Investment Research

Danske Bank

FX Forecast Update
GBP cheer is here – but mind the risk of the Commons

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Forecast review part I

- **EUR/NOK:** Despite the collapse in global equities and oil in October, EUR/NOK has been surprisingly stable. The cross has only moved from the low-end to the high-end of the range, which in our view supports the notion that the aggregate NOK position is fairly balanced and leaves potential when USD longs are covered in 2019. We still pencil in a range-trading EUR/NOK on this side of New Year as the reduced potential for a Norges Bank repricing, oil weakness and investor focus on year-end seasonality limit the likelihood of a NOK move higher short-term. For 2019, however, we still think there is an appealing case for a stronger NOK on monetary policy tightening and valuation. We raise our 1M forecast to 9.60 (from 9.40) but leave the rest of the profile unchanged at 9.40 in 3M, 9.20 in 6M and 9.10 in 12M.

- **EUR/SEK.** The coming months will be busy, with the first rate hike expected in seven years, the messy Swedish political situation (including the risk of a snap election) and global risk sentiment from, among other things, Italy, Brexit and the global business cycle. Our 1-3M forecasts reflect the tailwind for the krona from the predicted December rate hike and the intermediate headwinds stemming from political risks, PPM and seasonality. Since the 1M point is just one week before the RB decision, we lower our 1M target to 10.20 (from 10.40), stressing that we still see a chance that EUR/SEK will breach 10.40 in coming weeks. We lower our 3M, 6M and 12M forecasts slightly to 10.10 (from 10.20), 10.00 (from 10.10) and 10.00 (10.10) noting that we have pencilled in a second, still not fully priced, Riksbank rate hike in July 2019.

- **EUR/DKK.** The DKK is relatively more exposed to an escalation of the global trade war as the Danish economy is small and open and has significant exposure to global shipping. Furthermore, Denmark has net exposure to the stock market due in particular to the Danish Life and Pension (L&P) sector's large holdings of US and euro-area stocks. In addition to the easier DKK liquidity situation and negative FX forwards, this helps explain the recent rise to the 7.4600 level. We expect the pair to trade around 7.4550 in 1M, 7.4525 in 3M and 7.4550 in 6-12M.

- **EUR/USD.** The strong US economy should keep the Fed adamant about becoming 'neutral' on rates during the course of 2019 and thus should continue to add to the cyclical and carry support to the USD. With the risk of Italy and Brexit setbacks, this should leave EUR/USD at a range of around 1.13 on a 3M horizon with a good chance of a short-lived dip towards 1.11. However, we still believe ECB 'normalisation' and valuations are still set to support EUR/USD over 6-12M. We have lowered our short-term profile slightly and see EUR/USD at 1.13 in 1M, 1.13 (from 1.15) in 3M, 1.18 (unchanged) in 6M, and 1.25 (unchanged) in 12M.

- **EUR/GBP.** EUR/GBP has dropped sharply since late October, driven by rising Brexit optimism. The lack of a sustained break lower in EUR/GBP after it was announced that UK PM Theresa May got support for a Brexit deal from her Cabinet in our view reflects that uncertainty remains high and that high expectations were priced into GBP already. We still expect EUR/GBP to break lower once a deal is finalised and have revised our 1M target lower to 0.84 (previously 0.88), as our base case remains that the House of Commons will vote in favour of the deal. However, expect GBP to remain very volatile in the coming month, with risks skewed to the upside amid the risk of a turbulent period in UK politics.

- **USD/JPY.** A USD positive environment should persist in 2019 and keep USD/JPY supported. However, we are vigilant about recent disinflationary red flags in Japan. As a result, we maintain our view on USD/JPY and look for the pair to range-trade at 113-115 over the coming year.

- **EUR/CHF.** While the CHF has proved surprisingly resistant to the risk sell-off lately, we stress that the deteriorating Swiss outlook amid still largely absent inflation could lead the market to test the SNB's policy toolbox. This should keep EUR/CHF on the defensive in the short term. However, in the absence of new political risks, this should allow EUR/CHF to see a gradual move back towards 1.20 in 12M. We have left our 3-12M EUR/CHF profile unchanged and still look for 1.12 in 1M, 1.13 in 3M, 1.16 in 6M and 1.20 in 12M.

- **AUD, NZD, CAD.** Whilst the NZD and AUD have recovered strongly from the October sell-off, the drop in the oil price has prevented CAD from erasing the past month's losses. With the outlook for more near-term USD strength, all three currencies are unlikely to see extensive support on this side of New Year. However, we still pencil in USD weakness for next year, and if we are right about global growth stabilising amid a rebound in China, among other things, all three should see support. Indeed, market positioning would aid a strong rebound (see *IMM Positioning Update)*. We still expect two hikes from the Bank of Canada, one from the Reserve Bank of Australia and unchanged policy rates from the Reserve Bank of New Zealand when looking at 2019. We now forecast AUD/USD at 0.72 in 1M (unchanged), 0.73 in 3M (unchanged), 0.74 in 6M (unchanged) and 0.75 in 12M (unchanged); NZD/USD at 0.67 in 1M (previously 0.66), 0.67 in 3M (previously 0.66), 0.68 in 6M (previously 0.67) and 0.69 in 12M (previously 0.68). Finally, we forecast USD/CAD at 1.32 in 1M (previously 1.30) 1.30 in 3M (previously 1.28), 1.27 in 6M (previously 1.25) and 1.25 in 12M (previously 1.23).

- **EUR/PLN.** EUR/PLN has continued to trade in the 4.26-4.33 range, broadly since mid-summer. As the more hawkish tone from the central bank is not reflected yet in market pricing, the EUR/PLN has not seen persistent downward pressure. In the near term, we expect EUR/PLN to remain in the current range, while a stronger EUR and a possible trade deal between China and the US could be bearish for EUR/PLN on a 6-12M basis. Hence, we keep our forecasts relatively unchanged for EUR/PLN at 4.28 in 1M, 4.27 in 3M, 4.20 in 6M and 4.18 in 12M.

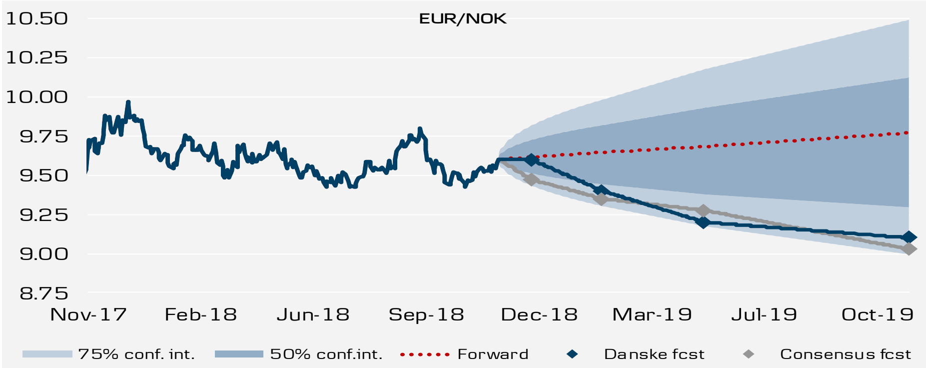
- **USD/CNY.** The People's Bank of China (PBoC) has allowed the market to play a bigger role than before but at the same time is intervening to avoid rapid movements that could cause instability. The main risk is a further escalation of the trade war, which would intensify downside pressure on the CNY. We look for further CNY weakening in the medium term on diverging monetary policy and expect USD/CNY to reach 7.00 in 3M and 7.20 in 12M.

- **Oil.** Despite the recent decline in oil prices, we stick to our view on the oil price outlook and maintain our forecasts. We forecast the price of Brent crude to average USD85/bbl in Q4 this year and trade at the USD85-87/bbl level in Q1-Q3 next year as supply concerns will remain high on the oil market agenda, before falling to USD80/bbl in Q4 19 as supply concerns ease.

EUR/NOK – weather impact on data is only temporary

- **Growth.** The warm and dry weather in spring and early summer in Scandinavia this year has had a substantial impact on Norwegian data releases lately. Most prominently, the summer rise in electricity prices eroded household purchasing power and weighed on agricultural production, as reflected in a weak set of Q3 mainland GDP data. Importantly, we still think the outlook remains strong, and with the fall back in electricity prices alongside rising employment and wage growth, we think economic growth will rebound in the coming quarters.
- **Monetary policy.** Norges Bank delivered the first interest rate hike in seven years when it raised the sight deposit rate by 25bp to 0.75 at the September monetary policy meeting. At the interim 'small' meeting in October, the central bank reiterated the message of slightly fewer than two rate hikes per year, with the next one set for March 2019.
- **Flows.** Foreign banks (the proxy for speculative flows) have net bought NOK over the past months, leaving the question of whether long NOK positions have become crowded. In our view, the aggregate NOK positioning is fairly balanced as heavy USD/NOK buying over the summer has countered long NOK/SEK positions. That leaves a NOK potential when EUR/USD rebounds and USD longs are covered.
- **Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.52 as 'fair'.
- **Risks.** The biggest risk factor to our forecast is broad-based USD strength and/or a global risk-off event, which would weigh on the NOK directly and indirectly via the oil price. In addition, the risk that we underestimate the impact of a Chinese slowdown is relevant, as commodity FX has traded in synchronised manner in recent years, with turning points coinciding with the Chinese cycle. The latter could be connected to the escalating global trade war. Importantly, we think the downside NOK risks have risen in recent months.

Forecast: 9.60 (1M), 9.40 (3M), 9.20 (6M), 9.10 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	9.60 (48%)	9.40 (20%)	9.20 (13%)	9.10 (15%)
Fwd. / Consensus	9.61 / 9.47	9.65 / 9.35	9.68 / 9.28	9.77 / 9.03
50% confidence int.	9.50 / 9.72	9.44 / 9.82	9.38 / 9.93	9.29 / 10.12
75% confidence int.	9.41 / 9.81	9.30 / 9.98	9.17 / 10.18	8.99 / 10.49

Source: Danske Bank

- **Conclusion.** Despite the collapse in global equities and oil in October, EUR/NOK has been surprisingly stable. The cross has only moved from the low-end to the high-end of the range, which in our view supports the notion that the aggregate NOK position is fairly balanced and leaves potential when USD longs are covered in 2019. We still pencil in a range-trading EUR/NOK on this side of New Year as the reduced potential for a Norges Bank repricing, oil price weakness and investor focus on year-end seasonality limit the likelihood of a NOK move higher short-term. For 2019, however, we still think there is an appealing case for a stronger NOK on monetary policy tightening and valuation.
- In light of the recent spot move higher, we raise our 1M forecast to 9.60 (from 9.40) but leave the rest of the profile unchanged at 9.40 in 3M, 9.20 in 6M and 9.10 in 12M.

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EUR/NOK – important issues to watch

Summer weather impacting inflation and GDP…

- Economic data releases out of Norway have been heavily impacted by the warm and dry spring and summer in Scandinavia this year. First and foremost, the weather triggered a supply-driven drop in electricity production (water driven), which impacted Q2 mainland GDP data very negatively by 0.2pp. The lower supply lead to soaring electricity prices, which is why headline CPI rose rapidly over summer, see margin chart.
- Last week's inflation data showed, however, that much of the summer rise was temporary, as both core and headline inflation fell back in October. While lower electricity prices were key for the headline drop, the core measure primarily decreased on lower domestic food prices (also weather related) and lower plane tickets.
- The rise in electricity prices also had real effects on the economy as higher headline inflation has eroded household consumer power. Indeed goods consumption dropped by 1.4% q/q in Q3, explaining why private consumption subtracted 0.1pp from mainland GDP. The dry weather also had a substantial impact on agricultural production in Q3, leading to the lowest quarterly mainland GDP growth in two years.

…but outlook remains strong. Norges Bank March hike still in store

- On the surface, lower inflation and weaker growth could bring into question the outlook for further rate hikes from Norges Bank. However, we think the weather impact is only temporary as most indicators paint a strong picture of growth in the year ahead. In addition, in terms of inflation, if we adjust for food prices and plane tickets, our "core core" measure was virtually unchanged in October. With rising wages and strong employment growth set to continue, we therefore still pencil in two rate hikes per year from Norges Bank. We think the balance of risk is skewed towards three hikes, not one, in 2019.

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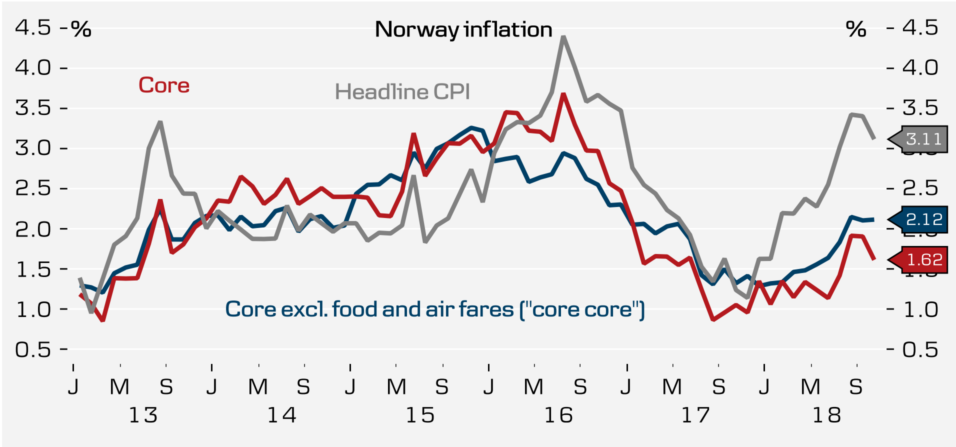
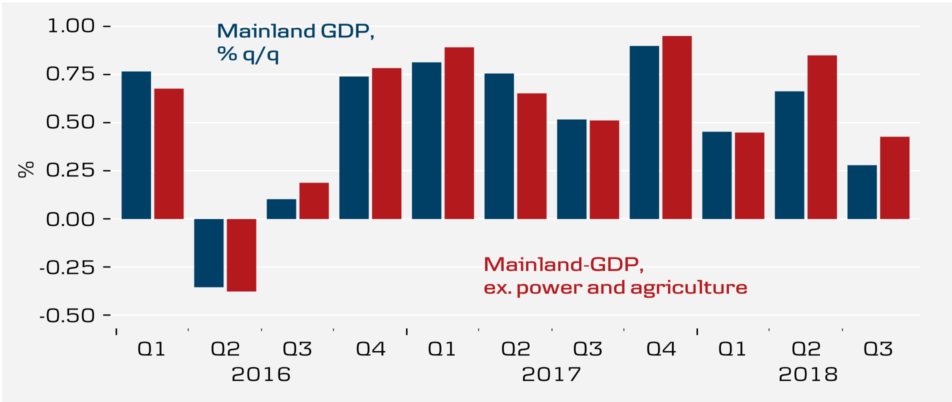
"Core core" inflation (blue) more stable than indicated by core and headline



Source: Macrobond Financial, Norges Bank, Danske Bank

Adjusting GDP for weather-impact paints a better picture for Q2 and Q3 this year

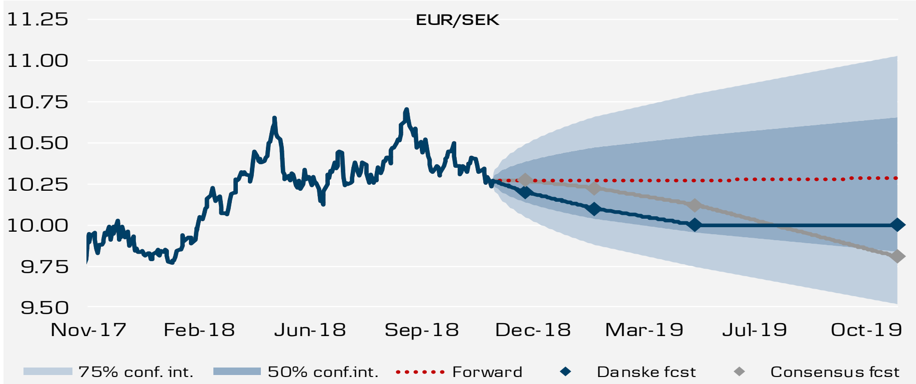


Source: Macrobond Financial, Norges Bank, Danske Bank

EUR/SEK – first hike draws closer

- **Growth.** GDP growth in Sweden has lost momentum in 2018 and we expect a continued slowdown in H2 and in 2019. We forecast 2018 GDP growth at 2.0 (2.4% in 2017) and 2019 at 1.6%. The drag stems mainly from deceleration in housing investments and sluggish private consumption. Net exports have defied consensus expectations, becoming a drag on growth over the past years. The slowdown seen in the euro zone is also a headwind.
- **Monetary policy.** The Riksbank is ready to hike rates for the first time in seven years. It has indicated this would happen in December or February. We expect the first hike to come in December and since our inflation forecast is sufficiently close to the Riksbank's until next summer, we think it will hike the repo rate to 0% in July 2019, putting an end to negative rates - which would be a milestone. However, thereafter, our inflation paths start to diverge, which makes any further hikes more uncertain. We see upside potential in the short end of the yield curve and thus downside potential in EUR/SEK.
- **Flows.** While net exports (goods) to the eurozone have declined on a trend basis, natural SEK buyers may want to raise hedge ratios at low levels. Foreign demand for Swedish debt has decreased over the past couple of years, while the appetite for Swedish equities has grown.
- **Valuation.** We think ultra-easy monetary policy is the main reason for the trend depreciation of the krona. That said, part of it can be explained by 'long-term' fundamentals; for example, shrinking external balances and deteriorating productivity growth. Still, EUR/SEK is on the 'high side'.
- **Risks.** In the weeks to come, we could see an increasing political risk premium in the krona should Sweden move toward a snap election. The Sweden Democrats (SD) could then grow even bigger; remember that a 'big SD' was a concern that weighed on the krona ahead of the September election. A strongly hawkish hike in December could lead to a faster SEK appreciation than we envisage in our forecasts.

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



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	10.20 (37%)	10.10 (31%)	10.00 (28%)	10.00 (34%)
Fwd. / Consensus	10.27 / 10.27	10.27 / 10.23	10.27 / 10.12	10.28 / 9.81
50% confidence int.	10.13 / 10.39	10.04 / 10.47	9.95 / 10.54	9.84 / 10.65
75% confidence int.	10.04 / 10.50	9.88 / 10.66	9.74 / 10.80	9.52 / 11.03

Source: Danske Bank

- **Conclusion.** The coming months will be busy, with the first rate hike expected in seven years, the messy Swedish political situation (including the risk of a snap election) and global risk sentiment from, among other things, Italy, Brexit and the global business cycle.
- Our 1-3M forecasts reflect the tailwind for the krona from the predicted December rate hike and the intermediate headwinds stemming from political risks, PPM and seasonality. Since the 1M point is just one week before the Riksbank decision, we lower our 1M target to 10.20 (from 10.40), stressing though that we still see a chance that EUR/SEK reaches 10.40 over the next few weeks. We lower our 3M, 6M and 12M forecasts slightly to 10.10 (from 10.20), 10.00 (from 10.10) and 10.00 (10.10) , noting that we have pencilled in a second, still not fully priced, Riksbank rate hike in July 2019.

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EUR/SEK – important issues to watch

Riksbank to confirm plan to hike at the October meeting

- The Riksbank is a strategic positive for the SEK, in our view, as it indicates a first step away from the extreme policy that is arguably the key reason why the krona has reached such weak levels. Pricing suggests 19bp in December, followed by 4bp in February. Hence, the first hike in seven years is almost fully discounted already. However, the second hike is not. The table to the right shows the current RIBA pricing, which indicates 35bp until July, which in turn suggests some downside potential in EUR/SEK.

Government formation – risk of snap election lingers

- A parliament majority has just rejected the proposed (Moderates + Christ Democrats) government. New rounds and new votes will take place in the weeks to come. Löfven may now get a shot, but is also likely to fail in our view. The risk of a snap election has clearly risen over the past few weeks. After four rejected proposals, a snap election would be triggered within three months. Read more about the process and market impact in last week's *Reading the Markets Sweden*, 9 November.

PPM money defines December seasonality

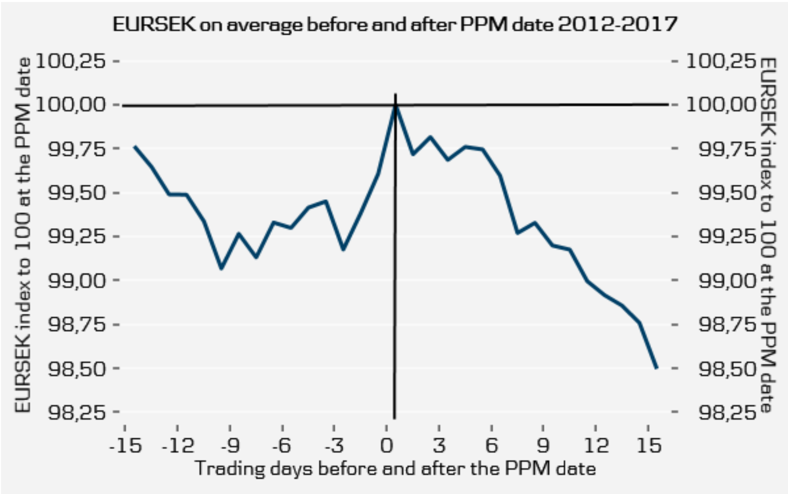
- The disbursement of PPM pension money usually takes places around Nobel Day in December. The exact date has yet to be announced, but our guess is that it will be Monday the 10th. We estimate the total amount disbursed to be slightly higher than SEK40bn. Some of these investments enter into global funds; our best estimate is in the ballpark of SEK25bn (i.e. 60% of the total). Assuming 50% of this is hedged, we expect to see a negative flow effect of approximately SEK13bn. The effect on the krona tends to be temporary. Typically, EUR/SEK trades higher before the disbursement day, and falls back thereafter.

Pricing of the Riksbank – first hike full priced, while a second next summer is not

RIKS Implied fr RIBAs	
09 jan	+19
20 feb	+4
08 maj	+4
03 jul	+7
11 sep	+6
30 okt	+6
08 jan	+7
19 feb	+7
Σ	+60

Source: Macrobond Financial, Danske Bank

PPM money defines December seasonality



Source: Macrobond Financial, Danske Bank

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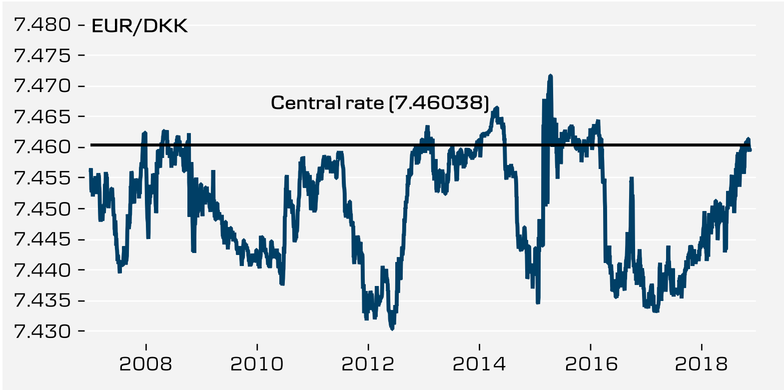
EUR/DKK – back below the central rate

- **FX.** EUR/DKK traded above the 7.46038 central rate in October and as high as 7.4615-20. It did not prompt FX intervention by Danmarks Nationalbank (DN) though. EUR/DKK remains supported by negative FX forwards and Denmark's net exposure to global trade and the US and European stock markets. We expect EUR/DKK to fall back towards 7.4525 in 3M before rising to 7.4550 in 6-12M. In 2015-16, DN sold EUR/DKK in FX intervention around the level of 7.4610-30. We expect it to stick to this pattern. In Q1 next year, the Swedish Riksbank will sell the equivalent of 0.5bn EUR/DKK as part of a change in currency composition of its FX reserve. This will help keep a lid on EUR/DKK.
- **Rates & forwards.** We expect DN to keep the interest rate on certificates of deposit unchanged at minus 0.65% in 12M. Easy DKK liquidity and portfolio outflows have put downward pressure on EUR/DKK FX forwards and we expect the former will continue to do so in 2019.
- **Flows.** The Danish current account surplus remains large, but has moderated somewhat from the elevated level of past years. It still creates fundamental support for the DKK. A high savings rate and low investment activity will maintain this situation in the coming years. Denmark has significant exposure to the US as around one-third of the surplus is earned in the US.
- **Liquidity.** The net position bottomed around Easter and is set to rise further towards year-end. The government has scaled down net issuance to relieve the strain on liquidity from the improvement in government finances seen earlier this year. We expect the net position to reach around DKK210bn at the end of the year. Next year, DKK liquidity is likely to remain ample as the government will continue to use funds from its account at DN to fund the budget deficit and redemptions.

Forecast: 7.4550 (1M), 7.4525 (3M), 7.4550 (6M), 7.4550 (12M)



Source: Danske Bank

- **Conclusion.** The DKK is relatively more exposed to an escalation of the global trade war as the Danish economy is small and open and has significant exposure to global shipping. Furthermore, Denmark has net exposure to the stock market due in particular to the Danish Life and Pension (L&P) sector's large holdings of US and euro-area stocks. In addition to the easier DKK liquidity situation and negative FX forwards, this helps explain the recent rise in EUR/DKK to the 7.4600 level. We expect the pair to trade around 7.4550 in 1M, 7.4525 in 3M and 7.4550 in 6M-12M.

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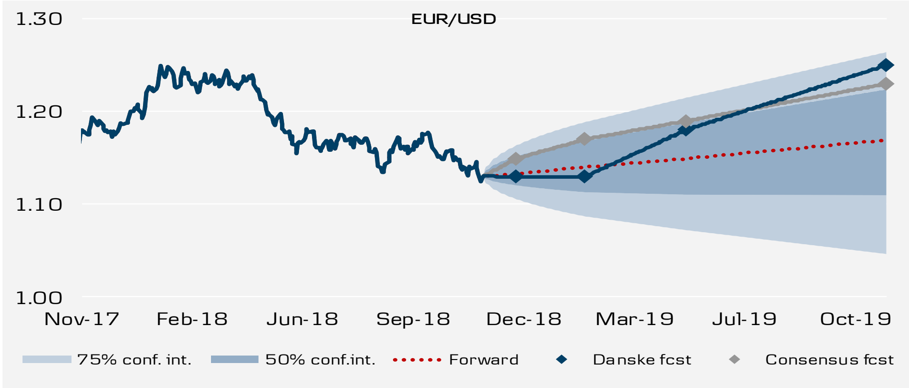
EUR/USD – little relief this side of New Year

- **Growth.** The US economy has proved recently that it is still going strong. While we still look for some loss of momentum into 2019 but, crucially, fiscal tailwinds remain even with little prospect of a new tax reform given the divided Congress after the US midterms. Meanwhile euro zone data has come out on the weaker side lately. Our quantitative business-cycle models hint that both the euro zone and the US cycles should stabilise in the coming months. Overall, we see the relative cyclical outlook continuing to be in favour of the USD heading into 2019.
- **Monetary policy.** The Fed delivered the widely expected 25bp hike in September and no surprises at the November meeting and will likely deliver another in December. The ECB has yet to formally announce an end to the APP (Asset Purchase Programme) but we think it will stop at the end of this year. The strong forward guidance of "rates remain at present levels at least through the summer of 2019" remains. The December meeting could be instrumental as key decisions could be taken (APP, rate communication, TLTRO (targeted longer-term refinancing operations)). The outlook for relative rates is still tilted in favour of a lower EUR/USD near term. However, the pricing of the ECB is on the dovish side of our expectations and we cannot rule out the Fed going on hold sometime next year. Indeed, we are closing in on the point where policy shifts (Fed stops tightening, ECB stops easing), which should favour a higher EUR/USD.
- **Flows.** Positioning is now broadly neutral EUR but stretched on USD longs. We still see a case for eurozone capital outflows to fade and support the EUR as the ECB phases out negative rates.
- **Valuation.** Our Medium-term Valuation (MEVA) model now suggests 1.30 is 'fair' for the cross, not far from our PPP estimate of 1.29.
- **Risks.** Short term, a key risk is that fears of a US recession cause the Fed to pause early. Medium term, a key risk is that an Italy debt crisis erupts.

Forecast: 1.13 (1M), 1.13 (3M), 1.18 (6M), 1.25 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.13 (43%)	1.13 (38%)	1.18 (70%)	1.25 (83%)
Fwd. / Consensus	1.13 / 1.15	1.14 / 1.17	1.15 / 1.19	1.17 / 1.23
50% confidence int.	1.12 / 1.15	1.11 / 1.17	1.11 / 1.19	1.11 / 1.22
75% confidence int.	1.10 / 1.16	1.09 / 1.19	1.07 / 1.21	1.05 / 1.26

Source: Danske Bank

- **Conclusion.** The strong US economy should keep the Fed adamant about becoming 'neutral' on rates during the course of 2019 and thus should continue to add to the cyclical and carry support to the USD. With the risk of Italy and Brexit setbacks, this should leave EUR/USD at a range of around 1.13 on a 3M horizon with a good chance of a short-lived dip towards 1.11. While the ECB is more confident on inflation, we think Draghi and co are in no hurry to push for fast 'normalisation' of monetary policy. However, medium term, the euro capital outflows of recent years should fade as the first ECB hike draws closer. Alongside valuation, this is set to support EUR/USD in 6-12M.
- We have lowered our short-term profile slightly and see EUR/USD at 1.13 in 1M, 1.13 (from 1.15) in 3M, 1.18 (unchanged) in 6M, and 1.25 (unchanged) in 12M.

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EUR/USD – important issues to watch

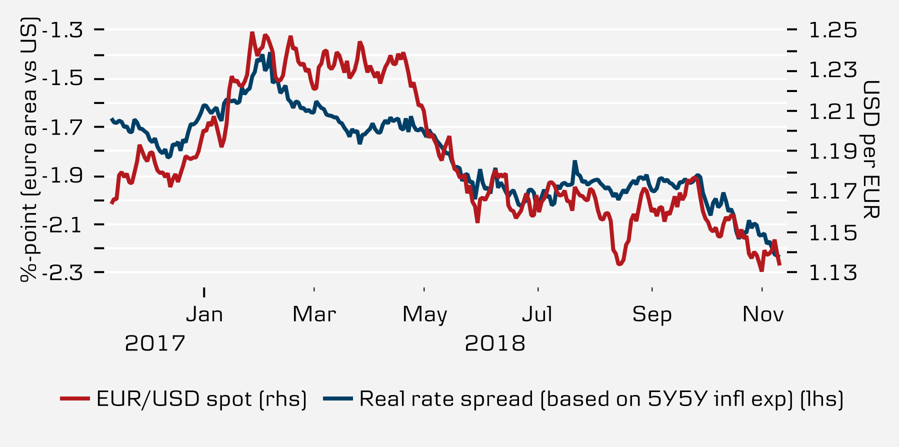
EUR/USD breaks below 1.13 – too early to call a rebound

- A noteworthy recoupling of EUR/USD with real longer-term yield spreads has been seen lately and six factors suggest the cross should stay under pressure ahead of the year-end (see *FX Strategy* , 12 November 2018)
- First, our quantitative business-cycle models suggest the US economy should fare better on growth for some time further than the euro zone.
- Second, the Fed is now more worried about falling behind the curve than the opposite – and the ECB is keen to stress its dovish twist to any tightening.
- Third, a US-China trade deal is unlikely before well into 2019
- Fourth, Italy is unlikely to blink on its fiscal budget just yet.
- Fifth, positioning is stretched on USD longs but not historically extreme.
- Sixth, technically in unchartered territory with 1.1120 within reach.

Reserve currency status of USD challenged?

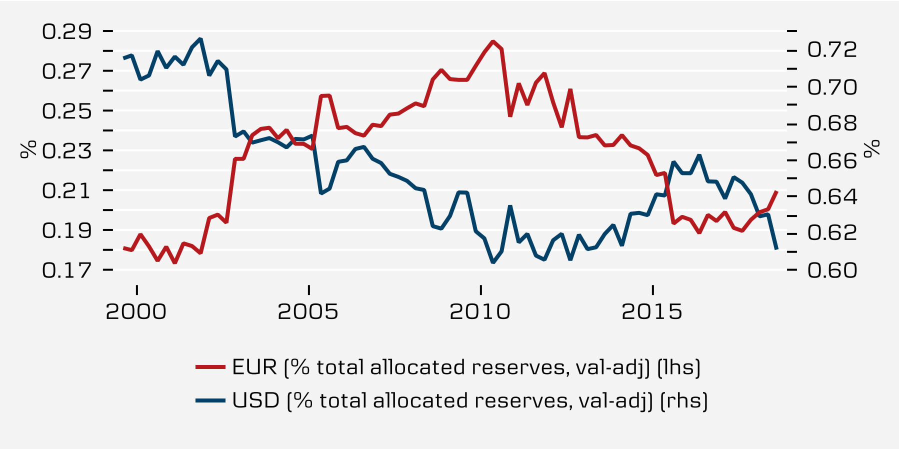
- The IMF's latest data on the composition of global FX reserves (COFER) shows that reserve managers' holdings of USD continue to decline, now reaching just above 60%. The share of EUR, its key opponent, has risen a tad to just above 20%. We are still far from a closing of the 'gap' seen ahead of the euro debt crisis in 2010 when the EUR share was around 28%. Notably, both the GBP and JPY have increased their shares recently.
- Two factors could be affecting the relative interest of reserve managers of EUR vs USD: (1) Negative yields are likely keeping some investors out of EUR assets; this is set to change as the ECB 'normalises' likely starting late 2019. (2) Trump's 'America first' rhetoric may lead investors to question the reserve currency status of the dollar going forward; this would be a slow-moving process, however.

EUR/USD recoupling with real relative long-term yields



Source: Danske Bank, Macrobond Financial, Bloomberg

EUR vs USD share of global FX reserves (mind the different scales though!)



Source: IMF/COFER, Danske Bank, Macrobond Financial

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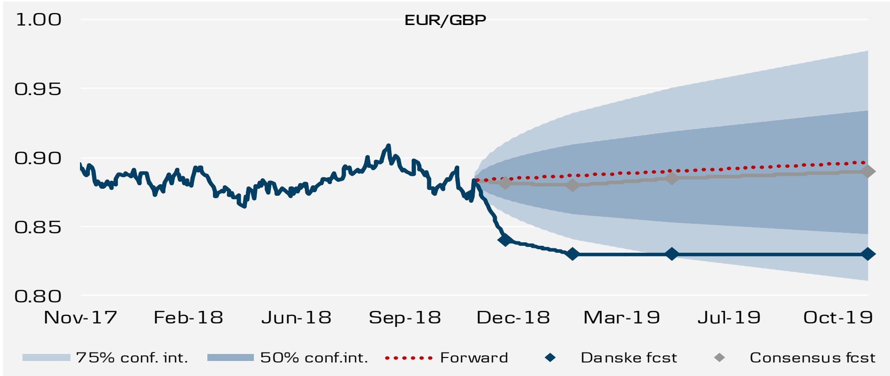
EUR/GBP – Brexit deal, but real test is the vote in the House of Commons

- **Growth.** The UK economy expanded 0.6% q/q in Q3. The relatively strong pace is partly due to a rebound from a weak H1 18, and the falling PMI business indicators imply that growth is likely to be lower in Q4. Growth in the UK is mainly driven by private consumption and government consumption. Business investment fell 1.2% q/q. It was the third quarter in a row with negative business investment growth, something the UK has not experienced since the financial crisis and can be explained by Brexit uncertainty.
- **Monetary policy.** As expected, the Bank of England (BoE) voted unanimously to keep the Bank Rate at 0.75% in November. We expect the BoE to hike around once a year and our base case is that the next hike will arrive in May 2019. The UK money market curve is relatively flat, with the next BoE rate hike priced to arrive in November 2019. While this is slightly dovish compared to our expectations, we think market pricing is fair for now – especially given the uncertainty related to Brexit.
- **Flows.** The UK runs a current-account deficit, notably against EU countries, which is a fundamental supporting factor for EUR/GBP. However, the basic balance of the UK balance of payments shows that net inflows into the UK were positive in Q4 17 and Q1 18. Continued recovery in foreign investors' appetite for UK assets supports the case for a stronger GBP over the medium term.
- **Valuation.** The GBP remains fundamentally undervalued: Our G10 MEVA model puts EUR/GBP at 0.77 (our Brexit-corrected MEVA estimate for the cross is around 0.83), while our PPP estimate is 0.76.
- **Risks.** In our view, uncertainty regarding Brexit negotiations should keep the GBP undervalued and volatile for longer. Timing the market's repricing of a Brexit risk premium is nearly impossible.

Forecast: 0.84 (1M), 0.83 (3M), 0.83 (6M), 0.83 (12M)



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.84 (5%)	0.83 (8%)	0.83 (13%)	0.83 (18%)
Fwd. / Consensus	0.88 / 0.88	0.89 / 0.88	0.89 / 0.88	0.90 / 0.89
50% confidence int.	0.87 / 0.90	0.86 / 0.91	0.85 / 0.92	0.84 / 0.93
75% confidence int.	0.85 / 0.91	0.84 / 0.93	0.83 / 0.95	0.81 / 0.98

Source: Danske Bank

- **Conclusion.** EUR/GBP has dropped sharply since late October, driven by rising Brexit optimism. The lack of a sustained break lower in EUR/GBP after it was announced that UK PM Theresa May got support for a Brexit deal from her Cabinet in our view reflects that uncertainty remains high and that high expectations were priced in to GBP already. We still expect EUR/GBP to break lower once a Brexit is finalised and we have revised our 1M target lower to 0.84 (previously 0.88) as our base case remains that the House of Commons will vote in favour of the deal (most likely on 10 December). We stress that it will most will be a close decision. Hence, expect GBP to remain very volatile in the coming month, with risks skewed to the upside amid the risk of a turbulent period in UK politics. Longer term, we expect EUR/GBP to settle around the 0.83 level, but volatility is likely to remain high.

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EUR/GBP – important issues to watch

Brexit agreement reached, but the big test of the Commons remains

- On 14 November, UK PM Theresa May got support for her Brexit deal from the Cabinet, and we expect it to be smooth sailing for the EU leaders to give their consent to the deal when the extraordinary EU summit on Brexit takes place likely on 25 November.
- The decision taken by the UK Cabinet to support the Brexit deal was 'collective' not 'unanimous', and some ministers including Brexit Secretary Dominic Raab have subsequently resigned in protest over the agreement.
- Hence, UK politics remain poisoned, and the development internally in the UK government will be directional for GBP in the coming days. The hardliners in the Conservative Party may try to challenge Theresa May as party leader, which explains why markets are not getting overexcited just yet.
- Moreover, the real test for the Brexit deal is still whether it can pass the UK House of Commons. A vote is expected to be held in mid-December (10 December has been reported, but not yet confirmed).
- The problem for Theresa May is that Brexit hardliners, Theresa May's supporting party DUP, the Labour leadership, the Lib Dems and the Scottish National Party have said they are voting against the deal. That means PM Theresa May needs support not only from the moderate Conservatives but also some Labour MPs. May will probably tell them that it is this deal or nothing, so the strategy is that the Labour MPs would fear a 'no deal' Brexit scenario so much that they will vote in favour of her deal.
- See *Brexit Monitor - Cabinet not unanimously behind May while Brexiteers are discussing whether to try and challenge her*, 15 November for more details.

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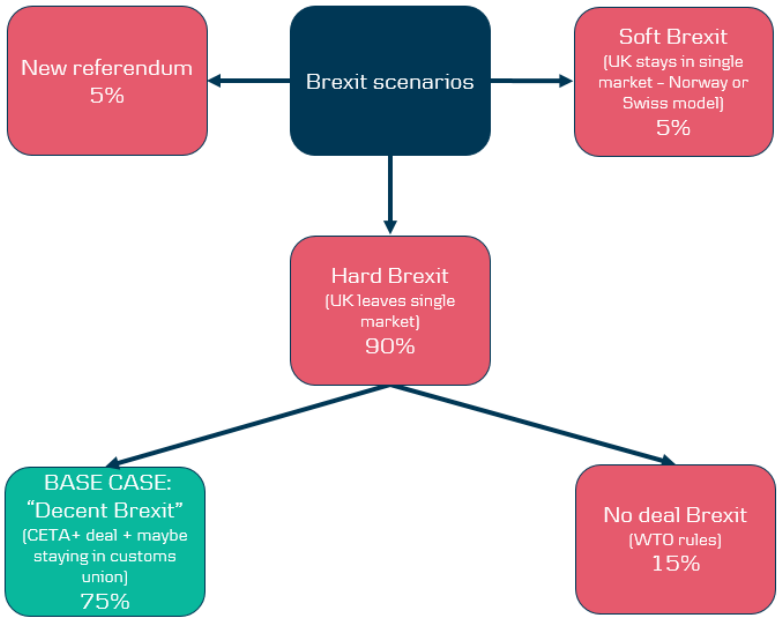
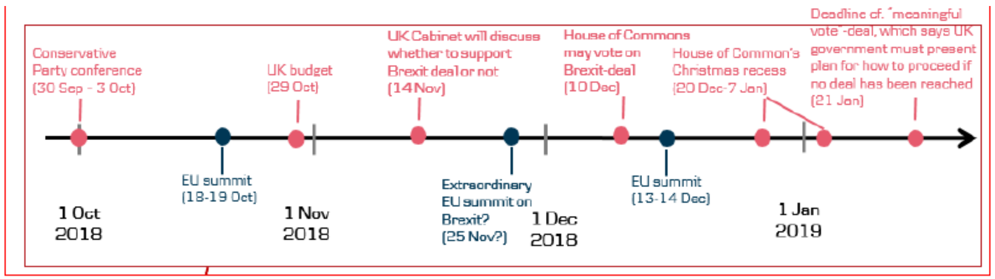
Brexit scenarios



Source: Danske Bank

Brexit timeline

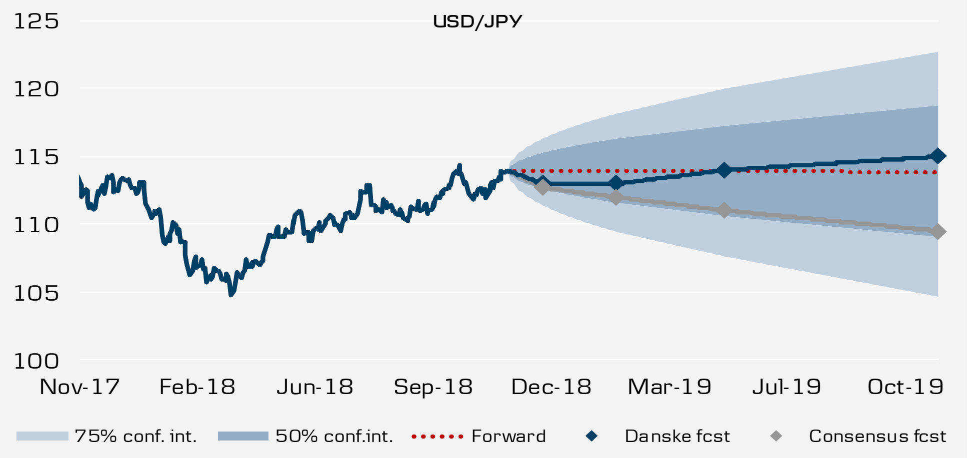


Source: Danske Bank

USD/JPY – range bound into 2019

- **Inflation and monetary policy.** The acceleration in Japanese money supply growth and CPI inflation seen in 2016 and 2017 has faded this year. This has also started to carry over to nominal GDP growth. In particular, we think it is important to monitor the slowing growth of the Japanese monetary base, which seems to be at the centre of the development outlined above. The Bank of Japan (BoJ) continues to emphasise its willingness to keep monetary policy accommodative and we expect no changes before the end of 2019 at the earliest. However, its actions are starting to look contradictory as, in our view, slowing monetary growth will not bring the BoJ closer to its inflation aim – furthermore, it could start to become a JPY positive.
- **Terms of trade.** The recent selloff in oil and base metal prices will benefit Japan's terms of trade and the JPY in effective terms. In our view, the JPY is less exposed to the rising global trade tensions.
- **Flows.** Japan continues to be a significant capital exporter via its large current account surplus of close to 4% of GDP, which further depresses Japanese real interest rates. However, we have seen some indicative signs that domestic investment activity has picked up in Japan this year.
- **Money market.** Growth in JPY excess liquidity has slowed down this year, but for Japanese investors and USD/JPY, USD money market conditions remain even more important. JPY/USD XCCY basis has tightened in the past couple of months and in September Japanese investors bought US Treasuries for the first time in sometime.
- **Valuation.** PPP is around 80, while our MEVA model suggests 104 is 'fundamentally' justified.
- **Positioning.** Investors are stretched short positioned in JPY and stretched long positioned in USD/JPY.

Forecast: 113 (1M), 113 (3M), 114 (6M), 115 (12M)



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	113.00 (29%)	113.00 (37%)	114.00 (49%)	115.00 (55%)
Fwd. / Consensus	113.92 / 112.70	113.91 / 112.00	113.90 / 111.03	113.88 / 109.51
50% confidence int.	112.73 / 115.26	111.59 / 116.32	110.61 / 117.26	109.07 / 118.77
75% confidence int.	111.51 / 116.21	109.44 / 118.17	107.64 / 120.00	104.67 / 122.72

Source: Danske Bank

- **Risks.** During the recent selloff in equity markets, the JPY did see some temporary safe haven demand. If negative sentiment returns, the JPY could see renewed support. Another risk to keep in mind is the potential for oil prices to rally again. That in turn would be JPY negative.
- **Conclusion.** A USD positive environment should persist in 2019 and keep USD/JPY supported. However, we are vigilant about recent disinflationary red flags in Japan. As a result, we maintain our view on USD/JPY and look for the pair to range-trade at 113-115 over the coming year

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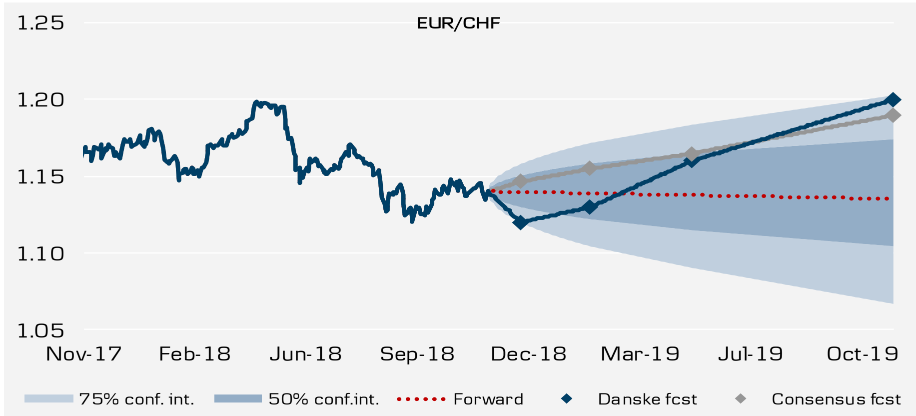
EUR/CHF – market looking to test SNB?

- **Growth.** Data out of Switzerland has deteriorated again with notably both the KOF leasing indicator and the manufacturing PMI weakening, albeit from expansionary levels. Unemployment remains steadily low, yet core inflation is worryingly absent, having stabilised around 0.4%.
- **Monetary policy.** The SNB has been on hold at -0.75% on key policy rates since January 2015 – and we believe this is unlikely to change any time soon. At the September meeting, as widely expected, it kept both policy rates unchanged but did make downward adjustments to its conditional inflation profile, which suggests any 'exit' from negative rates will be long underway. Further, in its statement, the SNB kept the wording that the CHF is "highly valued" and kept open the option of using intervention to fight CHF strength. However, this has seemingly not been needed recently despite Italy risks. However, since the September meeting, the effective CHF has appreciated some 2.5%, which would not be welcomed by the SNB. Following a recent speech by the SNB's Andrea Maechler, in which she reiterated the SNB's stance, EUR/CHF dipped significantly in a sign that the market may be looking to test the SNB on its ability to keep deflationary pressure at bay.
- **Flows.** Speculators continued to trim CHF shorts lately, and both EUR and CHF positioning is close to 'neutral'.
- **Valuation.** Both our G10 MEVA and PPP models suggest the cross should move higher over the medium to long term with both at 1.27.
- **Risks.** The CHF has been notably insensitive to rising Italy debt concerns. In general, the FX market has proved resilient to Italy worries, with USD strength dominating the picture. We stress, however, that if risk sentiment were to sour further, the market could be ripe for noteworthy CHF appreciation in a test of the SNB's (or lack of) policy tools.

Forecast: 1.12 (1M), 1.13 (3M), 1.16 (6M), 1.20 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.12 (12%)	1.13 (33%)	1.16 (70%)	1.20 (86%)
Fwd. / Consensus	1.14 / 1.15	1.14 / 1.16	1.14 / 1.16	1.14 / 1.19
50% confidence int.	1.13 / 1.15	1.12 / 1.16	1.11 / 1.17	1.10 / 1.17
75% confidence int.	1.12 / 1.16	1.10 / 1.17	1.09 / 1.18	1.07 / 1.20

Source: Danske Bank

- **Conclusion.** While the CHF has proved surprisingly resistant to Italian risks and the equity selloff lately, we stress that the deteriorating Swiss outlook amid still largely absent inflation could lead the market to test the SNB's policy toolbox. This should keep EUR/CHF on the defensive in the short term. The SNB would likely remain reluctant to change its communication in light of the stubbornly subdued inflationary pressure and a still distant first hike from the ECB. However, in the absence of new political risks, this should allow EUR/CHF to see a gradual move back towards 1.20 in 12M. It would likely require a clear dip towards 1.10 for the SNB to start intervening on a larger scale.
- We have left our 3-12M EUR/CHF profile unchanged, and still look for 1.12 in 1M, 1.13 in 3M, 1.16 in 6M and 1.20 in 12M.

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USD/CNY – diverging policy to drive further CNY weakness

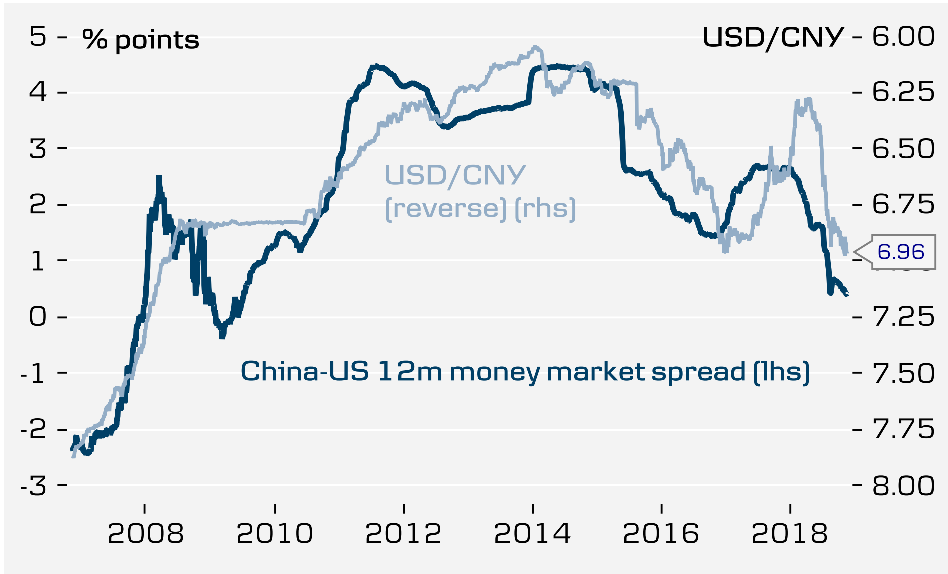
- **Growth.** Chinese growth dropped to 6.5% y/y in Q3 from 6.7% y/y in Q2. It was the lowest rate since 2009. We look for Chinese activity to get worse before it gets better. The trade war is putting a drag on export orders, private investments and consumption of durables. The campaign to deleverage and crack down on shadow banking is also weighing on Chinese growth. However, we expect to see a bottom in Q2 as stimulus kicks in and we look for new trade talks with the US to take place. A trade deal during H2 should decrease uncertainty and lift exports and private demand again.

- **Monetary policy.** Chinese money market rates have fallen sharply over the past six months as the People's Bank of China (PBoC) has increased liquidity. It has dragged the CNY lower as relative monetary policy versus the US has thus turned very CNY negative (see chart). Although we now expect a ceasefire at the Trump-Xi meeting on 1 December (60% probability), there is still a risk that the trade war could escalate further. Even if we see a ceasefire, the Fed is set to keep tightening and relative rates will continue to favour further USD strength versus the CNY.

- **FX policy.** CNY continues to be a managed peg against a basket of currencies. The PBoC has allowed the market to play a bigger role but at the same time intervenes to avoid rapid movements that could cause instability. On 3 August, China reinstated a reserve requirement of 20% on buying of some FX forwards in a move to stem the decline of the CNY. We do not believe China is using the currency as a tool in the trade war.

- **Flows.** There are still no signs of big outflows as was the case in 2015/16. However, China has intervened slightly to halt the CNY depreciation by pushing up CNH money market rates, an instrument that has proved effective in stopping CNY weakening.

Forecast: 6.95 (1M), 7.0 (3M), 7.1 (6M), 7.2 (12M)



Source: Danske Bank

- **Valuation.** The CNY is still seen as close to fair valuation.

- **Risks.** The main risk is a further escalation of the trade war, which would intensify downside pressure on the CNY.

- **Conclusion.** We look for further CNY weakening in the medium term on diverging monetary policy. We expect USD/CNY at 7.00 in 3M (previously 6.95) and 7.20 in 12M (unchanged).

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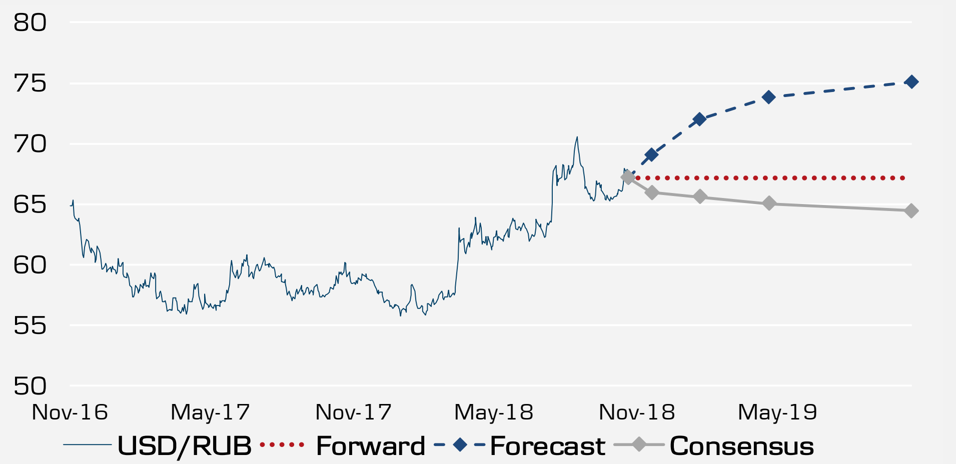
USD/RUB – door for weakening RUB on US sanctions is open

- **Growth.** The Russian economy probably grew 1.3% y/y in Q3 18 versus 1.9% y/y a quarter earlier according to our estimates. Industrial production growth remains in positive territory through 2018 and manufacturing PMI recovered. However, accelerating inflation, modest growth in fixed investments and a new wave of monetary tightening have already started weighing on economic expansion and the private consumer. Given the change in Russia's monetary policy stance since summer 2018 and the continuous risk of anti-Russia sanctions amid a shaky EM environment, we expect Russia GDP to grow 1.3% in 2019 and 1.4% in 2020, seeing that geopolitical woes remain the major downside risk for our forecasts and emphasises the increased risk of a technical recession in 2019.
- **Monetary policy.** Russia's central bank (CBR) left the key rate unchanged at 7.50% in October 2018 as we expected, in line with the Bloomberg and Reuters consensus. Inflation continues its moderate acceleration mostly due to low base effects. In October, consumer prices rose 3.5% y/y versus 3.4% y/y a month earlier. We expect that the CBR will hike 25bp on 14 December as global monetary tightening, increased volatility in EM FX and looming US sanctions are set to push up inflation expectations on rising RUB volatility.
- **Flows.** Pressure on the RUB from the selloff in OFZs has eased, but non-residents continue to exit their positions ahead of possible US sanctions and geopolitical uncertainty.
- **Valuation.** As the FX purchases under the budget rule were stopped, and no significant anti-Russia sanctions were introduced, the RUB gained to approach its fair value. While the Brent 30-day average fell 6.9% over the past 30 days (as of 12 November 2018), RUB/USD gained 0.9% over the same period. We see the RUB/USD as strongly undervalued at current oil prices and with the stable macro.

Forecast: 69.10 (1M), 72.00 (3M), 73.80 (6M), 75.10 (12M)



USD/RUB Forecast	1M	3M	6M	12M
	69.1	72	73.8	75.1

Source: Danske Bank

- **Conclusion.** The geopolitical premium in the RUB remains high and could rise further at any time in our view if the US starts introducing new sanctions against Russia. As the US midterms are over and the Democrats have more seats in the Congress, we expect that anti-Russia rhetoric will become stronger than it was under the Republican majority. Russia's external and fiscal position favour a stronger RUB, but macro fundamental factors are secondary in the current geopolitical environment. We keep our USD/RUB profile unchanged, rolling the forecasts further.
- **Risks.** We expect geopolitical risks will remain the major driver going forward. If no further anti-Russia sanctions are introduced in Q4 18 – Q1 19, the RUB could see a notable rebound in our view.

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USD/RUB – important issues to watch

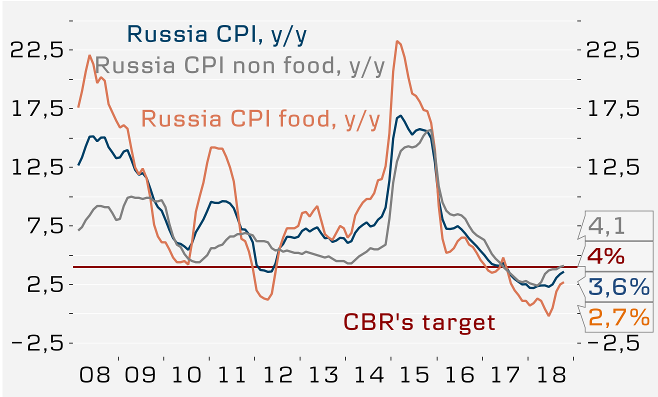
US anti-Russia rhetoric and new anti-Russia sanctions could be triggered any moment

- Post-election rhetoric in the US has become more negative for Russia's markets and the RUB. The Trump administration has informed Congress that Russia has not complied with a series of requirements necessary for Moscow to evade a second round of US sanctions over the alleged poisoning of a former Russian spy in Britain. The development, announced by the State Department and House Foreign Affairs Committee, means that a new wave of sanctions on Russia could be triggered under a 1991 law on the elimination of chemical and biological weapons.
- The US administration is required to choose three from a group of six categories of sanctions under the law. The options include:
  - Further restrictions on US exports to Russia.
  - Restrictions on imports.
  - Suspension of diplomatic relations with Moscow.
  - Suspension of air travel to and from the US by Russian government-owned air carriers.
  - Sanctions preventing Russia from receiving multilateral development bank assistance or US bank loans.

CBR's next hike coming in December 2018

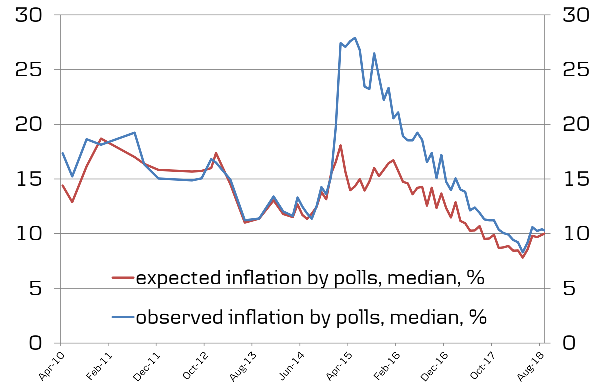
- A shaky global environment and more tightening across EMs is pushing the CBR towards a 25bp hike in Q4 18, we believe. Harsh US sanctions could trigger a steeper hike.
- Rising inflation expectations could push the CBR to deliver another 25bp hike in Q1 19.
- We expect the CBR to return to monetary easing in 2020.

Inflation is set to see temporary acceleration over 5% in early 2019 due to increase in VAT, some excise taxes and RUB's weakness



Source: CBR, Bloomberg, Macrobond Financial, Danske Bank

Inflation expectations remain elevated on recent RUB turbulence and expected VAT increase



Source: CBR, Danske Bank

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EUR/PLN – First signs of a rate hike?

- **Economic developments.** While the overall macro picture is still strong, soft indicators imply that the peak in the cycle is behind us. PMI manufacturing declined slightly to 50.4 in October, the lowest level since late 2016. We see a risk of the index dropping below the 50-level benchmark, consistent with our view of a slowing economy over the next year toward the potential growth level. Retail sales also slowed to below 3.5% y/y in real terms in September, despite the still solid wage growth (which in nominal terms grew 6.7% in September). Construction activity is also showing signs of weakening momentum with the growth rate falling to 16.4% in September from 20% in August. The still solid growth in domestic demand is showing up in the trade balance, which is now hovering solidly in negative territory.

- **Political and geopolitical developments.** Tensions have flared up with the EU after the European Court of Justice ruled that Poland must immediately suspend the lowering of the retirement age in the judicial sector. However, the market impact has so far been limited.

- **Monetary policy.** Inflation remains muted; the flash October headline inflation declined to 1.7%, while core inflation also declined to 0.8% in September. However, despite the subdued inflation pressures, the monetary policy committee (MPC) of the central bank of Poland struck a relatively more hawkish tone at the press conference following the policy meeting in November, appearing more concerned about the possible inflationary impact of higher wage demands as foreign labour inflows dry up and electricity prices rise. The market has not altered its expectations significantly, pricing in only one rate hike by October next year, which we see as slightly on the dovish side.

- **Risks.** Risks appear balanced for EUR/PLN in the near term: among the upside risks for the cross are renewed tensions between Italy and the EU, while downside risk include improvement in risk sentiment, a rebound in the EUR and strong economic releases in Poland.

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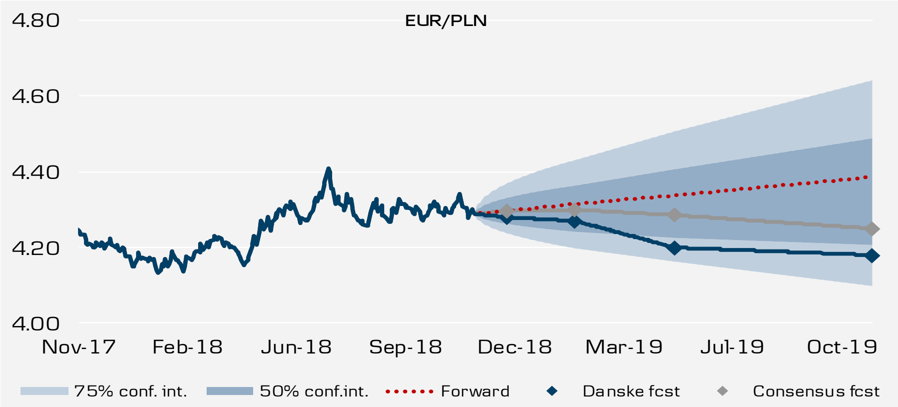
Forecast: 4.28 (1M), 4.27 (3M), 4.20 (6M), 4.18 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.28 (44%)	4.27 (37%)	4.20 (18%)	4.18 (21%)
Fwd. / Consensus	4.30 / 4.30	4.32 / 4.30	4.34 / 4.29	4.39 / 4.25
50% confidence int.	4.26 / 4.32	4.24 / 4.36	4.23 / 4.41	4.21 / 4.49
75% confidence int.	4.23 / 4.36	4.20 / 4.43	4.16 / 4.51	4.10 / 4.64

Source: Danske Bank

- **Conclusion.** EUR/PLN has continued to trade in the 4.26-4.33 range, broadly since mid-summer. As the more hawkish tone from the central bank is not reflected yet in market pricing, the EUR/PLN has not seen persistent downward pressure. In the near term, we expect EUR/PLN to remain in the current range, while a stronger EUR and a possible trade deal between China and the US could be bearish for EUR/PLN on a 6-12M basis. Hence, we keep our forecasts relatively unchanged for EUR/PLN at 4.28 in 1M, 4.27 in 3M, 4.20 in 6M and 4.18 in 12M.

USD/TRY – strengthening USD to weigh on lira

- **Growth.** Turkish GDP growth slowed to 5.2% y/y in Q2 18 from 7.4% y/y a quarter earlier. Industrial production growth continues to slow down as the manufacturing PMI index remains well below 50.0. Turkey's central bank's sharp monetary tightening is set to put additional brakes on economic expansion in the long term. We expect 2018 GDP to grow 3.5% y/y, while we cut our 2019 GDP growth projection to 2.6% y/y (previously 3.0% y/y) when we see increased risk of a technical recession.

- **Monetary policy.** Turkey's central bank (TCMB) kept the one-week repo rate at 24.00% in October with the TRY stabilising and starting to gain on the rapidly improving geopolitical environment as the country returned to a mutually positive dialogue with the US. The latest inflation print pushed real rates under zero, which keeps the risk of a rate hike on 13 December elevated. However, if inflation decelerates to below 25.00% y/y in November, the TCMB would keep rates unchanged until Q2 19, we believe.

- **Valuation.** Net flows into Turkish bonds have been volatile following the Fed's indication of upcoming policy rate hikes in the US. According to our technical analysis (Relative Strength Index), the USD/TRY remains near the 'fair value' level it returned to after the sharp rise in September.

- **Risks.** Major downside risks to our TRY forecasts include geopolitical escalation and a deepening trade war between Turkey and the US. A passive approach by the central bank in the event of a renewed fall in the currency could pose another downside risk for our TRY view.

Forecast: 5.70 (1M), 6.00 (3M), 6.50 (6M) and 7.00 (12M)

USD/TRY	1M	3M	6M	12M
Forecast	5.7	6	6.5	7
Fwd./Consesus	5.47 / 5.79	5.47 / 6.10	5.47 / 6.31	5.47 / 6.53

Source: Danske Bank

- **Conclusion.** We raise our TRY outlook slightly due to the currency stabilisation and diminished standoff with the US. However, the Fed's monetary tightening and large FX debt redemptions by Turkey's private sector is likely to weigh on the TRY in 2019. Thus, we remain bearish on the TRY in the long term, expecting the USD/TRY to reach the following levels: 5.70 in 1M (previously 6.00), 6.00 in 3M (previously 6.40), 6.50 in 6M (previously 6.90) and 7.00 in 12M (previously 7.50).

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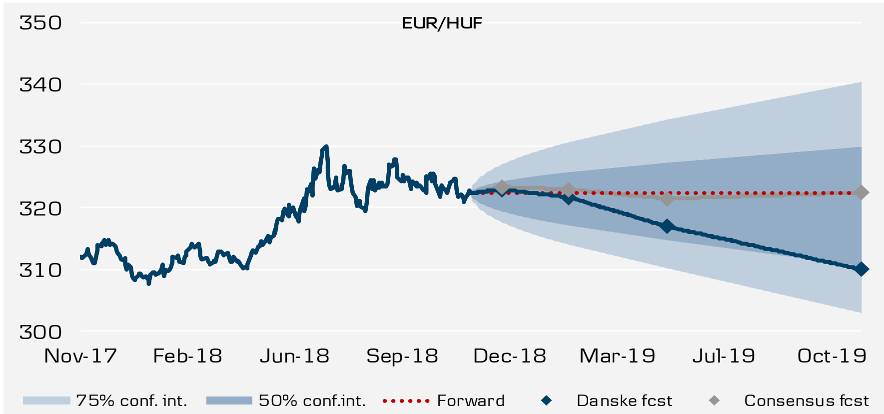
Danske Bank

EUR/HUF – balancing between the weak EUR and hawkish MNB

- **Growth.** Economic growth remained strong, accelerating to 4.8% y/y in Q2 18 versus 4.4% y/y in Q1 18. The Q3 18 expansion may have slowed down but it is likely to remain above 4.0% y/y. However, manufacturing PMI accelerated to 57.3 in October from 53.8 a month earlier. At the same time, the GKI Hungary economic sentiment indicator, which includes both consumer and business confidence, accelerated in October. The current monetary policy stance is beneficial for further economic expansion in 2019 and 2020 although on a lower path, as the risk of earlier than expected rate hike remains.
- **Monetary policy.** The Hungarian central bank (MNB) kept rates unchanged at its October meeting and seems to be on hold for now. Hungary's inflation in October accelerated to the highest level in six years (3.8%), staying well above the central bank's (MNB) target (3.0%±1pp), though muted core inflation (2.6%) means the central bank would not tighten any time soon. Fuel costs increased more than 16% y/y in October. In September, the MNB outlined a framework for winding down monetary stimulus, but underlined that no tightening was needed for now.
- **Risks.** An upside risk to our EUR/HUF forecast comes now from prolonged EUR weakness. An escalating trade war between the EU and the US would hit Hungarian exports and the HUF if tariffs on German exports rise further. Rapid acceleration in CPI could cause an earlier than expected and more aggressive rate hike than 25bp, supporting the HUF. As the EU has taken a tough stance on Hungary's Prime Minister Viktor Orbán's domestic policy, introducing sanctions against the country, an escalating relationship between Brussels and Budapest could weigh on the HUF.

Forecast: 323 (1M), 321.7 (3M), 317 (6M) and 310 (12M)



EUR/HUF	1M	3M	6M	12M
Forecast (pct'ile)	323.00 (64%)	321.70 (54%)	317.00 (33%)	310.00 (23%)
Fwd. / Consensus	322.38 / 323.41	322.38 / 323.00	322.39 / 321.52	322.41 / 322.49
50% confidence int.	319.58 / 324.22	317.13 / 325.83	314.77 / 327.35	310.57 / 329.95
75% confidence int.	317.87 / 326.76	314.01 / 330.68	310.24 / 334.31	302.97 / 340.44

Source: Danske Bank

- **Conclusion.** While the EUR's weakness on Italian woes could shake the HUF, we still see the HUF stronger in the short, mid and long term. We adjust our pair forecast according to the current EUR exchange rate, putting EUR/HUF at 323.0 in 1M (previously 322.5), at 321.7 in 3M (previously 321.0) and keeping our long-term forecasts unchanged at 317.0 in 6M and in 12M at 310.0.

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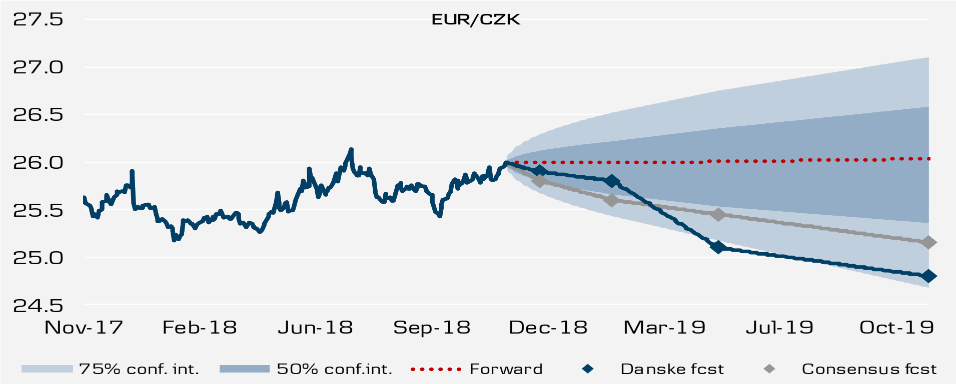
EUR/CZK – still in the hands of global risk sentiment

- **Growth.** Although growth momentum in the Czech Republic remains dynamic, GDP growth moderated to 2.3% y/y in Q3 in line with the recent PMI signs and weaker industrial production activity (-0.9% y/y in September). One-off factors were partly to blame related to bottlenecks in the car industry adjusting for new emission test standards, but the export performance also faced increasing global headwinds. Despite the slowdown in economic activity, the growth outlook remains favourable in our view on the back of strong wage growth fuelling domestic demand. We expect annual GDP growth to remain above potential, but to moderate to 3.4% in 2018 and 3.1% in 2019 on the back of tighter monetary conditions and biting capacity constraints.
- **Monetary policy.** Czech inflation at 2.3% in October remains above the Czech National Bank (CNB) target and we expect this to remain the case in the coming months driven by accelerating core inflation and higher food and fuel prices. As anticipated, the CNB raised the policy rate by another 25bp to 1.75% at the November meeting due to the tight labour market and persistent CZK weakness. We expect the CNB to remain on hold for the remainder of the year as the necessary policy tightening has already been broadly achieved according to the new forecasts. For CNB the overall monetary conditions are crucial and hence the timing of the Czech hiking cycle remains dependent on FX movements. Should CZK continue to trade weaker than the CNB envisions in 2019, we expect it to continue speeding up monetary tightening through the interest rate channel. We expect two additional interest rate rises next year, which means that the policy rate would remain below its long-run neutral level (estimated at c.3.0% by CNB).
- **Risks.** The risk to our EUR/CZK forecast profile is skewed to the upside due to spill-overs from the current adverse EM risk sentiment and continued Fed hikes. Given the sizable amount of long CZK positions accumulated in the market prior to the floor exit, EUR/CZK is especially vulnerable to changes in global investor sentiment.

Forecast: 25.90 (1M), 25.80 (3M), 25.10 (6M), 24.80 (12M)



EUR/CZK	1M	3M	6M	12M
Forecast (pct'ile)	25.90 (37%)	25.80 (37%)	25.10 (10%)	24.80 (14%)
Fwd. / Consensus	26.00 / 25.81	25.99 / 25.60	26.00 / 25.45	26.03 / 25.15
50% confidence int.	25.82 / 26.12	25.66 / 26.22	25.53 / 26.35	25.36 / 26.58
75% confidence int.	25.71 / 26.27	25.43 / 26.52	25.17 / 26.75	24.68 / 27.10

Source: Danske Bank

- **Conclusion.** Despite the November hike, EUR/CZK remains 'glued' to the 25.90 level, as adverse EM risk sentiment maintains the upper hand over strong Czech domestic fundamentals and the CNB remains reluctant to pursue a rapid interest rate normalisation. Eventually, we expect the CZK to return to its gradual strengthening path - not least due to the positive interest rate differential vis-à-vis the euro area. However, the timing remains difficult to judge and with the current adverse global risk sentiment likely to linger as a CZK headwind and the CNB seemingly on hold for now, we expect the cross to continue range trading around current levels near term. That said, once domestic drivers take over again, CZK appreciation could happen quickly. We keep our long-term EUR/CZK forecasts unchanged at 25.10 in 6M and 24.80 in 12M, but due to lingering headwinds, we revise up our short-run forecasts to 25.90 in 1M (25.70 previously) and 25.80 in 3M (25.60 previously).

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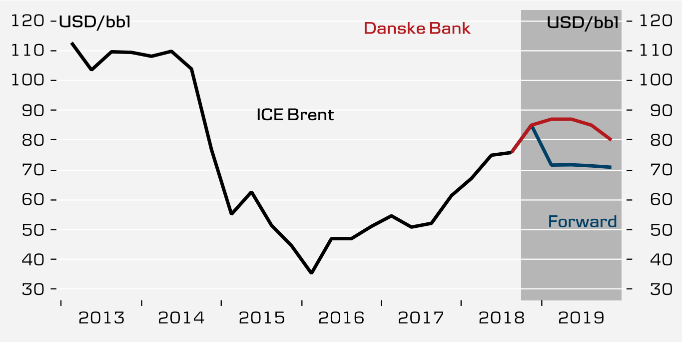
Oil – OPEC+ output cut extension on the table

- **Macro.** Is there a reason for supply concerns in the oil market – that is the question? US sanctions on Iran have come back into force, but inventories are growing again in the US and output has increased in Saudi Arabia and Libya. At the same time, there are some indications that demand growth is slowing amid weaker global economic growth and trade tensions. We note though that capacity in OPEC excluding Iran and Venezuela has dropped to around 1.7mb/d – the lowest in several years. It leaves only limited room to mitigate a further decline in output in Venezuela and Iran. Still, OPEC is now indicating that it will discuss an extension of current output cuts in 2019 at the meeting on 6 December.
- **Forward curve.** The Brent crude oil market forward curve remains in backwardation. The recent drop in prices on front-end forward contracts has not been seen to the same extent further out the curve, leading to a narrowing.
- **Positioning.** Speculative positioning in the oil market remains in stretched long territory.
- **Risks.** The 6 December OPEC meeting will be important for the 2019 outlook for the oil price. If OPEC decides to extend output cuts next year, it would keep a hand under prices. The duration of temporary waivers for eight countries over the Iran oil sanctions presents an upside risk to 2019 prices.

Forecast: USD85/bbl (Q4), USD87/bbl (Q1), USD87/bbl (Q2), USD85/bbl (Q3), USD80/bbl (Q4)



Source: Danske Bank

- **Conclusion.** Despite the recent decline in oil prices, we stick to our view on the oil price outlook and maintain our forecasts. We forecast the price of Brent crude to average USD85/bbl in Q4 this year and trade at the USD85-87/bbl level in Q1-Q3 next year as supply concerns will remain high on the oil market agenda, before falling to USD80/bbl in Q4 19 as supply concerns ease.

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Danske Bank FX forecasts vs EUR and USD

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs EUR									
USD	1.129	1.13	1.13	1.18	1.25	-0.4	-1.0	2.6	6.8
JPY	128.0	128	128	135	144	-0.9	-0.9	4.4	11.5
GBP	0.884	0.84	0.83	0.83	0.83	-3.8	-5.2	-5.5	-6.2
CHF	1.137	1.12	1.13	1.16	1.20	-1.8	-0.8	1.9	5.7
DKK	7.4621	7.4550	7.4525	7.4550	7.4550	-0.1	-0.1	0.0	0.1
NOK	9.61	9.60	9.40	9.20	9.10	-0.2	-2.6	-5.1	-6.9
SEK	10.27	10.20	10.10	10.00	10.00	-0.8	-1.7	-2.7	-2.9
Exchange rates vs USD									
JPY	113.4	113	113	114	115	-0.5	0.1	1.7	4.4
GBP	1.28	1.35	1.36	1.42	1.51	3.5	4.4	8.5	13.9
CHF	1.01	0.99	1.00	0.98	0.96	-1.4	0.2	-0.6	-1.0
DKK	6.61	6.60	6.60	6.32	5.96	0.3	1.0	-2.5	-6.2
NOK	8.52	8.50	8.32	7.80	7.28	0.1	-1.6	-7.4	-12.8
SEK	9.10	9.03	8.94	8.47	8.00	-0.4	-0.7	-5.2	-9.0
CAD	1.32	1.30	1.28	1.25	1.23	-1.8	-3.2	-5.3	-6.6
AUD	0.73	0.72	0.73	0.74	0.75	-0.3	1.0	2.2	3.2
NZD	0.68	0.66	0.66	0.67	0.68	-2.8	-2.9	-1.6	-0.5
RUB	66.73	69.10	72.00	73.80	75.10	2.6	6.2	7.6	6.9
CNY	6.94	6.95	7.00	7.10	7.20	0.0	0.8	2.3	4.0

Note: GBP, AUD and NZD are denominated in local currency rather than USD

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs DKK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs DKK									
EUR	7.4621	7.4550	7.4525	7.4550	7.4550	-0.1	-0.1	0.0	0.1
USD	6.61	6.60	6.60	6.32	5.96	0.3	1.0	-2.5	-6.2
JPY	5.83	5.84	5.84	5.54	5.19	0.8	0.8	-4.2	-10.2
GBP	8.44	8.88	8.98	8.98	8.98	3.8	5.4	5.8	6.8
CHF	6.56	6.66	6.60	6.43	6.21	1.7	0.7	-1.9	-5.3
NOK	0.78	0.78	0.79	0.81	0.82	0.1	2.6	5.3	7.6
SEK	0.73	0.73	0.74	0.75	0.75	0.7	1.7	2.8	3.0
CAD	5.00	5.07	5.15	5.05	4.85	2.1	4.3	3.0	0.3
AUD	4.80	4.75	4.81	4.68	4.47	0.0	2.0	-0.3	-3.2
NZD	4.50	4.35	4.35	4.23	4.06	-2.5	-2.0	-4.0	-6.7
PLN	1.74	1.74	1.75	1.78	1.78	0.4	1.1	3.4	5.2
CZK	0.29	0.29	0.29	0.30	0.30	0.4	0.6	4.0	6.7
HUF	2.31	2.31	2.32	2.35	2.40	-0.2	0.2	2.0	5.0
RUB	0.10	0.10	0.09	0.09	0.08	-2.3	-5.0	-9.4	-12.3
CNY	0.95	0.95	0.94	0.89	0.83	0.3	0.2	-4.7	-9.8

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs SEK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs SEK									
EUR	10.27	10.20	10.10	10.00	10.00	-0.8	-1.7	-2.7	-2.9
USD	9.10	9.03	8.94	8.47	8.00	-0.4	-0.7	-5.2	-9.0
JPY	8.03	7.99	7.91	7.43	6.96	0.1	-0.8	-6.8	-12.9
GBP	11.62	12.14	12.17	12.05	12.05	3.1	3.6	2.9	3.6
CHF	9.04	9.11	8.94	8.62	8.33	1.0	-0.9	-4.6	-8.1
NOK	1.07	1.06	1.07	1.09	1.10	-0.5	0.9	2.5	4.4
DKK	1.38	1.37	1.36	1.34	1.34	-0.7	-1.6	-2.7	-3.0
CAD	6.88	6.94	6.98	6.78	6.50	1.4	2.6	0.2	-2.6
AUD	6.61	6.50	6.52	6.27	6.00	-0.7	0.3	-3.1	-6.1
NZD	6.19	5.96	5.90	5.68	5.44	-3.2	-3.6	-6.7	-9.5
PLN	2.39	2.38	2.37	2.38	2.39	-0.2	-0.5	0.6	2.1
CZK	0.40	0.39	0.39	0.40	0.40	-0.2	-1.0	1.2	3.5
HUF	3.18	3.16	3.14	3.15	3.23	-0.9	-1.4	-0.8	1.9
RUB	0.14	0.13	0.12	0.11	0.11	-2.9	-6.5	-11.9	-14.9
CNY	1.31	1.30	1.28	1.19	1.11	-0.4	-1.5	-7.3	-12.5

Source: Danske Bank

Danske Bank

Danske Bank FX forecasts vs NOK

	Forecast					Forecast vs forward outright, %			
	Spot	+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
Exchange rates vs NOK									
EUR	9.61	9.60	9.40	9.20	9.10	-0.2	-2.6	-5.1	-6.9
USD	8.52	8.50	8.32	7.80	7.28	0.1	-1.6	-7.4	-12.8
JPY	7.51	7.52	7.36	6.84	6.33	0.7	-1.7	-9.0	-16.5
GBP	10.87	11.43	11.33	11.08	10.96	3.7	2.7	0.5	-0.7
CHF	8.46	8.57	8.32	7.93	7.58	1.6	-1.8	-6.9	-11.9
SEK	0.94	0.94	0.93	0.92	0.91	0.6	-0.9	-2.4	-4.2
DKK	1.29	1.29	1.26	1.23	1.22	-0.1	-2.5	-5.1	-7.0
CAD	6.44	6.54	6.50	6.24	5.92	2.0	1.6	-2.2	-6.7
AUD	6.18	6.12	6.07	5.77	5.46	-0.1	-0.6	-5.4	-10.0
NZD	5.79	5.61	5.49	5.22	4.95	-2.7	-4.5	-8.9	-13.2
PLN	2.24	2.24	2.20	2.19	2.18	0.3	-1.4	-1.8	-2.2
CZK	0.37	0.37	0.36	0.37	0.37	0.3	-1.9	-1.2	-0.8
HUF	2.98	2.97	2.92	2.90	2.94	-0.3	-2.3	-3.2	-2.3
RUB	0.13	0.12	0.12	0.11	0.10	-2.4	-7.4	-14.0	-18.5
CNY	1.23	1.22	1.19	1.10	1.01	0.2	-2.4	-9.5	-16.2

Source: Danske Bank

Danske Bank EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	15-Nov-18	**4.30**		**3.81**		**174**		**239**		**224**	
	+1M	4.28	4.30	3.79	3.79	174	173	238	239	224	224
	+3M	4.27	4.32	3.78	3.79	175	173	237	238	220	223
	+6M	4.20	4.34	3.56	3.78	178	172	238	237	219	223
	+12M	4.18	4.39	3.34	3.75	178	170	239	234	218	223
HUF	15-Nov-18	**323**		**286**		**2.31**		**3.18**		**2.98**	
	+1M	323	323	286	284	2.31	2.31	3.16	3.19	2.97	2.98
	+3M	322	323	285	283	2.32	2.31	3.14	3.18	2.92	2.99
	+6M	317	323	269	281	2.35	2.31	3.15	3.18	2.90	3.00
	+12M	310	325	248	278	2.40	2.29	3.23	3.16	2.94	3.01
CZK	15-Nov-18	**26.0**		**23.0**		**28.7**		**39.5**		**37.0**	
	+1M	25.9	26.0	22.9	23.0	28.8	28.7	39.4	39.5	37.1	37.0
	+3M	25.8	26.0	22.8	22.8	28.9	28.7	39.1	39.6	36.4	37.2
	+6M	25.1	26.1	21.3	22.7	29.7	28.5	39.8	39.4	36.7	37.1
	+12M	24.8	26.4	19.8	22.6	30.1	28.2	40.3	39.0	36.7	37.0
RUB	15-Nov-18	**75.3**		**66.7**		**9.9**		**13.7**		**12.8**	
	+1M	78.1	76.4	69.1	67.3	9.5	9.8	13.1	13.5	12.3	12.6
	+3M	81.4	77.4	72.0	67.8	9.2	9.6	12.4	13.3	11.6	12.5
	+6M	87.1	78.9	73.8	68.6	8.6	9.4	11.5	13.0	10.6	12.3
	+12M	93.9	82.2	75.1	70.3	7.9	9.1	10.7	12.5	9.7	11.9
TRY	15-Nov-18	**6.15**		**5.44**		**122**		**167**		**156**	
	+1M	6.44	6.32	5.70	5.57	116	118	158	163	149	152
	+3M	6.78	6.60	6.00	5.77	110	113	149	156	139	146
	+6M	7.67	7.00	6.50	6.08	97	106	130	147	120	138
	+12M	8.75	7.75	7.00	6.61	85	96	114	133	104	126
CNY	15-Nov-18	**7.84**		**6.94**		**95**		**131**		**123**	
	+1M	7.85	7.88	6.95	6.95	95	95	130	130	122	122
	+3M	7.91	7.93	7.00	6.95	94	94	128	130	119	122
	+6M	8.38	7.99	7.10	6.94	89	93	119	129	110	121
	+12M	9.00	8.11	7.20	6.92	83	92	111	127	101	121

Source: Danske Bank

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Date of first publication

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