signal	Deviation (%)	Deviation (stdev)	
Standstee	EUR/NOK	9.749	9.6498		1.0%	0.4
	EUR/SEK	10.471	10.3662		1.0%	0.1
	USD/NOK	8.623	8.4464	Overbought	2.1%	1.3
	USD/SEK	9.262	9.0310	Overbought	2.6%	1.6
	NOK/SEK	1.074	1.0659		0.8%	0.7
Majors	EUR/USD	1.131	1.1481	Oversold	-1.5%	-1.4
	EUR/GBP	0.876	0.8821		-0.7%	-0.7
	EUR/JPY	125.02	126.19		-0.9%	-0.4
	EUR/CHF	1.135	1.1418		-0.6%	-0.6
	GBP/USD	1.291	1.2920		-0.1%	-0.4
	USD/JPY	110.58	109.65		0.8%	0.9
Commodity	AUD/USD	0.715	0.7180		-0.4%	-0.4
	NZD/USD	0.687	0.6801		1.0%	0.6
	USD/CAD	1.323	1.3190		0.3%	-0.1
	AUD/NZD	1.041	1.0582		-1.6%	-1.0

Source: Macrobond Financial, Danske Bank

Technical highlight

EUR/NOK. Setback from the 9.8415 high kept in check above 9.7185 support and see break here needed to weaken and see a retest of 9.7000 level and then the 9.6480 low. On the upside, we see lift over the 9.8000 needed to expose the 9.8415 high to retest and extend up leg from 9.6480 low. See *Danske Technical Update*, 18 February



Source: Acast, Continuum Economics

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Links to recent Danske FX research

Reading the Markets Norway, 18 February 2019

Reading the Markets Sweden, 15 February 2019

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