Investment Research

FX Forecast Update
Global disinflation risk taking control of FX markets

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Forecast review part I

- **EUR/NOK**. The Q1 NOK rally has suffered a serious setback over the past month on the back of external developments. Initially, a dovish Riksbank triggered the EUR/NOK move higher. However, the primary single driver behind NOK weakness has been lower global inflation expectations on the resurfacing of the trade war and relatively hawkish central banks. As a result, we have seen a disconnect between EUR/NOK spot and model estimates based on relative rates, oil prices and risk sentiment proxies. This alone suggests eventual NOK rebound potential but the near-term outlook for external drivers does not look too supportive. As a result, we lift our 1M and 3M forecasts to 9.70 (from 9.50) and 9.60 (was 9.50), respectively. Fundamentally, we still emphasise that as long as the global economy does not fall out of bed, the NOK is now too weak for Norges Bank to fulfil its inflation target. Therefore, alongside a higher oil price and long-term NOK valuation, we still pencil in a lower EUR/NOK at 9.40 (previously 9.30) in 6M and 9.30 (unchanged) in 12M.

- **EUR/SEK.** We think that it is in monetary policy expectations where one could eventually get a trigger for a SEK turnaround. Such a turnaround is hard to see though, given that Swedish inflation will probably force the Riksbank to stay on hold for longer. This said, the market has priced out almost all probability of a hike this year. Unless one expects rate cuts (we do not), a positive driver for EUR/SEK may abate going forward. More generally, the SEK still stands out as one of the most attractive funding currencies and this could continue to push USD/SEK higher as long as carry remains a theme. On the other hand, EUR/SEK is somewhat overbought relative to our short-term models. Therefore, on balance, we raise our 1M forecast to 10.70 (previously 10.60), 3M to 10.80 (previously 10.60), 6M to 10.90 (previously 10.70) and finally 12M to 11.00 (previously 10.80).

- **EUR/DKK.** Weak equity markets, the unresolved trade war and a large discount in FX forwards are likely to keep EUR/DKK elevated over coming months – at 7.4650 in 1M and 7.4630 in 3M (from 7.4590). On a 6-12M horizon, we expect a trade deal to be struck and the global macroeconomic backdrop to strengthen, which we in turn we expect to send EUR/DKK back below the central rate to 7.4590 in 6M and 7.4550 in 12M.

- **EUR/USD.** The market is looking for more than promises from the ECB before selling the euro from an already short position despite weak PMIs and deteriorating inflation expectations. The Fed is not much easier to read but the pricing of Fed cuts has lent some support to EUR/USD. We forecast EUR/USD at 1.12 in 1M and 1.13 in 3M, as we look for a status quo in the current weak economic environment. In 6M and 12M we stick to our forecasts of 1.15 and 1.17 as the China-led recovery, along with a US-China trade deal, should lend support to EUR/USD.

- **EUR/GBP.** With the Brexit extension until 31 October and no reason to believe Theresa May's deal will pass or the cross-party talks will be successful anytime soon, we think it is difficult to see further GBP strengthening near-term. Hence, we see EUR/GBP will remain range-bound at 0.85-0.87 in 1-3M. It is more difficult to predict what will happen when we get closer to the new Brexit deadline in October but as we think a further extension is likely, we expect the cross to remain in the 0.85-0.87 range in 3-12M.

- **USD/JPY.** We expect global sentiment to remain the key driver in the cross as risk-off, commodity sell-off and falling US rates run together and amplify each other to take USD/JPY lower. Conversely, when risk-on cycles are running. The JPY outlook is somewhat skewed on the downside. We forecast USD/JPY at 109.5 in 1M and probably even stronger in the coming quarter. Our forecast reflects expectations of a globally slightly positive scenario over 12M but with headwinds as of today.

- **EUR/CHF.** Risks are skewed to more CHF strength near term as the ECB putting 'normalisation' on hold leaves SNB vulnerable – this is, not least, the case if trade woes continue to linger, leaving the Eurozone macro outlook fragile still. Further, Italian debt risks remaining should ensure a discount in EUR/CHF for an extended period. In H2, we expect an eventual China-led stabilisation and a 'decent Brexit' to support EUR/CHF eventually. We keep our forecast profile for EUR/CHF unchanged, expecting 1.12 in 1M, 1.13 in 3M, 1.15 in 6M, and 1.17 in 12M.

- **USD/CAD.** USD/CAD has remained fairly stable over the past month despite heightened US-China trade uncertainty and falling global inflation expectations. At the April meeting, Bank of Canada removed its modest tightening bias by removing any reference to future rate hikes. At the same time, the bank lowered its estimates of the neutral policy rate to 2.25%-3.25% still leaving monetary policy accommodative with the current policy rate of 1.75%. We expect the Bank of Canada to stay on hold over the coming 12M, while markets price around 50% probability of a cut over the same time horizon. In our view, the dovish expectation largely reflects markets' FOMC pricing, leaving less scope for the relative rate to send the cross lower. This said, with our expectation of a moderate global recovery and higher oil prices, we expect the cross to move lower eventually. Long covering should support this, as CAD positioning has become stretched short according to CFTC IMM data. Fundamentally, our long-term PPP models suggest the CAD remains heavily undervalued, with the model estimate at 1.20. We raise our forecast profile slightly to 1.33 in 1M (from 1.32) 1.31 in 3M (was 1.30), 1.28 in 6M (was 1.27) and 1.26 in 12M (previously 1.25).

- **USD/CNY** has pushed higher following the renewed escalation of the US-China trade war. We now look for a deal in H2 – most likely late Q3. But the outlook has become very blurred. We expect more monetary policy easing in China and USD/CNY to push higher to 7.10 (previous 6.7) in 3M. On the other side of a deal USD/CNY should move lower again and we forecast a move back to 6.8 in 12M (revised from 6.6).

- **NZD/USD and AUD/USD.** Both countries have faced a strong slowdown, being high-beta commodity-/China-driven economies. We think both AUD and NZD will continue to face pressure, while the Asian (and global) demand picture remains non-accelerating. We expect both to lean in on the dovish pricing of their central banks by recognising a weak outlook and likely cutting further (RBNZ) or joining in with Chinese easing (RBA), as this is likely to become needed in coming months. On a three- to six-month horizon, we see the potential for appreciation as quite limited and 0.71 is more likely to be a ceiling than a floor for AUD, with the corresponding figure for NZD 0.66. Longer term, we expect the industrial cycle to be smaller than has previously been the case, limiting the rebound potential when looking at where these currencies were in 2017-18, the height of the global growth picture. If global PMIs start to rise substantially, the by-then 3M-12M forecast would steepen equally but, in our view, this risk remains limited as of today. We have revised down and flattened our forecasts, reflecting some downside risk. We set AUD/USD at 0.68 in 1M (previously 0.73), 0.68 in 3M (was 0.73), 0.70 in 6M (was 0.75) and 0.70 in 12M (was 0.76). Correspondingly, NZD/USD at 0.63 in 1M and 3M (was 0.68/0.69) and 0.65 (was 0.70/0.71) in 6M and 12M.

- **USD/RUB** continues to enjoy stability, as US Congress has not been active in pushing through anti-Russia sanctions. The currency stands out relative to other (Asian) commodity/emerging market sentiment linked currencies as having been broadly stable over substantial market moves between Q4 18 to Q1 19 and have even avoided joining the current sell-off in EUR/NOK. We forecast 65.40 (1M), 68.00 (3M), 69.00 (6M) and 70.00 (12M), including an expectation that the currency could be hit by further sanctions.

- **EUR/PLN.** The renewed trade dispute between China and the US has sent EUR/PLN higher. There is a risk the cross will break out of its recent range of the 4.28-4.33 near term if the tensions escalate further and the US puts tariffs on the remaining USD325bn of Chinese imports, which would weigh on global risk sentiment. However, we note that Poland is less sensitive to the global trade shock than, for example, Hungary and Czech Republic and domestic momentum remains strong adding support to PLN. As a result, we revise our forecasts for EUR/PLN to 4.32 (previously 4.27) in 1M, 4.28 (previously 4.27) in 3M, 4.25 (previously 4.23) in 6M and 4.23 (previously 4.18) in 12M.

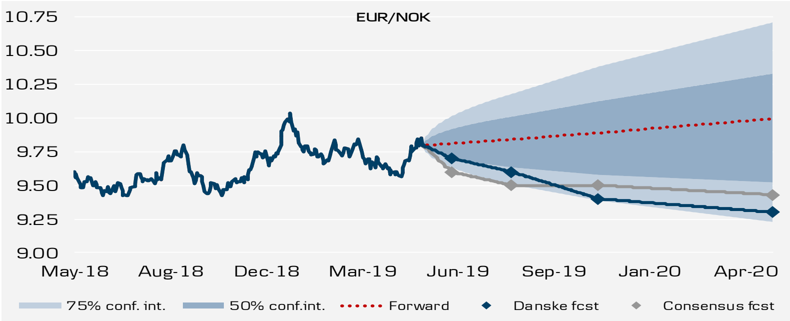
- **USD/TRY.** The TRY has weakened more than we expected over the past month, driven partly by Recep Erdoğan's pressure to rerun the local election in Istanbul, sowing doubt about political independence. The weak external environment has also driven the weakness. As a result, we raise our USD/TRY near-term outlook due to fragile domestic and external environment. Large FX debt redemptions by the Turkish private sector and rate cuts later in 2019 are set to weigh on the TRY in 2019 and 2020. Thus, we remain bearish on the TRY in the long term, expecting the USD/TRY to reach the following levels: 6.10 (previously 5.68) in 1M, 5.90 (previously 5.75) in 3M, 5.90 in 6M and 6.10 in 12M.

- **Oil.** We expect oil prices to recover further over the course of 2019. We forecast Brent will average USD70/bbl in Q2, rising to USD80/bbl in Q4. OPEC+ cuts and recovery in global growth, along with a US-China trade deal, would be the main factors underpinning a higher oil price in H2.

EUR/NOK – too high to reach inflation target if global economy recovers

- **Growth.** The Norwegian mainland economy rose 0.3% q/q in Q1 which was less than expected. Meanwhile, much of the disappointment was down to supply disruptions for electricity production (which tend to reverse). In addition, with positive revisions and continued strong labour market developments, we remain bullish on the Norwegian economy, which we expect to continue operating at above-trend potential in the year to come. Underlying inflation pressures have continued increasing over the past year, amid rising wage growth. This has underpinned the need for tighter monetary policy and/or a stronger NOK – at least as long as the global economy does not fall out of bed. This is why the external environment remains key for the short-term NOK outlook.
- **Monetary policy.** At the interim May meeting, Norges Bank reiterated its message from the March monetary policy report that the outlook suggests a gradual increase in the policy rate. Specifically, the board pointed to the coming June meeting as the most likely time for the next rate hike. We expect a hike in June and an additional hike in December. Markets price slightly more than one hike for the full year.
- **Flows.** Foreign banks (proxy for speculative flows) have been net selling NOK over past weeks amid the resurfacing of trade war concerns and global risk off. Overall, we regard NOK positioning as neutral.
- **Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.85 as 'fair'. A model incorporating relative productivity also suggests NOK potential after the year-long period of internal devaluation and NOK weakness.
- **Risks.** The biggest risk factor to our NOK call has materialised, with the trade negotiations between the US and China virtually breaking down. While we eventually expect a deal, it is likely the timing of an agreement is postponed, creating a murkier near-term outlook.

Forecast: 9.70 (1M), 9.60 (3M), 9.40 (6M), 9.30 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	9.70 (26%)	9.60 (21%)	9.40 (13%)	9.30 (15%)
Fwd. / Consensus	9.81 / 9.60	9.84 / 9.50	9.89 / 9.50	9.99 / 9.43
50% confidence int.	9.69 / 9.91	9.63 / 10.01	9.58 / 10.12	9.52 / 10.33
75% confidence int.	9.62 / 10.00	9.50 / 10.18	9.39 / 10.38	9.23 / 10.71

Source: Danske Bank

- **Conclusion.** The Q1 NOK rally has suffered a serious setback over the past month on the back of external developments. Initially, a dovish Riksbank triggered the EUR/NOK move higher. However, the primary overall driver behind NOK weakness has been lower global inflation expectations on a resurfacing trade war, relatively hawkish central banks and risk-off. As a result, we have seen a disconnect between EUR/NOK spot and model estimates based on relative rates, oil prices and risk sentiment proxies. This alone suggests an eventual NOK rebound potential but the near-term outlook for external drivers does not look too supportive. As a result, we lift our 1M and 3M forecasts to 9.70 (from 9.50) and 9.60 (9.50), respectively. Fundamentally, we still emphasise that as long as the global economy does not fall out of bed, the NOK is now too weak for Norges Bank to fulfil its inflation target. Alongside a higher oil price and long-term NOK valuation, we therefore still pencil in a lower EUR/NOK at 9.40 (previously 9.30) in 6M and 9.30 (unchanged) in 12M.

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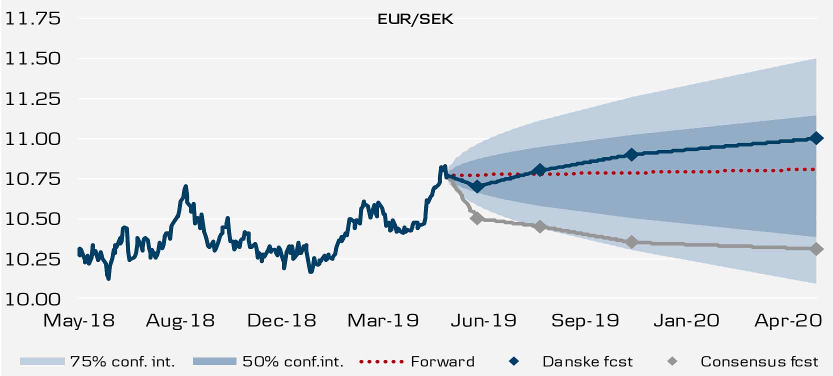
EUR/SEK – no turnaround in sight

- **Growth.** Despite the Riksbank seeing fit to raise its forecast for Swedish growth, from 1.3 to 1.7% for 2019, we maintain our downbeat view on the Swedish economy. The latest batch of data (production value index, household consumption, manufacturing PMI) points to a weak start to 2019, with our monthly GDP indicator signalling Q1 growth of approximately 1.0% y/y. We see a clear risk that the Riksbank will have to revise down its 2019 forecast at some point.
- **Monetary policy.** Referring to weaker inflationary pressure, global uncertainty and the actions of international central banks, the Riksbank decided to lower the rate path, effectively pushing the implied next hike to year-end. In addition, it combined this move with further QE purchases. This was a dovish surprise to us and the market. As a result, the money market has all but priced out rate hikes for this year. Unless one expects rate cuts, this particular headwind for the SEK may abate. Negative carry (versus the USD) remains a drag though.
- **Flows.** A sizeable rate gap versus the dollar may still hold back incentives for Swedish investors to raise their hedge ratios. As the Riksbank is set to continue expanding its balance sheet, foreign investors are likely to remain on the sideline, thus depriving the SEK of a potential trigger.
- **Valuation.** Fundamental factors (such as shrinking external balances, weak productivity growth and deteriorating terms of trade) can, at least to some extent, explain (real) depreciation of the SEK in recent years, although we argue that ultra-easy monetary policy is the main culprit behind the weakening (see *FX Strategy – Hardships for the SEK*, 13 May).
- **Risks.** Global risk-off could easily send SEK much lower according to normal correlations. A caveat would be if risk-off prompts unwind carry trades, which in itself could weigh on USD/SEK. Monetary policy convergence, e.g. as a result of substantial rate cuts by the Fed (not our main scenario), could support the SEK.

Forecast: 10.70 (1M), 10.80 (3M), 10.90 (6M), 11.00 (12M)



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	10.70 (34%)	10.80 (56%)	10.90 (65%)	11.00 (67%)
Fwd. / Consensus	10.77 / 10.50	10.78 / 10.45	10.79 / 10.35	10.81 / 10.31
50% confidence int.	10.66 / 10.87	10.58 / 10.95	10.50 / 11.02	10.38 / 11.15
75% confidence int.	10.58 / 10.97	10.44 / 11.11	10.30 / 11.26	10.09 / 11.50

Source: Danske Bank

- **Conclusion.** We think that it is in monetary policy expectations where one could eventually get a trigger for an SEK turnaround. Such a turnaround is hard to see though, given that Swedish inflation will probably force the Riksbank to stay on hold for longer. This said, the market has priced out almost all probability of a hike this year. Unless one expects rate cuts (we do not), a positive driver for EUR/SEK may abate ahead. More generally, the SEK still stands out as one of the most attractive funding currencies and this could continue to push USD/SEK higher as long as carry remains a theme. On the other hand, EUR/SEK is somewhat overbought relative to our short-term models. Therefore, on balance, we raise our 1M forecast to 10.70 (was 10.60), 3M to 10.80 (was 10.60), 6M to 10.90 (was 10.70) and finally 12M to 11.00 (was 10.80).

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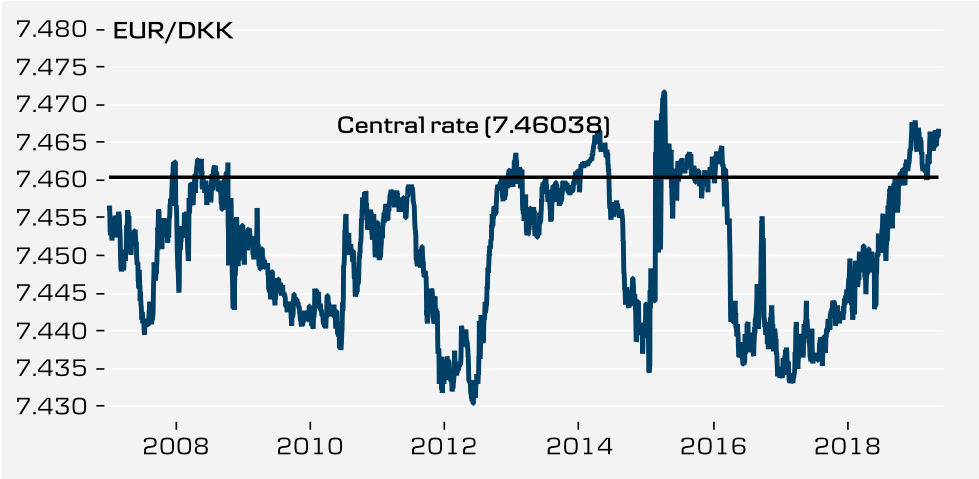
EUR/DKK – set to stay above the central rate into H2

- **FX.** EUR/DKK has continued to trade at the high end of the historical trading range following the annual dividend season supported by weak equity markets, escalation in the trade war and a still large discount in FX forwards. However, Danmarks Nationalbank stayed on the sidelines again in April. In May, EUR/DKK touched the intervention level from January. Hence, we expect the market to scrutinise the next round of FX reserve data, which is due at the beginning of June. We forecast EUR/DKK at 7.4650 in 1M, 7.4630 in 3M and 7.4590 in 6M and 7.4550 in 12M.
- **Rates and forwards.** We expect Danmarks Nationalbank to keep the rate of interest on certificates of deposit unchanged at minus 0.65% in 12M. A very high net position has pushed down short-term DKK swap rates and EUR/DKK FX forwards. This situation is likely to prevail into H2.
- **Flows.** The Danish current account surplus remains large but has moderated somewhat from the elevated level seen in the past few years. It still creates fundamental support for DKK. We expect a high savings rate and low investment activity to maintain this situation over coming years. Denmark has significant exposure to the US, as it earns around one-third of the surplus in the US.
- **Liquidity.** For the rest of Q2, we expect the net position to be in the area of DKK200-250bn on most days. In H2, we believe it will rise to the DKK220-270bn range on most days but in July and August we could see it touch the DKK290-300bn level on some days, aided by the effect of further government purchases of mortgage bonds along with the usual seasonal effects in government payments.

Forecast: 7.4650 (1M), 7.4630 (3M), 7.4590 (6M), 7.4550 (12M)



Source: Danske Bank

- **Conclusion.** Weak equity markets, the unresolved trade war and a large discount in FX forwards are likely to keep EUR/DKK elevated over coming months – at 7.4650 in 1M and 7.4630 in 3M (revised up from 7.4590). On a 6-12M horizon, we expect a trade deal to be struck and the global macroeconomic backdrop to strengthen, which in turn we expect to send EUR/DKK back below the central rate – 7.4590 in 6M and 7.4550 in 12M.

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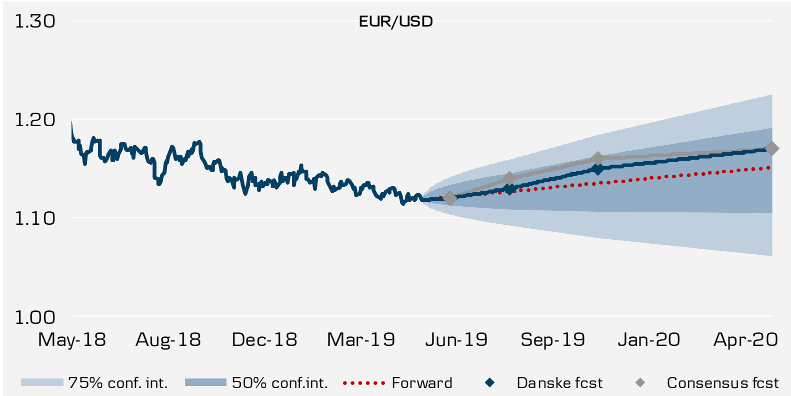
EUR/USD – kept in check by vague central banks

- **Growth.** The US has suffered less from the loss of global growth momentum that gained traction towards the end of 2018. However, recently US data have surprised on the downside. We see the US economy turning ahead of the eurozone, as, in our view, the latter will need to wait for China to stabilise first and Donald Trump's continued fiscal boost holds a hand under US activity. A trade deal and a 'decent Brexit' would eventually be positive for the eurozone and could pave the way for positive surprises later in the year, as a lot of negativity is priced in on the euro political side.
- **Monetary policy.** The ECB is currently mulling over how to calibrate the next round of targeted loans but does not seem keen to offer the market or the economy further stimulus. At the same time, the market is having a tough time reading the Fed since its comments about transitory low inflation during the latest FOMC meeting. Regardless, the market is looking for the Fed to cut rates on a 6-12M horizon.
- **Flows.** External balances, as measured by relative current-account balances, hint at EUR/USD upside medium term but as history suggests, a deficit such the US one can be sustained for prolonged periods, notably for a world reserve currency such as the USD. The large eurozone capital outflows, which ECB policy has arguably spurred, have faded but with an end to negative rates deferred, a reversal is not on the cards near term.
- **Valuation.** The USD remains generally overvalued on most measures and our MEVA and PPP estimates for EUR/USD are in the 1.20s, suggesting the direction of gravity should still be higher medium term.
- **Risks.** The bar for ECB to put rate cuts or more QE on the table seems high but could also trigger a move in EUR/USD towards 1.10.

Forecast: 1.12 (1M), 1.13 (3M), 1.15 (6M), 1.17 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.12 (45%)	1.13 (53%)	1.15 (64%)	1.17 (62%)
Fwd. / Consensus	1.12 / 1.12	1.13 / 1.14	1.14 / 1.16	1.15 / 1.17
50% confidence int.	1.11 / 1.13	1.11 / 1.15	1.11 / 1.16	1.10 / 1.19
75% confidence int.	1.10 / 1.14	1.09 / 1.16	1.08 / 1.18	1.06 / 1.23

Source: Danske Bank

- **Conclusion.** The market is looking for more than promises from the ECB before selling the euro from an already short position despite weak PMIs and deteriorating inflation expectations. The Fed is not much easier to read but the pricing of Fed cuts has lent some support to EUR/USD. We forecast EUR/USD at 1.12 in 1M and 1.13 in 3M as we look for a status quo in the current weak economic environment. In 6M and 12M, we stick to our forecast of 1.15 and 1.17, as we expect a China-led recovery along with a US-China trade deal to lend support to EUR/USD.

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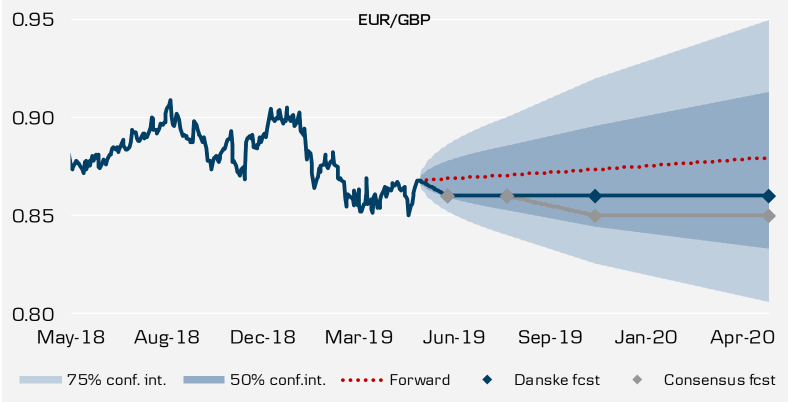
EUR/GBP – range trading 0.86, while we await news on politics

- **Recent history.** EUR/GBP is moving in a narrow band around 0.86 and it is likely most of the 'hard Brexit'-premium was priced out in early Q1 19 when GBP strengthened by nearly 6%.
- **Politics remain key driver.** A substantial breakthrough in cross-party talks and/or possibly new discussions with the EU remain the key drivers to take the cross away from its current range.
- **Growth.** The extension of Brexit prolongs the period of uncertainty, which we believe will continue to be a drag on the economy. Confidence across consumers, industrials and construction has taken a hit since Q4 and is coming off its high in line with the global slowdown, not least on the back of headwinds to the housing sector.
- **Monetary policy.** The Bank of England does not seem in a hurry to raise rates in the current environment with UK leading indicators suggesting a small slowdown, inflation and wages under control, weakness in Europe and prolonged Brexit uncertainty. With other central banks on hold, we do not believe the Bank of England would want or need to push for stronger FX, or higher rates. Hence, as of today, we see little support in a repricing.
- **Flows.** Foreign investors' appetite for UK assets may rebound when we get some Brexit clarification.
- **Valuation.** The GBP remains fundamentally undervalued: Our G10 MEVA model puts EUR/GBP at 0.78 (our Brexit-corrected MEVA estimate for the cross is around 0.83), while our PPP estimate is 0.76.
- **Risks.** UK politics remains the key driver for the GBP and we expect uncertainty to keep the GBP undervalued until we get some clarification. If, against expectations, a deal passes over coming months, it should strengthen the GBP somewhat but we do not believe the Bank of England would immediately change its plans.

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



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.86 (25%)	0.86 (35%)	0.86 (39%)	0.86 (42%)
Fwd. / Consensus	0.87 / 0.86	0.87 / 0.86	0.87 / 0.85	0.88 / 0.85
50% confidence int.	0.86 / 0.88	0.85 / 0.89	0.84 / 0.90	0.83 / 0.91
75% confidence int.	0.85 / 0.89	0.84 / 0.90	0.83 / 0.92	0.81 / 0.95

Source: Danske Bank

- **Conclusion.** With the Brexit extension until 31 October and no reason to believe that May's deal will pass or that the cross-party talks will be successful anytime soon, we think it is difficult to see further GBP strengthening near-term. Hence, we expect EUR/GBP to remain range-bound at 0.85-0.87 in 1-3M.

  It is more difficult to predict what will happen when we get closer to the new Brexit deadline in October but as we think a further extension is likely, we expect the cross to remain in the 0.85-0.87 range in 3-12M too.

  In the event of a no-deal Brexit by the end of October, we still expect EUR/GBP to move towards parity. If May's deal passes, we expect EUR/GBP to move down to 0.83.

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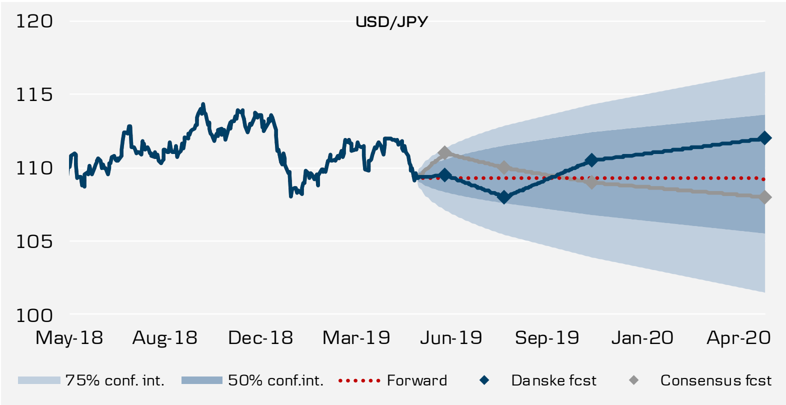
USD/JPY – while macro is muddy, trend is likely to be for stronger JPY

- **Recent history.** Major but quarterly trends in global sentiment have shifted USD/JPY around. The Q4 18 risk-off took the cross from 113 to 108. Risk-on over Q1 took it back to 112 and the most recent sell-off has moved it back to nearly 109. We expect a volatile recovery to 112 over 12M but over 3M, the trend is likely risk off.
- **Sentiment is the key driver.** We expect global sentiment to remain the key driver in the cross as risk-off, commodity sell-off and falling US rates run together and amplify each other to take USD/JPY lower. We expect the opposite when risk-on cycles are running. Global macro data is not coming in as good as hoped and positioning in JPY puts some risk in the cross to move to the January lows around 107.5.
- **Inflation and monetary policy.** The Bank of Japan continues to emphasise its willingness to keep monetary policy accommodative and we expect no changes before the end of 2020 at the earliest. However, its actions are starting to look contradictory, as, in our view, slowing monetary growth will not bring the Bank of Japan closer to its inflation aim – furthermore, it could start to be a counter-inflationary appreciating force.
- **Terms of trade.** Commodity prices are coming down, giving rise to a positive terms of trade shock. Being an importer of commodities, this has tended to take USD/JPY lower, also in reflection of coinciding global uncertainty.
- **Flows.** Japan continues to be a significant capital exporter via its large current account surplus of above 3% of GDP, suggesting the currency relative to fundamentals is somewhat weak.
- **Valuation.** PPP is around 80, while our MEVA model suggests 104 is 'fundamentally' justified.
- **Positioning.** Investors are overall positioned in the cross for stronger macro. The cross has to some extent traded in the same way as the FX equivalent to being long inflation expectations, credit and semiconductors.

Forecast: 109.5 (1M), 108 (3M), 110.5 (6M), 112 (12M)



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	109.50 (47%)	108.00 (28%)	110.50 (57%)	112.00 (65%)
Fwd. / Consensus	109.29 / 111.00	109.28 / 110.00	109.27 / 109.00	109.26 / 108.00
50% confidence int.	108.44 / 110.53	107.58 / 111.53	106.78 / 112.44	105.52 / 113.63
75% confidence int.	107.21 / 111.23	105.42 / 112.88	103.89 / 114.31	101.49 / 116.57

Source: Danske Bank

- **Upside risks.** Drivers set to take JPY back above 111 include (1) a risk-on Fed cut, (2) tariffs on Japan, (3) additional Bank of Japan easing (currently very unlikely) and/or (4) improving global macro.
- **Downside risks.** Conversely, risks to take JPY below 107.5 include (1) declining commodity prices, (2) if global PMIs dip further and (3) a lack of more convincing momentum in Chinese macro/People's Bank of China.
- **Conclusion.** The JPY outlook is somewhat skewed on the downside. We forecast USD/JPY at 109.5 in 1M and probably even stronger in the coming quarter. The forecast reflects expectations of a globally slightly positive scenario over 12M but with headwinds as of today.

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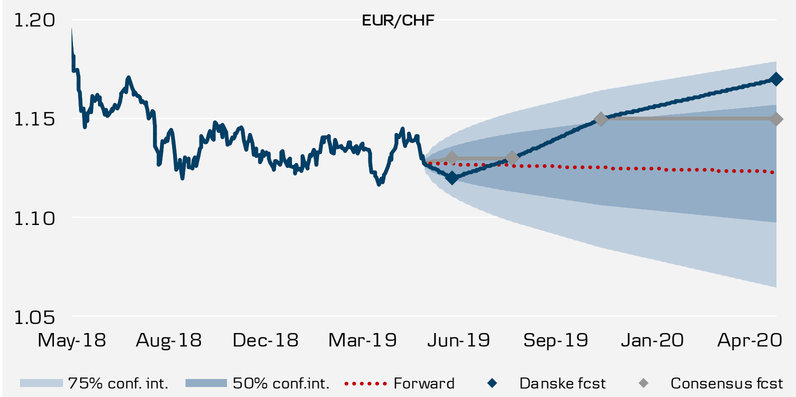
EUR/CHF – an Italian debt discount here to stay

- **Growth.** Data out of Switzerland continue to deteriorate with the PMI continuing to decline sharply and now close to the 50 level. The KOF leading indicator has also declined markedly, although we have seen some signs of stabilisation. Unemployment remains low at 2.4% and inflation appears to have stabilised above 0.5%. Swiss GDP fell back to 1.5% y/y (seasonally adjusted) in Q4 and remains heavily dependent on eurozone growth.
- **Monetary policy.** At the April meeting, the ECB confirmed that it is keeping its options open and is unwilling to commit in either direction yet. For the SNB, this means that policy will most certainly have to stay unchanged for an even longer period. At its March meeting, the SNB, as widely expected, kept its key policy rates unchanged at -0.75%. The SNB also maintains the saying that the CHF is 'highly valued' and reserves its right to intervene to curb CHF strength. This said, in our view, it is likely to require a fall in EUR/CHF towards 1.10 for intervention to come into play. We think the SNB will keep rates and its dovish stance little changed on a 12M horizon. SNB is currently priced largely on par with the ECB for the next 12M, which seems fair given that it would require a sustained uptick in EUR/CHF before the SNB looks to shift into more 'genuine normalisation' mode.
- **Flows.** Speculative positioning remains stretched CHF shorts.
- **Valuation.** Our longer term valuation models suggest the cross should move higher over the medium to long term with fundamental estimates in the mid-1.20s.
- **Risks.** While CHF at times showed good resilience to rising Italian debt concerns in 2018, renewed focus/worries over Italian fiscal sustainability could fuel CHF strength considering the lack of SNB policy tools to go firmly against it.

Forecast: 1.12 (1M), 1.13 (3M), 1.15 (6M), 1.17 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.12 (26%)	1.13 (52%)	1.15 (76%)	1.17 (83%)
Fwd. / Consensus	1.13 / 1.13	1.13 / 1.13	1.13 / 1.15	1.12 / 1.15
50% confidence int.	1.12 / 1.14	1.11 / 1.14	1.11 / 1.15	1.10 / 1.16
75% confidence int.	1.11 / 1.14	1.10 / 1.15	1.08 / 1.16	1.06 / 1.18

Source: Danske Bank

- **Conclusion.** EUR/CHF has been under pressure lately from an ECB on the sidelines and a fragile Eurozone. Risks are skewed towards more CHF strength near term, as the ECB putting 'normalisation' on hold leaves SNB vulnerable – this is not least the case if trade woes continue to linger, leaving the Eurozone macro outlook fragile. Further, Italian debt risks remain to ensure a discount in EUR/CHF for an extended period. In H2, we expect an eventual China-led stabilisation and a 'decent Brexit' to support EUR/CHF eventually. However, a sustained break higher in the cross would require ECB support and we do not envisage this any time soon. Thus, the SNB is set to be stuck with a seemingly empty toolbox and below-target inflation for now. In addition, there is a risk that the market could test the SNB's willingness to do more and send EUR/CHF towards 1.10 again. We keep our forecast profile for EUR/CHF unchanged, expecting 1.12 in 1M, 1.13 in 3M, 1.15 in 6M, and 1.17 in 12M.

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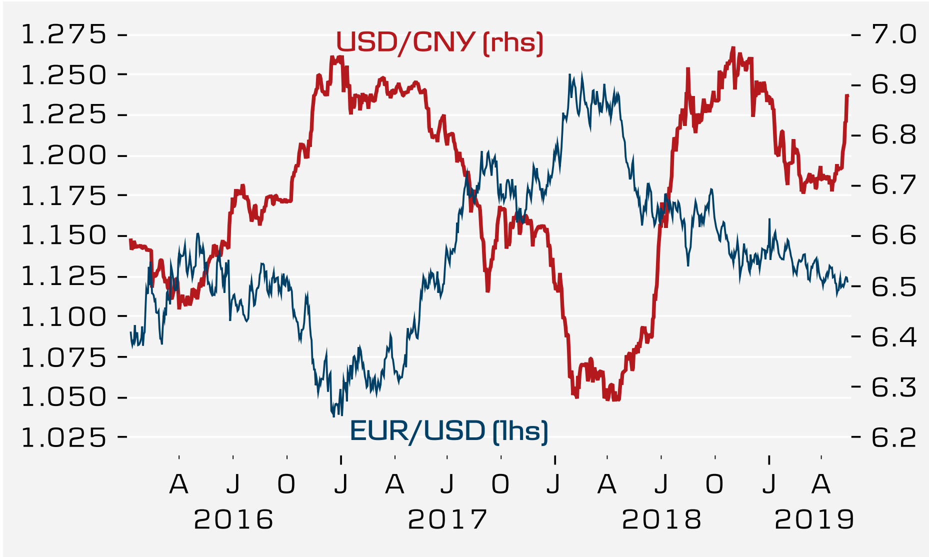
USD/CNY – more CNY weakness until trade deal is made

- **Growth.** Following an improvement in economic data in Q1, the data for April have been weak. With renewed uncertainty over the trade war with the US, we expect PMI's to fall back further in coming months. We now don't see a trade deal coming until H2. Higher uncertainty and an increase in tariffs is set to postpone the Chinese recovery and we look for more stimulus coming, both fiscal and monetary. We do not expect a hard landing, though, as the construction sector and public investments as well as stimulus will keep a bottom under economic activity.
- **Monetary policy.** China has eased monetary policy since April last year by cutting the Reserve Requirement Ratio (RRR) and measures to improve credit availability to the private sector. We look for a further cut in the RRR soon due to the trade war flaring up again and weak April data.
- **FX policy**. CNY continues to be a managed peg against a basket of currencies. PBoC is allowing the market play a bigger role but also intervenes if it is deemed necessary to dampen too rapid movements that can cause instability. We do not believe PBoC is using the CNY as an instrument in the trade war but rather that the CNY has weakened due to a changed perception in the market of future monetary policy and because hedging activity had likely picked up as an insurance against an ugly trade war scenario.
- **Flows.** FX reservers have been stable for some time and there are no signs of big outflows. Portfolio inflows should go up this year after an increase in the weight of Chinese equities in MSCI Emerging Markets index as well as inclusion of Chinese bonds in the Bloomberg Barclays index from 1 April.
- **Valuation.** The CNY is close to long term fair valuation. China's current account surplus has declined from the peak at 10% of GDP in 2007 to 0.4% of GDP in 2018.

Forecast: 6.9 (1M), 7.1 (3M), 6.9 (6M), 6.80 (12M)



Source: Danske Bank

- **Conclusion.** We expect the downward pressure on CNY to persist in the short term and has revised our USD/CNY 3M forecast to 7.1 from 6.7. As we expect a trade deal in H2, we look for the CNY to strengthen again and USD/CNY to fall back to 6.8 in 12M.
- **Risks:** In general uncertainty has risen significantly as the outlook for a trade deal has become much more blurred. We see a bigger risk that the trade war could drag out further than we expect, than that a deal is reached earlier. Hence, the risk is skewed to the upside for USD/CNY.

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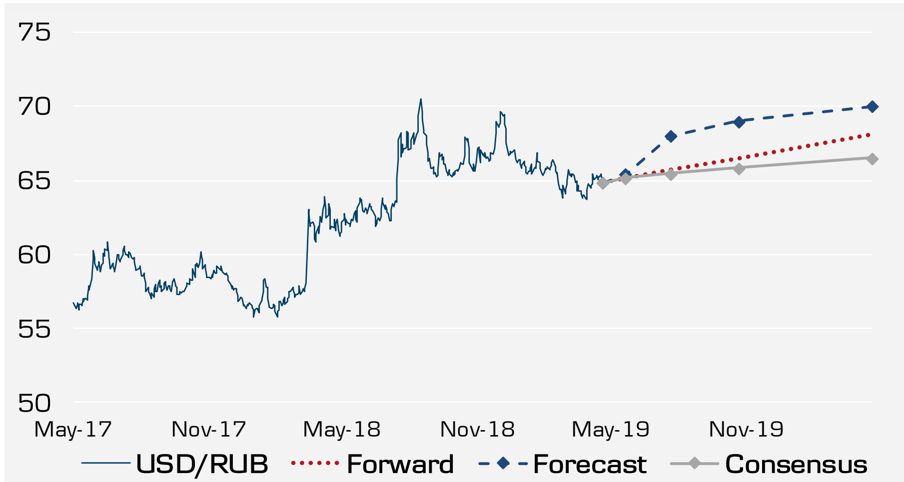
USD/RUB – resilient RUB vs global macro but sanction risks remain

- **Growth.** Consumption is holding up well and is tracking a slight deceleration from 2.0% to 1.5% now but consumer confidence has stabilised. Surveys on cyclical sectors are tracking GDP around 2.5%, which we think is a bit optimistic. Overall, the economy seems to be doing well and particularly so in light of the global cyclical slowdown.
- **Monetary policy.** Russia's central bank (CBR) has kept the key rate unchanged at 7.75% so far in 2019. The central bank is highly inflation adverse around its target of 4.00%. Currently, inflation is tracking slightly above the target but should the outlook turn around, we expect the central bank to stand ready with either cuts (if inflation declines) or hikes (e.g. in the case of inflationary FX dynamics).
- **Flows.** On a lack of progression on anti-Russia legislation by the US, Russian government debt and the currency have been rallying since late 2018, as geopolitical risk has not yet been realised. The RUB remains a major carry currency and new sanctions (not global macro) seem to be the key risk for a possible change to such.
- **Valuation.** The RUB took quite a hit in 2018 on the back of sanctions, depreciating some 25%, from 56 to 70. In the hunt-for-yield environment and with a resilient economy, we believe the RUB is likely to remain attractive for investors until external conditions via US politics intend to change this.

Forecast: 65.40 (1M), 68.00 (3M), 69.00 (6M), 70.00 (12M)



USD/RUB Forecast	1M	3M	6M	12M
	65.40	68.00	69.00	70.00

Source: Danske Bank

- **Conclusion.** The RUB continues to enjoy stability, as US Congress has not been active in pushing through anti-Russia sanctions. The currency stands out relative to other (Asian) commodity/emerging market sentiment linked currencies as having been broadly stable over substantial market moves from Q4 18 to Q1 19 and have even avoided joining the current sell-off in EUR/NOK.
- **Risks.** If US congress enacts further sanctions, we expect a premium of a high single-digit percentage depreciation and a weak underlying inflation outlook is likely to set up the CBR for cuts in H2 19. Hence, cuts and/or sanctions skew the FX risks for weakening a bit as reflected by our (unchanged) forecast.

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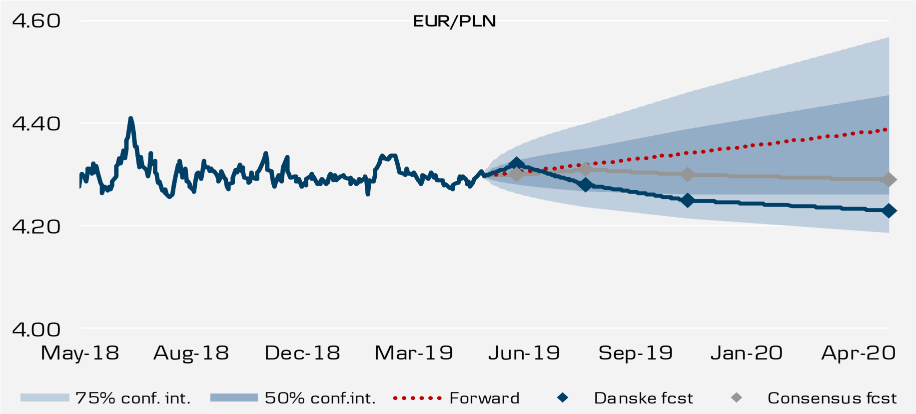
EUR/PLN – PLN hit by renewed global trade disputes

- **Economic developments.** Momentum in the Polish economy shows signs of stabilisation. PMI manufacturing increased further to 49.0, after hovering around 47.0 for the first three months of the year. Furthermore, growth in industrial production is solid around 6%, while construction spending (growing 15% y/y). On the consumption side, retail sales are still strong, expanding above 5% in real terms and supported by low unemployment and rapid growth in wages. Given the relatively good performance of the Polish economy, there are upside risks to our Q1 real GDP growth forecast of 0.6% q/q. For 2019 as a whole, the risk of a damaging global trade war somewhat outweighs the upside risk for our forecast of a real GDP growth rate of 3.6%. Nevertheless, this growth rate is still above the potential growth rate of the Polish economy.
- **Monetary policy.** Headline inflation surged to 2.2% in April, compared with 1.7% in March, far outreaching expectations of 1.8%. The rise in headline is driven by a combination of higher energy prices and higher core inflation, which we expect to reach 1.7% in April (up from just 0.6% at the beginning of the year). In light of the prospective fiscal expansion, several National Bank of Poland board members have flagged the risk of higher interest rates to curtail a possible rise in inflation. However, the governor continues to play down the need for tighter monetary policy. We think that core inflation will increase further to 2.0% towards the end of 2019. The market has priced in a 10bp rate hike in the latter half of 2020, which seems fair to us.
- **Risks.** Risks are skewed on the upside for EUR/PLN in the near term, with the possible further escalation of trade tensions between the US and China. Downside risks include an unexpected trade deal between the two countries followed by improvement in risk sentiment and continued strong economic releases in Poland, leading to a more hawkish repricing by the central bank.

Forecast: 4.32 (1M), 4.28 (3M), 4.25 (6M), 4.23 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.32 (72%)	4.28 (32%)	4.25 (21%)	4.23 (18%)
Fwd. / Consensus	4.31 / 4.30	4.32 / 4.31	4.34 / 4.30	4.39 / 4.29
50% confidence int.	4.28 / 4.32	4.27 / 4.35	4.26 / 4.39	4.26 / 4.46
75% confidence int.	4.26 / 4.35	4.24 / 4.40	4.21 / 4.46	4.19 / 4.57

Source: Danske Bank

- **Conclusion.** The renewed trade dispute between China and the US has sent EUR/PLN higher. There is a risk the cross will break out of its recent range of 4.28-4.33 near term if the tensions escalate further and the US puts tariffs on the remaining USD325bn of Chinese imports, which would weigh on global risk sentiment. However, we note that Poland is less sensitive to the global trade shock than, for example, Hungary and Czech Republic and domestic momentum remains strong, adding support to the PLN. As a result, we revise our forecasts, expecting EUR/PLN to be 4.32 (previously 4.27) in 1M, 4.28 (previously 4.27) in 3M, 4.25 (previously 4.23) in 6M and 4.23 (previously 4.18) in 12M.

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USD/TRY – domestic and global politics weigh on TRY

- **Growth.** Although the Turkish economy entered a recession in Q4 18, the economy is starting to show signs of a tepid recovery. Economic and consumer sentiment edged higher in April and so did real sector confidence. Industrial production also rebounded in March, which bodes well for Q1 real GDP growth. The PMI is the only indicator that has taken a hit recently, falling further into contractionary territory of 46.8 in April from 47.2. We expect 2019 GDP growth to reach 1.1% y/y, with increasing downside risks to our projections and 2020 GDP set to expand 2.1% y/y.
- **Monetary policy**. Turkey's central bank (TCMB) kept the one-week repo rate at 24.00% in April 2019. After falling fairly strongly, CPI inflation has stabilised around 20%, due partly to the pickup in energy prices. Combined with the weakening TRY and uncertain environment, we believe it is probably premature for TCMB to cut rates in the next few months.
- **Valuation.** Net flows into Turkish assets remain negative despite improved global emerging market sentiment. The increased fragility of domestic factors is weighing on economic performance expectations. According to technical analysis (Relative Strength Index), USD/TRY is becoming overbought, which means the TRY has more space to stabilise in the near term.
- **Risks.** Major downside risks to our TRY forecasts include more aggressive monetary easing than markets are pricing, further escalation of the trade war and geopolitical confrontation with the US on Russia's air defence system.

Forecast: 6.10 (1M), 5.90 (3M), 5.90 (6M) and 6.10 (12M)

USD/TRY	1M	3M	6M	12M
Forecast	6.10	5.9	5.90	6.10
Fwd./Consesus	6.14 / 6.00	6.38 / 6.00	6.77 / 6.33	7.60 / 6.42

Source: Danske Bank

- **Conclusion.** The TRY has weakened more than we expected over the recent month, driven partly by Erdoğan's pressure to rerun the local election in Istanbul, sowing doubt about political independence. The weak external environment has also driven the weakness. As a result, we raise our USD/TRY near -term outlook due to the fragile domestic and external environment. Large FX debt redemptions by the Turkish private sector and rate cuts later in 2019 are set to weigh on the TRY in 2019 and 2020. Thus, we remain bearish on the TRY in the long term, expecting the USD/TRY to reach the following levels: 6.10 (previously 5.68) in 1M, 5.90 (previously 5.75) in 3M, 5.90 in 6M and 6.10 in 12M.

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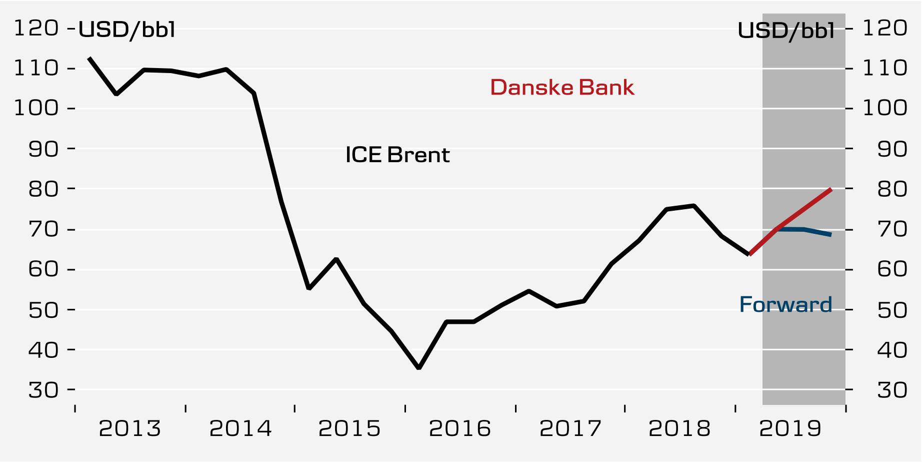
Oil – tug of war between trade uncertainty and supply risks

- **Macro.** The oil market balance still looks relatively tight. On the supply side, OPEC+ is implementing the output cuts agreed in December 2018 and has already begun discussing a possible extension from June. Output in Venezuela is in freefall and Libyan oil output is now at risk following an insurgence. Furthermore, waivers on Iran sanctions expired at the start of May. The macro backdrop remains relatively weak, highlighted by weak macroeconomic data and sluggish global trade growth. To make matters worse, a trade deal looks unlikely before H2. The US is creating some relief on the supply side through selling off 5m bbl in strategic reserves in May.
- **Forward curve.** Backwardation in the Brent crude oil market forward curve has widened following the move above USD70/bbl in the spot price, while the price on longer dated contracts has started to trend lower. Backwardation should stay wide as spot prices rise further this year in accordance with our forecast.
- **Positioning.** Speculative investors have rebuilt long positions, bringing positioning in WTI back close to historical stretched long territory.
- **Risks.** In the short term, the main risks to our oil price forecasts include a further rise in tensions between the US and Iran on the upside and further escalation in the trade war on the downside. Finally, OPEC is set to meet again on 25 June to discuss the extension of current output cuts. We expect OPEC+ to adjust its output cut target, if needed, to mitigate supply disruptions, e.g. from Iran, Libya or Venezuela.

Forecast: USD70/bbl (Q2), USD75/bbl (Q3), USD80/bbl (Q4)



Source: Danske Bank

- **Conclusion.** We expect oil prices to recover further over the course of 2019. We forecast Brent will average USD70/bbl in Q2, rising to USD80/bbl in Q4. We expect OPEC+ cuts and a recovery in global growth, along with a US-China trade deal, to be the main factors underpinning a higher oil price in H2.

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Danske Bank FX forecasts vs EUR

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs EUR					
EUR/USD	1.121	1.12	1.13	1.15	1.17
EUR/JPY	122.7	123	122	127	131
EUR/GBP	0.873	0.86	0.86	0.86	0.86
EUR/CHF	1.130	1.120	1.130	1.150	1.170
EUR/SEK	10.763	10.70	10.80	10.90	11.00
EUR/NOK	9.761	9.70	9.60	9.40	9.30
EUR/DKK	7.468	7.4650	7.4630	7.4590	7.4550
EUR/AUD	1.620	1.647	1.662	1.643	1.671
EUR/NZD	1.707	1.778	1.794	1.769	1.800
EUR/CAD	1.505	1.490	1.480	1.472	1.474
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
EUR/PLN	4.298	4.32	4.28	4.25	4.23
EUR/HUF	325	320	313	310	305
EUR/CZK	25.714	25.70	25.60	25.20	25.00
EUR/RUB	72.367	73.25	76.84	79.35	81.90
EUR/TRY	6.755	6.83	6.67	6.79	7.14
EUR/ZAR	15.919	15.96	16.39	16.68	16.67
EUR/BRL	4.483	4.41	4.12	4.08	3.86
EUR/CNY	7.717	7.73	8.02	7.94	7.96
EUR/INR	78.707	81.76	77.97	78.20	78.39

Source: Bloomberg, Danske Bank

Danske Bank

Danske Bank FX forecasts vs DKK

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs DKK					
USD/DKK	6.66	6.67	6.60	6.49	6.37
JPY/DKK	6.09	6.09	6.12	5.87	5.69
GBP/DKK	8.550	8.68	8.68	8.67	8.67
CHF/DKK	6.609	6.67	6.60	6.49	6.37
SEK/DKK	0.694	0.70	0.69	0.68	0.68
NOK/DKK	0.765	0.77	0.78	0.79	0.80
EUR/DKK	7.4681	7.4650	7.4630	7.4590	7.4550
AUD/DKK	4.610	4.53	4.49	4.54	4.46
NZD/DKK	4.374	4.20	4.16	4.22	4.14
CAD/DKK	4.961	5.01	5.04	5.07	5.06
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/DKK	1.737	1.728	1.744	1.755	1.762
HUF/DKK	2.30	2.33	2.38	2.41	2.44
CZK/DKK	0.290	0.290	0.292	0.296	0.298
RUB/DKK	0.103	0.102	0.097	0.094	0.091
TRY/DKK	1.108	1.093	1.119	1.099	1.045
ZAR/DKK	0.469	0.468	0.455	0.447	0.447
BRL/DKK	1.665	1.692	1.809	1.827	1.931
CNY/DKK	0.968	0.966	0.930	0.940	0.937
INR/DKK	0.095	0.091	0.096	0.095	0.095

Source: Bloomberg, Danske Bank

Danske Bank

Danske Bank FX forecasts vs SEK

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs SEK					
USD/SEK	9.60	9.55	9.56	9.48	9.40
JPY/SEK	8.77	8.72	8.85	8.58	8.39
GBP/SEK	12.32	12.44	12.56	12.67	12.79
CHF/SEK	9.52	9.55	9.56	9.48	9.40
EUR/SEK	10.76	10.70	10.80	10.90	11.00
NOK/SEK	1.10	1.10	1.13	1.16	1.18
DKK/SEK	1.44	1.43	1.45	1.46	1.48
AUD/SEK	6.64	6.50	6.50	6.63	6.58
NZD/SEK	6.30	6.02	6.02	6.16	6.11
CAD/SEK	7.15	7.18	7.30	7.40	7.46
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/SEK	2.50	2.48	2.52	2.56	2.60
HUF/SEK	3.31	3.34	3.45	3.52	3.61
CZK/SEK	0.42	0.42	0.42	0.43	0.44
RUB/SEK	0.15	0.15	0.14	0.14	0.13
TRY/SEK	1.59	1.57	1.62	1.61	1.54
ZAR/SEK	0.68	0.67	0.66	0.65	0.66
BRL/SEK	2.40	2.42	2.62	2.67	2.85
CNY/SEK	1.395	1.385	1.346	1.374	1.383
INR/SEK	0.137	0.131	0.139	0.139	0.140

Source: Bloomberg, Danske Bank

Danske Bank

Danske Bank FX forecasts vs NOK

G10	Spot	+1m	+3m	+6m	+12m
Valutakurser mot NOK					
USD/NOK	8.71	8.66	8.50	8.17	7.95
JPY/NOK	7.96	7.91	7.87	7.40	7.10
GBP/NOK	11.18	11.28	11.16	10.93	10.81
CHF/NOK	8.64	8.66	8.50	8.17	7.95
SEK/NOK	0.91	0.91	0.89	0.86	0.85
EUR/NOK	9.76	9.70	9.60	9.40	9.30
DKK/NOK	1.31	1.30	1.29	1.26	1.25
AUD/NOK	6.03	5.89	5.78	5.72	5.56
NZD/NOK	5.72	5.46	5.35	5.31	5.17
CAD/NOK	6.48	6.51	6.49	6.39	6.31
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
PLN/NOK	2.27	2.25	2.24	2.21	2.20
HUF/NOK	3.00	3.03	3.07	3.03	3.05
CZK/NOK	0.38	0.38	0.38	0.37	0.37
RUB/NOK	0.13	0.13	0.12	0.12	0.11
TRY/NOK	1.45	1.42	1.44	1.39	1.30
ZAR/NOK	0.61	0.61	0.59	0.56	0.56
BRL/NOK	2.18	2.20	2.33	2.30	2.41
CNY/NOK	1.265	1.255	1.197	1.185	1.169
INR/NOK	0.124	0.119	0.123	0.120	0.119

Source: Bloomberg, Danske Bank

Danske Bank FX forecasts vs USD

G10	Spot	+1m	+3m	+6m	+12m
Exchange rates vs USD					
EUR/USD	1.121	1.12	1.13	1.15	1.17
USD/JPY	109.5	110	108	111	112
GBP/USD	1.283	1.30	1.31	1.34	1.36
USD/CHF	1.008	1.00	1.00	1.00	1.00
USD/SEK	9.603	9.55	9.56	9.48	9.40
USD/NOK	8.708	8.66	8.50	8.17	7.95
USD/DKK	6.663	6.67	6.60	6.49	6.37
AUD/USD	0.692	0.68	0.68	0.70	0.70
NZD/USD	0.657	0.63	0.63	0.65	0.65
USD/CAD	1.343	1.33	1.31	1.28	1.26
EM	**Spot**	**+1m**	**+3m**	**+6m**	**+12m**
USD/PLN	3.835	3.86	3.79	3.70	3.62
USD/HUF	290	284	277	270	261
USD/CZK	22.941	22.95	22.65	21.91	21.37
USD/RUB	64.580	65.40	68.00	69.00	70.00
USD/TRY	6.015	6.10	5.90	5.90	6.10
USD/ZAR	14.202	14.25	14.50	14.50	14.25
USD/BRL	4.002	3.94	3.65	3.55	3.30
USD/CNY	6.89	6.90	7.10	6.90	6.80
USD/INR	70.23	73.00	69.00	68.00	67.00

Source: Bloomberg, Danske Bank

Disclosures

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