Investment Research

Danske Bank

FX Forecast Update
More USD weakness in store over the medium term

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Forecast review part I

- **EUR/NOK.** The NOK has suffered from the recent sell-off in risky assets. Meanwhile, looking ahead we still see a solid fundamental case for why the NOK should strengthen. First, higher and broader-based Norwegian growth allows for the undervalued NOK to move higher. Second, speculative positioning in our view remains a NOK positive. Third, the significantly positive terms-of-trade shock that Norway experienced with rising oil prices last year is not yet reflected in the currency. Fourth, relative rates will in our view become a EUR/NOK negative this year via both Norges Bank (NB) and tighter global USD liquidity. Finally, the global growth picture remains supportive. We leave our forecast profile unchanged at 9.50 in 1M, 9.40 in 3M, 9.20 in 6M and 9.10 in 12M.

- **EUR/SEK.** Our relatively bearish view on the SEK is based on two fundamental stories. First, the inflation outlook, which is on a downward slope and for CPIF ex energy – the core measure – well below the Riksbank's estimate from April onwards. Second, growth momentum, which is deteriorating markedly in 2018 on the back of house price deflation and the slowdown in the housing investments. Both these arguments suggest that the Riksbank will not raise rates this year and not as quickly as the market is pricing in and the Riksbank indicates for coming years. We stick to our forecast profile, where we see EUR/SEK at 9.90 in 1M, 10.00 in 3M, 9.90 in 6M and 9.80 in 12M.

- **EUR/DKK**. Fundamentally, not much has changed for EUR/DKK, but volatility has been on the rise recently due in part to idiosyncratic factors. This is likely to continue for the next couple of months. We maintain our forecasts for EUR/DKK at 7.4450 on 1-6M rising to 7.4475 on 12M.

- **EUR/USD.** Until early February this year has been about a continued EUR rebound on the back of the ECB, and USD weakness driven by a shift in the US policy mix (widening deficit, reluctant-to-hike Fed). The US-driven reflation story may have temporarily changed this, which could halt the uptick in EUR/USD near term where we see the pair staying broadly within the 1.21–1.26 range. Our medium-term story remains unchanged though: a turn in the capital tide from USD to EUR is brewing as the relative attractiveness of EU versus US assets is on the rise. Along with valuation, this is set to support EUR/USD in 6-12M. We have kept our 12M forecast unchanged at 1.28 but lifted our near-term profile to 1.23 in 3M (previously 1.19) and 1.25 in 6M (previously1.23) while we target 1.22 in 1M.

Forecast review part II

- **EUR/GBP.** We expect the combination of higher UK interest rates and Brexit clarification to move GBP gradually away from fundamentally undervalued levels. In particular, as we now expect the BoE to 'out-tighten' the ECB in the coming 12 months, the case for a lower EUR/GBP has strengthened and on 8 February, we lowered our EUR/GBP forecasts to 0.87 in 3M, 0.86 in 6M and 0.84 in 12M.

- **USD/JPY.** We expect the combination of portfolio flows, choppy market conditions and stretched short speculative JPY positioning to push USD/JPY lower going into fiscal year-end in Japan (on 31 March). We have thus revised our 1M and 3M forecasts lower to 104 in 1-3M (previously112 in 1M and 113 in 3M). Over the medium term, we expect USD/JPY to recover gradually, supported by continued solid global growth outlook and Fed-BoJ divergence. We target the cross at 108 in 6M (previously 114) and 110 in 12M (previously 114).

- **USD/CNY.** We have revised our USD/CNY forecast lower to 6.4 (previously 6.65) in 3M and 6.2 (previously 6.70) in 12M. The strong correlation with the overall USD development has continued to dominate the development in USD/CNY and a move in relative rates in favour of the USD has not been able to break this correlation as we expected. We thus put more weight on the correlation with the overall USD level now. Our expectation of a further decline in the trade-weighted USD has therefore led us to revise our USD/CNY forecast. For EUR/CNY, we now look for a broadly unchanged level on a 12M horizon and thus lower than EUR/CNY forwards.

- **EUR/CHF.** CHF has gained during the recent reflation-driven risk sell-off but the franc had seen support from a more aggressive SNB. In our view, the market currently does not seem to recognise that the road to exit for the SNB entails more steps than that of the ECB. We think the SNB will remain on the sidelines on further steps towards 'normalisation' for now, which should allow EUR/CHF to edge firmly into the 1.20s this year. We have kept our forecast profile intact, looking for 1.17 in 3M, 1.20 in 6M and 1.23 in 12M (all unchanged); we see 1.16 in 1M as risk sentiment remains fragile.

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Forecast review part III

- **USD/RUB.** Given the change in emerging market sentiment, weaker USD and the RUB rise on improved sentiment, we roll our USD/RUB levels in the short and medium term. As we remain positive about the crude price and Russia's macro fundamentals in the long term, we keep our long-term forecast unchanged. We expect USD/RUB to go to 56.50 (1M), to 56.20 (3M), to 55.50 (6M), and to 53.50 (12M).

- **USD/TRY.** We see more volatility in the TRY in the short term as the Fed is likely to hike in March 2018. We remain cautious in the medium to long term on pressure from a high oil price and widening current account deficit. We keep our USD/TRY forecast unchanged: 3.80 (1M), 3.85 (3M), 4.00 (6M) and 4.05 (12M).

- **EMEA.** The zloty has been hit by the turbulence in global financial markets. However, as markets have recovered, so has the zloty. Going forward, we expect the strong Polish growth and rise in inflation to lead to an earlier-than-expected hike in NBP rates, which would give support to the zloty. We therefore target the EUR/PLN at 4.16 in 1M, 4.14 in 3M (previously 4.13), 4.12 in 6M and 4.08 in 12M. Given the strong support from macroeconomic indicators in Hungary and the possibility of a more hawkish central bank in the long run, we keep our HUF-hawkish stance unchanged, seeing EUR/HUF at 309 in 1M, at 308 in 3M, 305 in 6M and 300 in 12M.

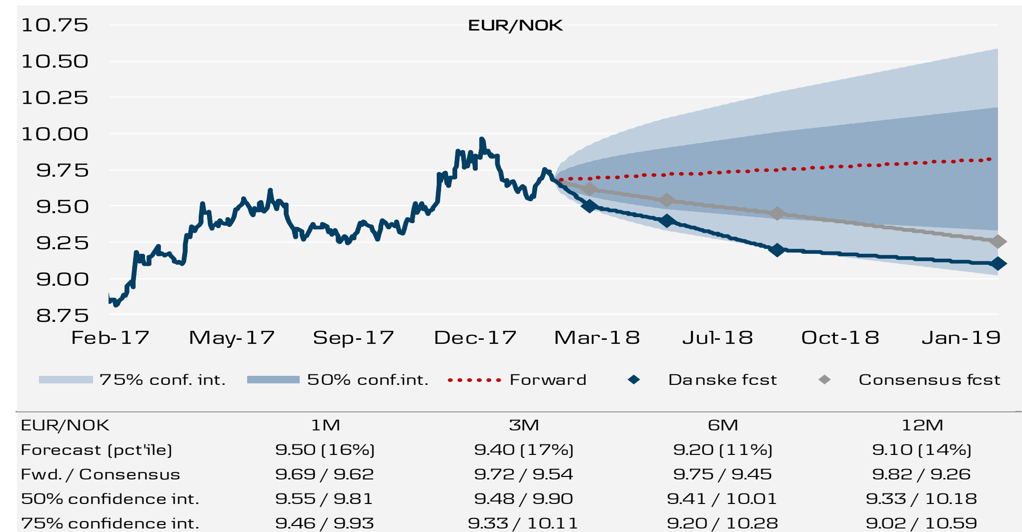
- **AUD, NZD, CAD.** The global outlook remains supportive for commodity currencies in our view, even if we emphasise risks related to the moderate slowdown that we pencil in for China. If we are right in our call for more USD weakening in the medium term, that will also underpin the three currencies. On the central banks, we expect two Bank of Canada rate hikes over the coming 12 months and one each from the Reserve Bank of Australia (RBA) and the Reserve Bank of New Zealand (RBNZ). For RBA and RBNZ, this is in line with market pricing while markets are pricing in roughly 2½ hike from the BoC. Fundamentally, AUD and NZD seem overvalued while CAD is close to its fair value (versus USD). We now forecast AUD/USD at 0.78 in 1M (unchanged), 0.78 in 3M (previously 0.76), 0.78 in 6M (unchanged) and 0.79 in 12M (unchanged); NZD/USD at 0.72 in 1M (unchanged), 0.72 in 3M (0.70), 0.72 in 6M (0.71) and 0.74 in 12M (0.73). Finally, we forecast USD/CAD at 1.26 in 1M (unchanged), 1.27 in 3M (unchanged), 1.25 in 6M (unchanged) and 1.23 in 12M (unchanged).

- **Oil.** We maintain our view that oil prices will stay broadly stable this year. We forecast the price on Brent crude to average USD62/bbl in Q1 and Q2 and USD64/bbl in Q3 and Q4. In 2019, we forecast the price on Brent crude to average USD65/bbl.

EUR/NOK – global risk ‘speedbump’ for the NOK

- **Growth.** While we already prior to the end of 2017 had seen evidence of a growth rotation in Norway towards a more consumption- and private investment-driven recovery, the unusual combination of a higher oil price, a weak NOK and strong global growth towards end-2017 has underpinned this rotation further. The recent revision to the Real Estate Norway house price statistics reveals that house prices in Norway have actually moved sideways since September (in seasonally-adjusted terms), which stands in contrast to the drop in the old data. To us, that further diminishes the downside risks related to the Norwegian economy. Meanwhile, yearly core inflation surprisingly dropped in January, but looking at the details we think much of it was down to temporary factors (see overleaf).
- **Monetary policy.** As expected, Norges Bank kept the sight deposit rate unchanged at the ‘new’ January meeting while reiterating the December message of an interest rate hike in December 2018. Relative to our own economic projections we also expect the first rate hike in December this year.
- **Flows.** Foreign banks (proxy for speculative flows) sold significant amounts of NOK during Q4 17. While we have already seen a partial reversal of these flows, we think the move has further to go, which should contribute to lifting the NOK higher.
- **Valuation.** From a long-term perspective, the NOK seems fundamentally undervalued. Our PPP model has 8.57 as ‘fair’.
- **Risks.** The biggest risk factor to our forecast is a global risk-off event, which would weigh on the NOK directly and indirectly via the oil price. Also, the risk that we underestimate the impact of a Chinese slowdown is relevant, as commodity FX in recent years has traded remarkably synchronised, with turning points coinciding with the Chinese cycle.

Forecast: 9.50 (1M), 9.40 (3M), 9.20 (6M), 9.10 (12M)



EUR/NOK	1M	3M	6M	12M
Forecast (pct'ile)	9.50 (16%)	9.40 (17%)	9.20 (11%)	9.10 (14%)
Fwd. / Consensus	9.69 / 9.62	9.72 / 9.54	9.75 / 9.45	9.82 / 9.26
50% confidence int.	9.55 / 9.81	9.48 / 9.90	9.41 / 10.01	9.33 / 10.18
75% confidence int.	9.46 / 9.93	9.33 / 10.11	9.20 / 10.28	9.02 / 10.59

Source: Danske Bank

- **Conclusion.** The NOK has suffered from the recent sell-off in risky assets. Meanwhile, looking ahead we still see a solid fundamental case for why the NOK should strengthen. First, higher and broader-based Norwegian growth allows for the undervalued NOK to move higher. Secondly, speculative positioning in our view remains a NOK positive. Third, the significantly positive terms-of-trade shock that Norway experienced with rising oil prices last year is not yet reflected in the currency. Fourth, relative rates will in our view become a EUR/NOK negative this year via both NB and tighter global USD liquidity. Finally, the global growth picture remains supportive. We leave our forecast profile unchanged at 9.50 in 1M, 9.40 in 3M, 9.20 in 6M and 9.10 in 12M.

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EUR/NOK – important issues to watch

Growth rotation intact

- Mainland GDP climbed 0.6% q/q in Q4. Growth was broad-based, with significant increases in private consumption, business investment and government demand. Housing investment fell relatively sharply, however, and as illustrated in the margin chart, housing investments had a neutral contribution to the y/y growth rate. Finally, net exports disappointed but this was due primarily to higher imports reflecting stronger domestic demand.
- Overall, the figures confirm that growth is holding moderately above the trend rate, causing capacity utilisation to rise and unemployment to fall. They also support our view on growth rotation, with private demand taking over from housing investment and government demand as the key growth driver.
- The figures are exactly in line with Norges Bank's forecast in the December monetary policy report, so they will, in isolation, be neutral for rate setting.

Core inflation disappointing, but details more encouraging

- Core inflation surprised on the downside in January, coming out at 1.1% y/y, rather than the expected 1.4-1.5%. Once again, it was an unexpectedly big swing in airfares that held prices back. Our measure of 'core-core' inflation, which excludes airfares and food, was unchanged at 1.3% y/y, where it has been more or less since August.
- As the surprise was again down to these volatile components, we cannot see the figures mattering much to Norges Bank, but at the margin they will make it easier for the bank to retain a neutral bias in the short term. However, we still think the overall outlook points to an interest rate hike in December 2018, which should be supportive for the NOK.

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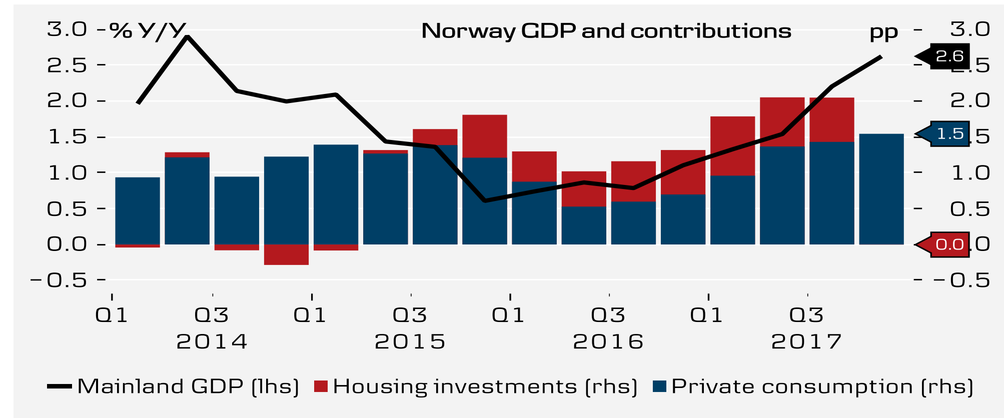
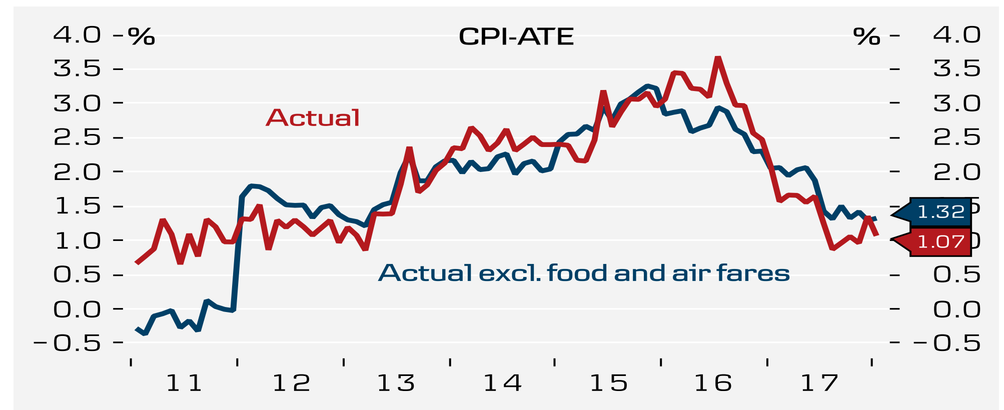
Higher and more consumption-based growth in Norway allows for stronger NOK



Source: Macrobond Financial, Norges Bank, Danske Bank

'Core-core' inflation measure actually flat

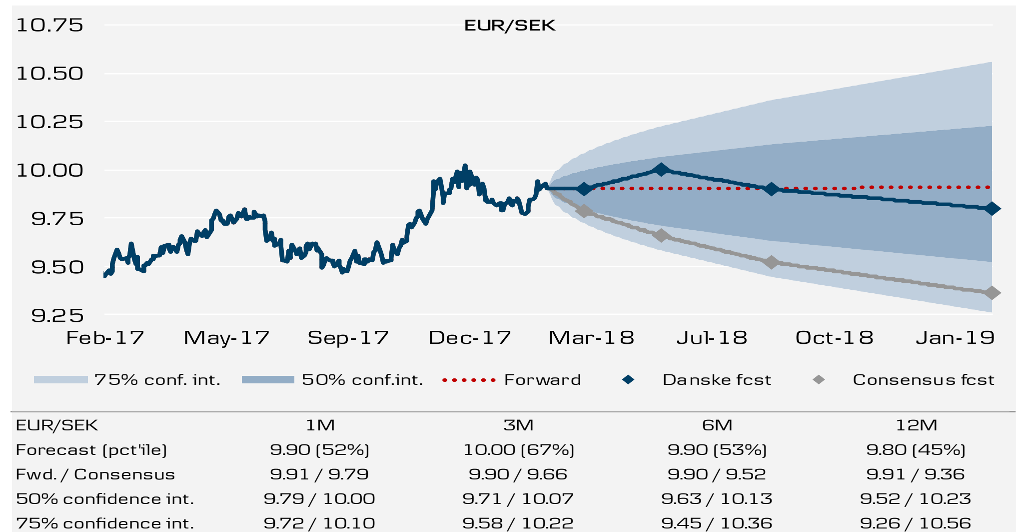


Source: Macrobond Financial, Norges Bank, Danske Bank

EUR/SEK – buy on dips still

- **Growth.** Growth momentum in Sweden is deteriorating. We believe GDP, which we estimate grew by 2.7% in 2017, will slow to a sub-trend 1.7% in 2018, as the housing market becomes more of a headwind alongside weak private consumption. Stronger global growth gives a bit of support to exports while weak consumption and investments may weigh on imports. Net exports are, however, far from enough to offset the negative dynamics of domestic demand.
- **Monetary policy.** The Riksbank lowered its inflation forecast without touching the repo rate path at its February meeting. This could have been interpreted as a hawkish tweak. However, that was not the intention. The Monetary Policy Report and the press conference confirmed that the policy discussion concerned whether to decide to delay hikes now (currently pencilled in for Q3) or to await more information. We maintain our view of no hike in 2018 based on the outlook for inflation and the housing market.
- **Flows.** While natural SEK buyers may see high EUR/SEK levels as an excuse to raise hedge ratios, negative carry works the other way.
- **Valuation.** EUR/SEK is dear relative to medium-term models such as MEVA and PPP, but relatively close to its fair value as implied by our preferred short-term models.
- **Risks.** The main risk to our relatively bearish view on the SEK, where we look for a re-test of 10.00 in coming months, is if inflation surprises on the upside. Then, our call of no hike this year will be challenged. April is the month where our inflation forecasts depart more substantially from the Riksbank and will therefore be the real litmus test for our Riksbank call. Equally, there is an upside risk to EUR/SEK if inflation surprises in the other direction or if markets move decisively into risk-off mode.

Forecast: 9.90 (1M), 10.00 (3M), 9.90 (6M), 9.80 (12M)



EUR/SEK	1M	3M	6M	12M
Forecast (pct'ile)	9.90 (52%)	10.00 (67%)	9.90 (53%)	9.80 (45%)
Fwd. / Consensus	9.91 / 9.79	9.90 / 9.66	9.90 / 9.52	9.91 / 9.36
50% confidence int.	9.79 / 10.00	9.71 / 10.07	9.63 / 10.13	9.52 / 10.23
75% confidence int.	9.72 / 10.10	9.58 / 10.22	9.45 / 10.36	9.26 / 10.56

Source: Danske Bank

- **Conclusion.** Our relatively bearish view on the SEK is based on two fundamental stories. First, the inflation outlook, which is on a downward slope and for CPIF ex energy – the core measure – well below the Riksbank's estimate from April onwards. Second, growth momentum, which is deteriorating markedly in 2018 on the back of house price deflation and the slowdown in housing investments. Both these arguments suggest that the Riksbank will not raise rates this year and not as quickly as the market is pricing in and the Riksbank indicates for coming years. We stick to our forecast profile, where we see EUR/SEK at 9.90 in 1M, 10.00 in 3M, 9.90 in 6M and 9.80 in 12M.

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EUR/SEK – important issues to watch

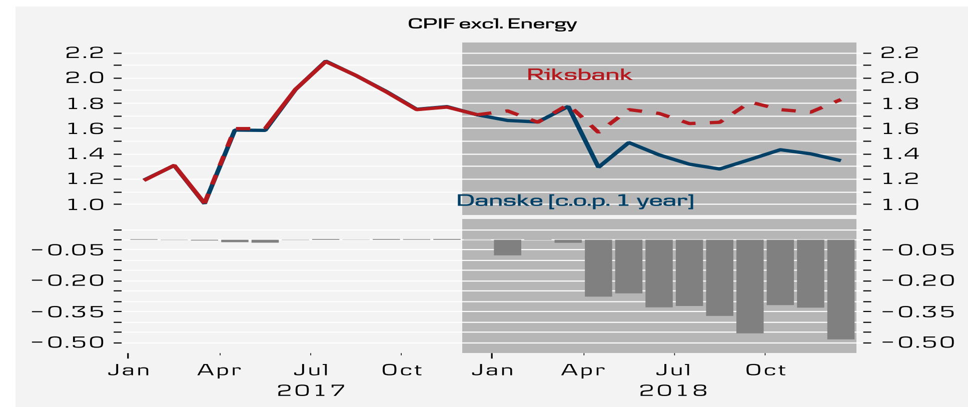
The Riksbank's domestic inflation worries

- It was probably not the Riksbank's intention, but reducing inflation/keeping the repo rate path intact effectively served as a test balloon as to how the SEK would respond if the market interpreted the combo as a hawkish signal. It was a 'bold' move – *balanced by soft rhetoric though.* Either way, post-Riksbank price action suggests that the SEK is not in the starting blocks for an imminent rally.
- If it is indicated that services inflation has peaked and will move lower, it will be even more important that the krona does 'not appreciate too' fast (standard Riksbank phrase). What makes it even more challenging for them is if the dollar sell-off continues, as that would make it even more important for the Riksbank's inflation forecast that EUR/SEK stays elevated or preferably goes even higher.

Temporary relief for house prices

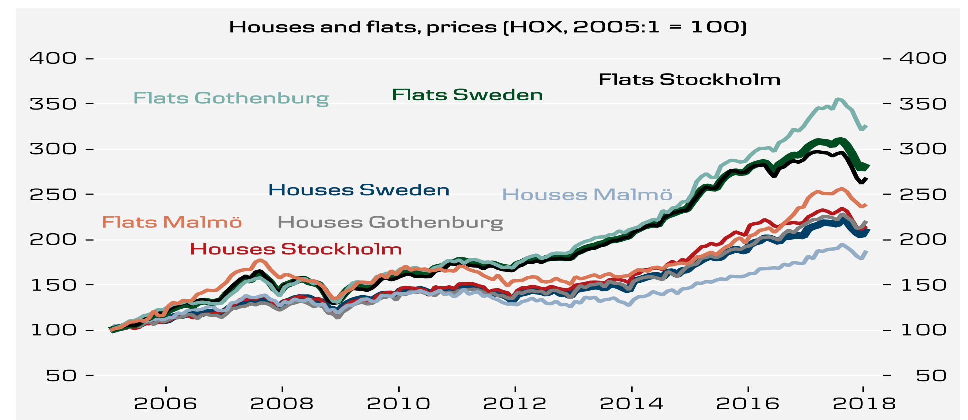
- Another argument behind our take on the SEK is house price deflation, which will weigh on housing investments and take a toll on growth. House price deflation, furthermore, makes it more difficult for the Riksbank to leave the low-rates environment.
- Valueguard showed a +2.4% correction in January on flats (both Stockholm and Sweden). It was partly anticipated, but the fact that EUR/SEK responded by edging lower suggests that the housing market is still in focus for the market.
- We think that the price drop will be interrupted temporarily before the implementation of the new amortisation rules on 1 March, but that the downtrend will resume. Indications of a stabilisation – media and other commentators may, in our view, erroneously deem the price fall to be over – which could lend some near-term support to the SEK.

Riksbank CPIF ex energy trajectory is still too high, in our view



Source: Macrobond Financial, Danske Bank

Correction in house prices probably only temporary thing



Source: Macrobond Financial, Danske Bank

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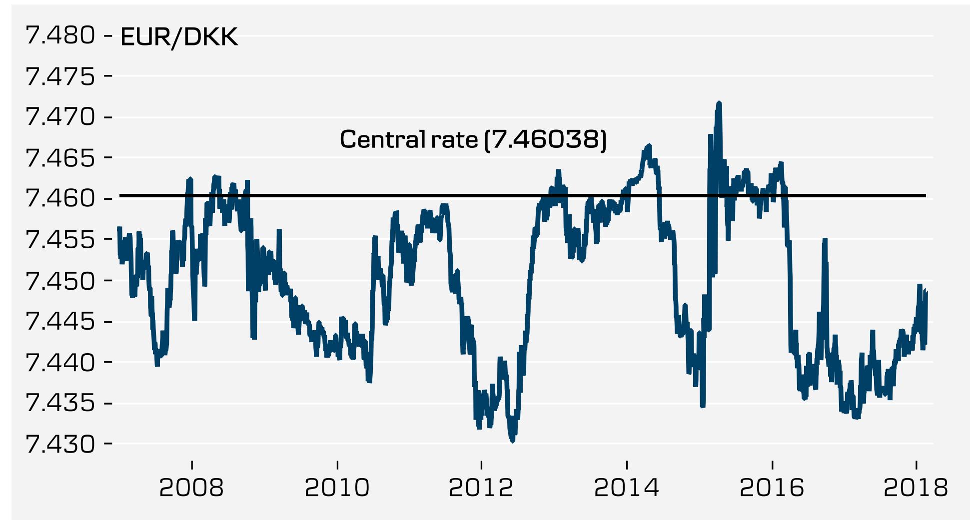
EUR/DKK – volatile start to the year

- **FX.** EUR/DKK has traded in a wider range to start 2018 and volatility has been higher compared to the quiet end to 2017. We attribute this change partly to significant M&A activity following the NETS deal and the pending TDC deal. Danmarks Nationalbank (DN) has stayed on the sideline and did not make FX intervention in January either. We forecast EUR/DKK at 7.4450 on 1-6M, rising to 7.4475 on 12M, aided by a further rise in EUR/USD. In the short term, we look for EUR/DKK to continue to trade in a wide range (7.4400-7.4500) as tighter DKK liquidity on the back of large pension tax payments and the annual dividend payouts by Danish corporation will further add to volatility.
- **Rates.** We expect DN to keep the rate of interest on certificates of deposit unchanged at -0.65% on 12M. Should ECB hike within the forecast horizon (not our base case), we expect DN to mirror the rate increase correspondingly. Short-term DKK money market rates are currently at relatively low levels. We could see a temporary rise over the coming 1-2M as DKK liquidity tightens, which would further pass through to EUR/DKK FX forwards.
- **Flows.** The Danish current account surplus remains elevated which creates fundamental support for DKK. On the one hand side, a high savings rate and low investment activity will maintain this situation – on the other hand the fall in USD/DKK could start to weigh on the income stream from the US – around a third of the current account surplus is earned on the US market.
- **Regulation.** On 1 January 2018, the liquidity coverage ratio for non-SIFI banks was raised to 100%. From Q1, banks are required to report the net stable funding ratio.

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



Source: Danske Bank

- **Conclusion.** Fundamentally, not much has changed for EUR/DKK, but volatility has been on the rise recently due in part to idiosyncratic factors. This is likely to continue over the next couple of months. In the short term, we think the DKK liquidity situation bears watching as pension tax payments look to be large this year. This creates downside risk to our forecast. Over the medium term, a larger fall in USD than what we forecast creates an upside risk to our forecast.

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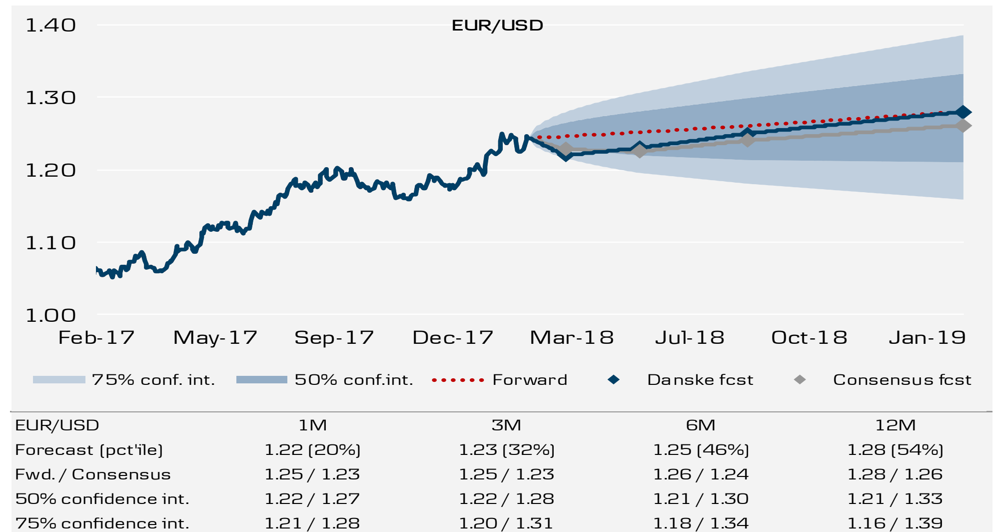
EUR/USD – end of USD weakness? No!

- **Growth.** Growth momentum is wearing off in both the euro area and the US following a strong run heading into 2018. We are looking for US growth to accelerate this year to 2.4% y/y, driven not least by a fiscal expansion. Meanwhile growth is wearing off slightly in the eurozone to 2.0%, partly driven by weaker export growth due to the stronger euro. Near term, the US also continues to look stronger than the eurozone according to our quantitative business-cycle models.
- **Monetary policy.** The ECB left policy measures and the all-important forward guidance unchanged in January, and while worries over the exchange-rate appreciation have featured as an increasing worry, the ECB stance was interpreted as moving in a more hawkish direction still. Indeed, we stress that the ECB remains on a path towards 'normalisation', and we expect a gradual shift in forward guidance during the course of the year. In March, we expect a change to the asymmetric communication on the purchase programme from the ECB, and albeit we still see ECB pricing as aggressive, it is the continued shift towards the exit that matters for the FX market. Jerome Powell's Fed will most likely deliver a 25bp hike in March, i.e. we stress that it will require more persistent market turmoil for the Fed to divert from its present course.
- **Flows.** Positioning remains stretched on EUR/USD longs but leveraged funds should still have room to add. The relative attractiveness of EU versus US assets increasingly favours a move into the Eurozone, which should be key in driving EUR support ahead (see next page).
- **Valuation.** Our Medium-term Valuation (MEVA) model still suggests 1.29 is 'fair' for the cross; PPP stands at 1.28.
- **Risks.** If US wages outpace those in the euro area, a sense of renewed policy divergence could weigh on EUR/USD. The upcoming Italian election could add to a eurozone political risk premium.

Forecast: 1.22 (1M), 1.23 (3M), 1.25 (6M), 1.28 (12M)



EUR/USD	1M	3M	6M	12M
Forecast (pct'ile)	1.22 (20%)	1.23 (32%)	1.25 (46%)	1.28 (54%)
Fwd. / Consensus	1.25 / 1.23	1.25 / 1.23	1.26 / 1.24	1.28 / 1.26
50% confidence int.	1.22 / 1.27	1.22 / 1.28	1.21 / 1.30	1.21 / 1.33
75% confidence int.	1.21 / 1.28	1.20 / 1.31	1.18 / 1.34	1.16 / 1.39

Source: Danske Bank

- **Conclusion.** Until early February this year has been about a continued EUR rebound on ECB, and USD weakness driven by a shift in the US policy mix (widening deficit, reluctant-to-hike Fed). The US-driven reflation story may have changed this temporarily, which could halt the uptick in EUR/USD near term where we see the pair staying broadly within the 1.21-1.26 range (see next page). Our medium-term story remains unchanged though: a turn in the capital tide from USD to EUR is brewing as the relative attractiveness of EU versus US assets is on the rise. Along with valuation, this is set to support EUR/USD in 6-12M.
- We have kept our 12M forecast unchanged at 1.28 but lift our near-term profile to 1.23 in 3M (previously1.19) and 1.25 in 6M (previously 1.23 while we target 1.22 in 1M.

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EUR/USD – important issues to watch

End of USD weakness? No – but new range for now

- EUR/USD has been in the hands of USD (supportive) forces recently but we see this as an interim period of range trading – with EUR/USD likely staying in the 1.21-1.26 range – near term. We still look for the cross to head higher in Q2 on flow support (details *here*), but breathing space for now due to the following:
- Upward momentum in US yields keep a hand under USD at present as the reflation story is currently originating from the US.
- EUR positioning is stretched and the ECB will adjust forward guidance only marginally in March, which means no imminent support to add longs.
- Risk reversals and technical indicators suggest EUR/USD risks are more two-sided near term; but 2017 high of 1.2072 likely to hold.

A turn in the capital tide from USD to EUR is brewing

- We have for a while argued that capital flows will support EUR as the ECB 'normalises' policy. With USD hedging costs on the rise and European rate curve steepening vs US flattening, eurozone fixed income products look increasingly attractive from a JPY (hedged) point of view.
- Also, the move (if gradual) away from negative rates should drag more fixed income products into positive-yielding territory and lure investors constrained by locking in negative yields back to the eurozone.
- Some first signs of Japanese investors losing their appetite for US Treasuries has been seen lately – a tendency we expect to see gain more traction as the ECB 'exits'. However, given a still subdued eurozone inflation outlook, it is probably a little too early for the ECB to set this EUR-supportive factor free just yet (more *here*).

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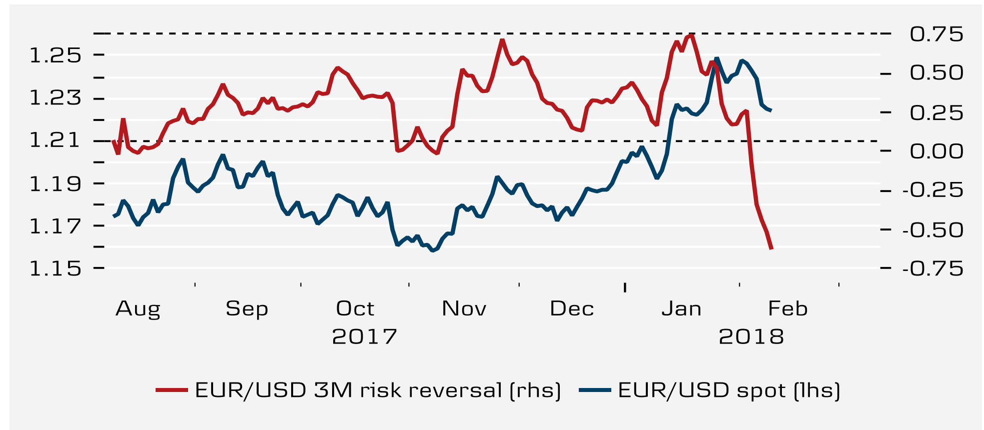
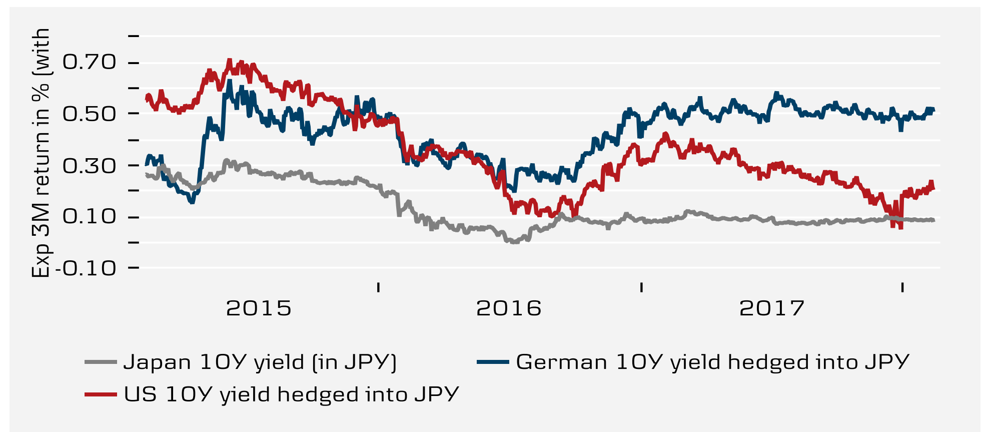
EUR/USD in 1.21-1.26 range for now as risks become two-sided near term



Source: Macrobond Financial, Danske Bank

Attractiveness of US 10Y vs German 10Y from a JPY (hedged) p.o.v.

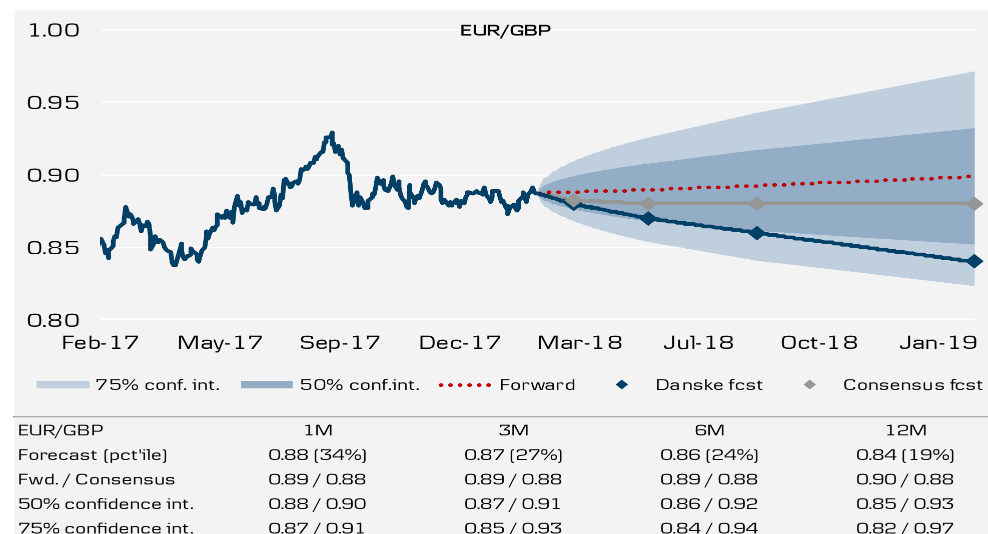


Source: Macrobond Financial, Danske Bank

EUR/GBP – BoE launching a hiking cycle

- **Growth.** Economic growth in the UK has slowed in 2017 and the country is now among the slowest growing economies in the EU28. The reason is a combination of negative real wage growth, which has slowed private consumption growth (the main growth driver), and political uncertainty, which weighs on business investments. We forecast growth of 1.3% in 2018 and 1.2% in 2019 but stress that uncertainty surrounding our forecast is higher than usual due to Brexit.
- **Monetary policy.** Based on the hawkish signal the Bank of England (BoE) sent at its MPC meeting on 8 February, we now expect the bank to hike the Bank Rate to 0.75% as early as May (previously February 2019). As it seems like the BoE is beginning a hiking cycle, we expect another BoE hike to follow in November, taking the Bank Rate to 1.00% by the end of the year. This is more hawkish than consensus and market pricing. See more details on next page.
- **Flows.** Non-commercial long GBP positions have gradually been rebuilt in 2017 and long GBP positioning is at the highest since 2014, according to IMM. The UK runs a current-account deficit, notably against EU countries, which is a fundamental supporting factor for EUR/GBP.
- **Valuation.** 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 GBP undervalued and volatile for longer. Timing the market's repricing of a Brexit risk premium is nearly impossible.

Forecast: 0.88(1M), 0.87 (3M), 0.86 (6M), 0.84 (12M)



EUR/GBP	1M	3M	6M	12M
Forecast (pct'ile)	0.88 (34%)	0.87 (27%)	0.86 (24%)	0.84 (19%)
Fwd. / Consensus	0.89 / 0.88	0.89 / 0.88	0.89 / 0.88	0.90 / 0.88
50% confidence int.	0.88 / 0.90	0.87 / 0.91	0.86 / 0.92	0.85 / 0.93
75% confidence int.	0.87 / 0.91	0.85 / 0.93	0.84 / 0.94	0.82 / 0.97

Source: Danske Bank

- **Conclusion.** We expect the combination of higher UK interest rates and Brexit clarification to move GBP away gradually from fundamentally undervalued levels. In particular, with the BoE now more firmly signalling a gradual hiking cycle, the case for a lower EUR/GBP has strengthened as we now expect the BoE to 'out-tighten' the ECB in the coming 12 months.
- Consequently, on 8 February, we lowered our EUR/GBP forecast to 0.87 in 3M, 0.86 in 6M and 0.84 in 12M. We see risks skewed towards the cross both breaking lower sooner and considerably lower than our forecast indicates. As the market pricing of a May rate hike already looks relatively hawkish, we see limited downside potential in the short term. We target 0.88 in 1M.

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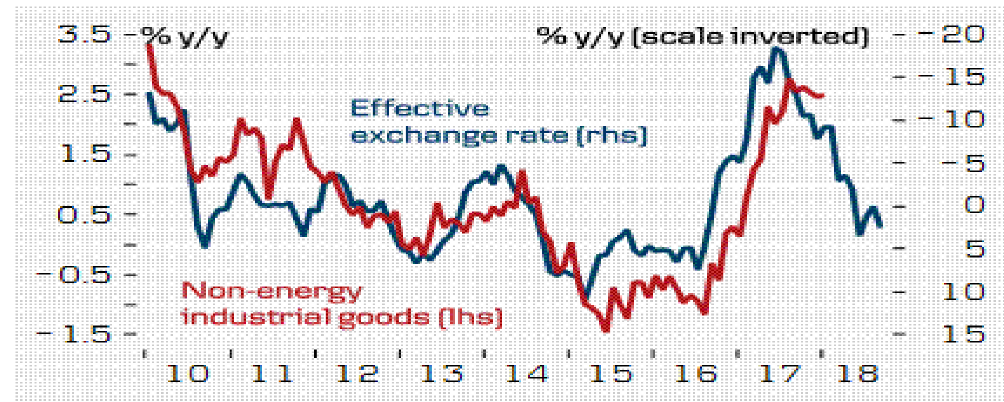
Danske Bank

EUR/GBP – important issues to watch

BoE launches a hiking cycle amid concerns of overheating

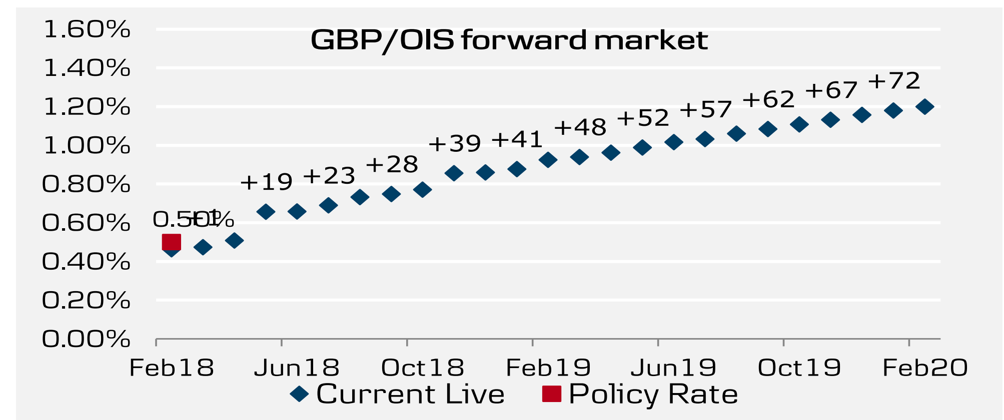
- The Bank of England struck a more hawkish tone at the MPC meeting on 8 February than we had expected. In our view, the BoE is now clearly signalling the beginning of a hiking cycle.
- As such, the BoE seems more comfortable with global growth and less concerned about Brexit, as it now thinks it is very likely that the UK and EU27 will agree on transition. The transition period will last at least until December 2020 and this covers the BoE's relevant policy horizon entirely. Although domestic growth momentum has slowed, the BoE still thinks GDP growth is higher than its potential (0.3% q/q) and thus enough to tighten the labour market further.
- While we still believe the BoE is too optimistic on wage growth (and possibly also underestimates how quickly the positive impact of GBP depreciation will fade – see chart to the right), we believe it will proceed with the hiking cycle, just as the Fed has done. One key difference between the BoE and the Fed is that UK CPI inflation is already above 2%, making it easier for the BoE to justify tightening.
- ***Provided that the global growth outlook remains intact, the timing and pace of future rate hikes is merely a function of GBP, energy prices and wage growth. Hence, the prospect of a BoE rate hike should curb EUR/GBP upside potential going forward.***

Impact of GBP depreciation on inflation may fade sooner than BoE projects



Source: Macrobond Financial, Danske Bank

19bp already priced for May; but only very gradual pace of future hikes



Source: Macrobond Financial, Danske Bank

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USD/JPY –portfolio flows and positioning to weigh further on the cross

- **Growth.** GDP growth momentum in Japan eased in Q4 17. In particular domestic demand, which remains the weak and missing component in the economic recovery, fell short of market expectations in Q4, while reduced support from external demand due to a pickup in imports also weighed on Q4 GDP. Going forward, we expect to see growth closer to trend as fiscal stimulus wanes. We forecast 1.7% in 2018 and 1.0% in 2019.

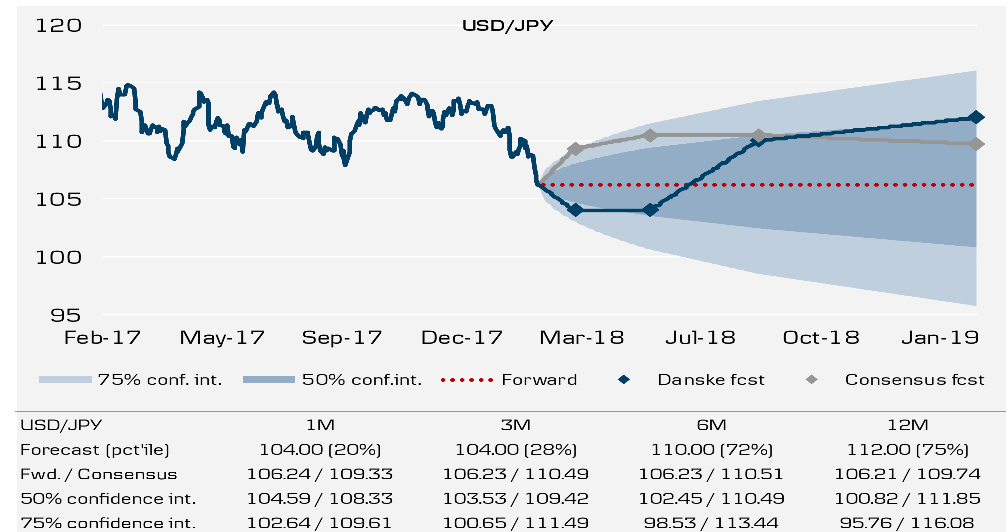
- **Monetary policy.** The Bank of Japan (BoJ) kept its monetary policy unchanged at its meeting on 23 January. It was the first time in 14 meetings, including the Outlook Report, that the BoJ did not revise its inflation forecast lower. We still think the BoJ is too optimistic on inflation, however, and that it will have to revise its inflation forecast lower this year. Prime Minister Abe has renominated Haruhiko Kuroda as BoJ governor while Mr Amamiya and professor Wakatabe have been nominated as deputy governors. We judge the new BoJ leadership is likely to be more dovish, and in our main scenario, we expect the BoJ to keep its policy unchanged over our 12M forecast horizon.

- **Flows.** Japan runs a sizeable current-account surplus, while the opposite is the case for the US. Speculators are very stretched short JPY, suggesting risks are skewed to the downside for USD/JPY from a positioning point of view.

- **Valuation.** PPP is around 80, while our MEVA model suggests 104 is 'fundamentally' justified.

- **Risks.** The correlation between JPY and US interest rates and equities has completely broken down. However, the yen's status as 'safe haven' remains intact, and JPY is still likely to appreciate if risk appetite deteriorates. See next page for more on the current correlation breakdown.

Forecast: 104 (1M), 104 (3M), 108 (6M), 110 (12M)



USD/JPY	1M	3M	6M	12M
Forecast (pct'ile)	104.00 (20%)	104.00 (28%)	110.00 (72%)	112.00 (75%)
Fwd. / Consensus	106.24 / 109.33	106.23 / 110.49	106.23 / 110.51	106.21 / 109.74
50% confidence int.	104.59 / 108.33	103.53 / 109.42	102.45 / 110.49	100.82 / 111.85
75% confidence int.	102.64 / 109.61	100.65 / 111.49	98.53 / 113.44	95.76 / 116.08

Source: Danske Bank

- **Conclusion.** The sell-off in the US and European fixed income markets is currently weighing on USD/JPY, and we expect the combination of portfolio flows, choppy market conditions and stretched short speculative JPY positioning to push USD/JPY lower going into fiscal year-end in Japan (on 31 March). We have thus revised our 1M and 3M forecasts lower to 104 in 1-3M (previously 112 in 1M and 113 in 3M).

- Over the medium term, we expect USD/JPY to gradually recover supported by continued solid global growth outlook and Fed-BoJ divergence. As such, we still see USD/JPY trading mostly sideways within the 108-115 range in 6-12M. We target the cross at 108 in 6M (previously 114) and 110 in 12M (previously 114).

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USD/JPY – important issues to watch

Correlation breakdown and volatility increase in US and EUR fixed income market suggest more USD/JPY downside in store

- Following the recent sell-off in the US and European fixed income market, correlations between JPY and US interest rates and equities have completely broken down. While the breakdown in correlations and decline in USD/JPY can be mainly attributed to general USD weakness, the decoupling between JPY and 10Y US yields warrants some attention.
- In particular, we note that interest rate volatility in the US and Europe has increased substantially relative to the Japanese government bond (JGB) market, where the BoJ's yield curve control keeps yields and volatility in check. Substantially higher interest rate volatility in the US and Europe could potentially reduce some Japanese investor appetite and capability to hold US and EUR bonds: first, it affects investors with VaR restrictions, but second, JGBs also look increasingly attractive relative to 10Y US Treasuries when adjusting for risk/volatility.
- Portfolio flows out of Japan have been an important driver behind JPY weakness in recent years, and if the interest rate volatility spread between Japan and the US and Europe continues to widen, we could see a more profound reversal of portfolio flows back into Japan in coming months – irrespectively of further widening of the yield spread.
- Moreover, Japanese investors and companies usually repatriate investments and foreign income going into fiscal year end in Japan by the end of March, which in recent years seems to have been a positive for the yen.
- ***Hence, all in all, we see risks mainly skewed to the downside for USD/JPY from a flow point of view in coming months.***

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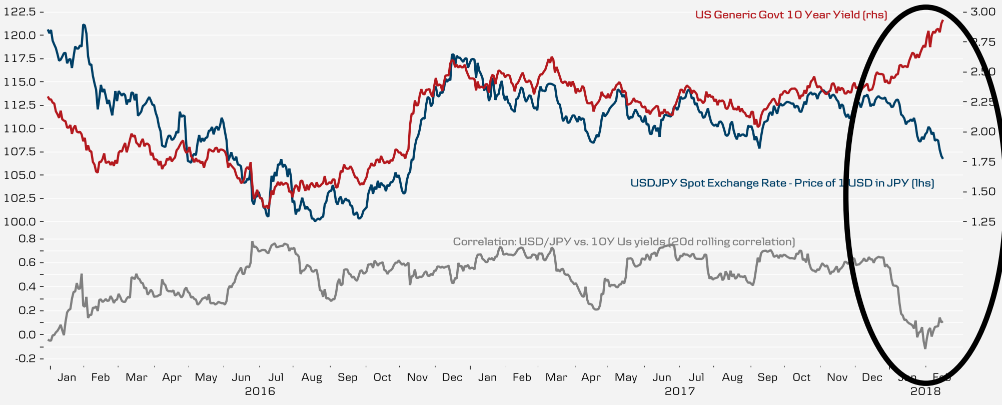
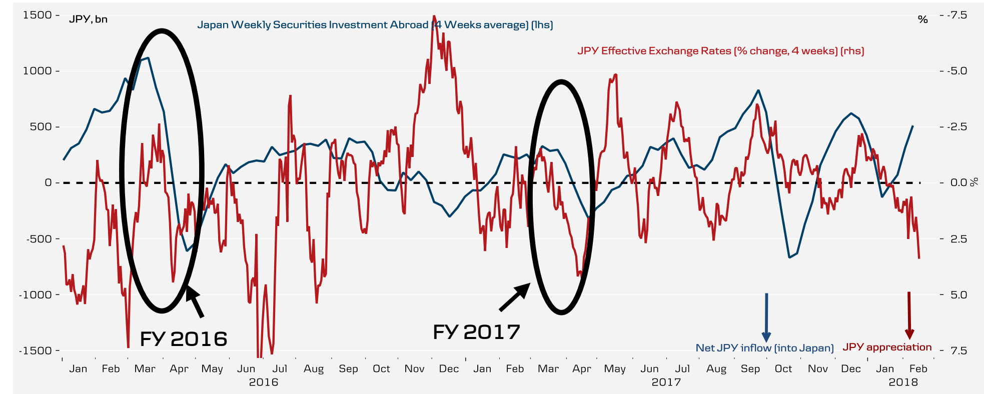
Correlation between USD/JPY and US 10Y yields has broken down



Source: Bloomberg, Macrobond Financial, Danske Bank

Flows has been JPY positive in recent years going into end of Japanese fiscal year

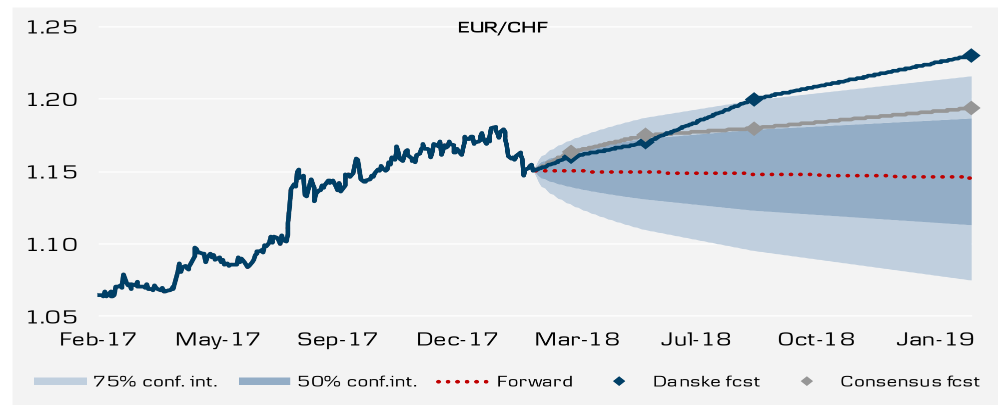


Source: Bloomberg, Macrobond Financial, Danske Bank

EUR/CHF – SNB route to exit remains long and winding

- **Growth.** The Swiss economy remains in good shape with both PMI manufacturing and the KOF leading indicator hovering at elevated levels, even if some weakness has been evident recently. Unemployment remains steadily low and inflation has gradually started to pick up, albeit from very low (deflationary) levels.
- **Monetary policy.** The shift in rhetoric from the ECB since last summer and the associated uptick in EUR/CHF has clearly helped the SNB. But while the central bank has seemingly largely ceased CHF selling, it confirmed at its December meeting that intervention remains a policy tool and that CHF is 'highly valued' even after the recent depreciation. Indeed, we stress that ceasing intervention is only a first step towards the 'exit' for the SNB, the next will be dropping the reference to the CHF as 'highly valued'. Following the recent uptick in the effective CHF we do not think this will happen at the March meeting. Only thereafter rate hikes should be on the agenda. Thus, the shift in SNB pricing seen recently, bringing a first 10bp hike forward to Q2 19, is unwarranted in our view as we do not think the SNB will be able to hike more or less in tandem with the ECB as the market is currently pricing in.
- **Flows.** Speculators are short CHF but positioning is not stretched as is the case with EUR longs. Switzerland is likely to see some inflows once SNB moves on rates, but the SNB is highly alert to this and is unlikely to set such flows free prematurely.
- **Valuation.** Both our G10 MEVA and PPP models suggest the cross should move higher over the medium to long term, looking at 1.26 and the 1.28, respectively.
- **Risks.** A prolonged period of souring risk sentiment – either driven by reflation hopes/worries or geopolitical tensions – would be likely to fuel inflows into safe havens such as CHF. The upcoming Italian election could add to a eurozone political risk premium.

Forecast: 1.16 (1M), 1.17 (3M), 1.20 (6M), 1.23 (12M)



EUR/CHF	1M	3M	6M	12M
Forecast (pct'ile)	1.16 (64%)	1.17 (71%)	1.20 (87%)	1.23 (91%)
Fwd. / Consensus	1.15 / 1.16	1.15 / 1.18	1.15 / 1.18	1.15 / 1.19
50% confidence int.	1.14 / 1.17	1.13 / 1.17	1.12 / 1.18	1.11 / 1.19
75% confidence int.	1.12 / 1.17	1.11 / 1.19	1.10 / 1.20	1.07 / 1.22

Source: Danske Bank

- **Conclusion.** CHF has gained during the recent reflation-driven risk sell-off but the franc had seen support from a more aggressive SNB. In our view, the market is currently ignoreing that the road to exit for the SNB entails more steps than that of the ECB: fading SNB intervention is only a first step in the SNB's 'normalisation' process; the next step will be to stop characterising CHF as 'highly valued'. However, with the effective CHF appreciating recently, risking the recovery with exit talk is not a route we believe the SNB will want to go down. We think the SNB will remain on the sidelines on further steps towards 'normalisation' for now, which should allow EUR/CHF to edge firmly into the 1.20s this year.
- We have kept our forecast profile intact, looking for 1.17 in 3M, 1.20 in 6M and 1.23 in 12M (all unchanged); we see 1.16 in 1M as risk sentiment remains fragile.

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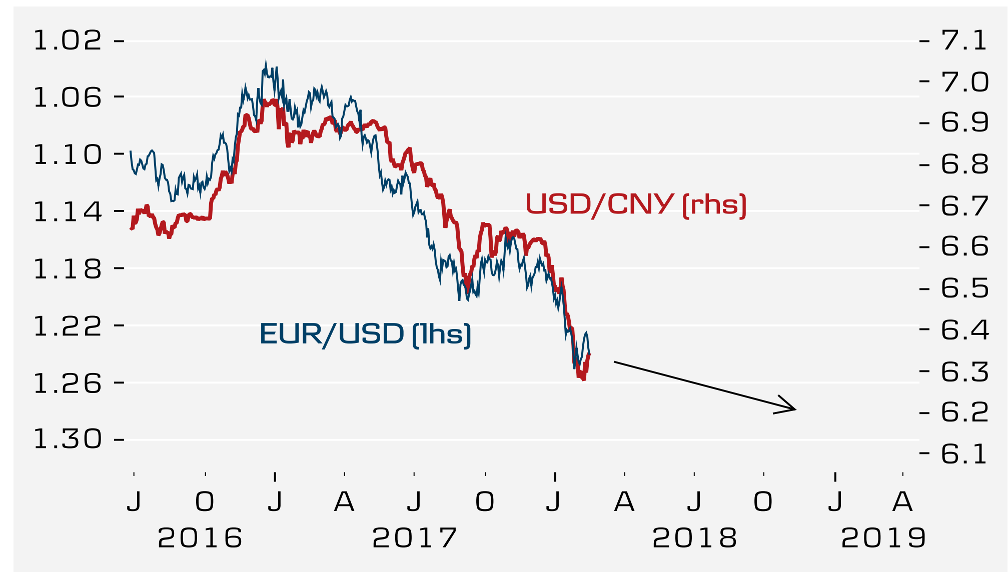
USD/CNY – USD weakness set to drive further decline in USD/CNY

- **Growth.** We look for a moderate slowdown in China as the housing market is set to slow further. However, we expect a soft landing with growth falling to around 6½% from 6.9% in 2017, as robust exports will serve as a buffer for the slowdown. We look for US growth to continue at a decent clip in 2018 due to fiscal stimulus and good fundamentals for both consumers and businesses.
- **Monetary policy.** We look for continued stabilisation in Chinese money market rates following the increase during 2017. As US money market rates are set to rise further, relative rates will move in favour of the USD. Chinese FX policy continues to be a managed peg against a basket of currencies. The basket has strengthened recently, but overall stayed within a fairly narrow range over the past two years.

  Flows. While relative rates now move in favour of the USD, flows have dominated in driving USD weakness. USD/CNY has over the past two years traded with a very high correlation with the overall USD movements. Hence, the relative slowdown of the Chinese economy versus the US will probably have less impact than previously expected. Instead, the development in the USD will dominate movements in USD/CNY. Capital outflows from China have also come to a halt. In addition, the recent high priority in Chinese policy to defuse the debt bomb has reduced the likelihood of a financial crisis and increased the confidence in the Chinese economy.
- **Valuation.** The CNY is broadly seen as close to fair value.
- **Risks.** EUR/USD has deviated strongly from the development in relative rates over the past year. If relative rates become a driver of EUR/USD again, a potential strengthening of the USD would leave upside risk to our new USD/CNY forecast. However, a risk to the downside would be even further weakening of the USD on a worsening US budget outlook, protectionism and soft Fed hiking path.

Forecast: 6.40 (1M), 6.40 (3M), 6.30 (6M), 6.20 (12M)



Source: Danske Bank

- **Conclusion.** The continued strong correlation with the overall USD development has continued to dominate the development in USD/CNY and a move in relative rates in favour of the USD has not been able to break this correlation. We thus put more weight on the correlation with the USD now. Our expectation of a further decline in the trade-weighted USD has therefore led us to revise our 12M forecast down to 6.20 – a change from our previous forecast of 6.70.
- It also means we no longer look for a further depreciation of the CNY versus EUR. Our 12M EUR/CNY forecast is now 7.94 versus a forward rate of 8.26.

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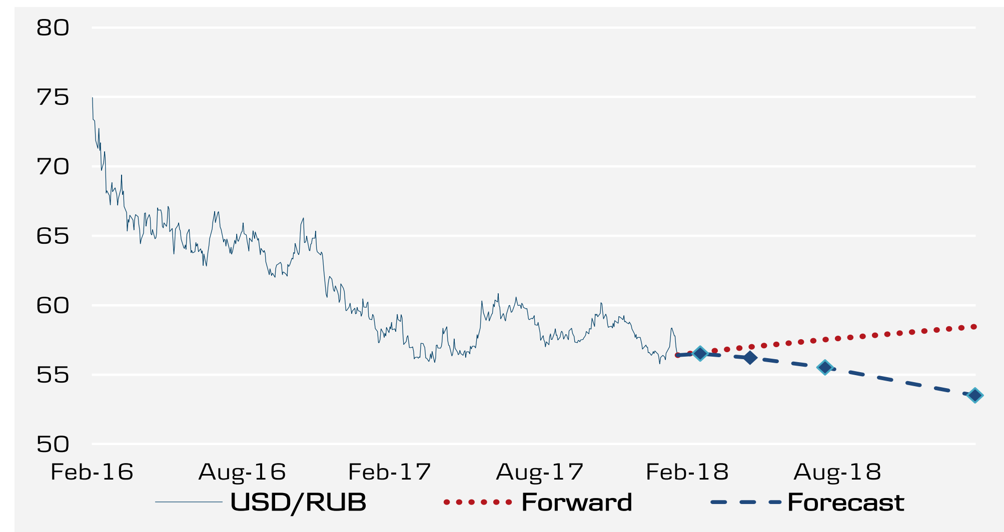
USD/RUB – RUB sees relief on weaker USD and improved sentiment

- **Growth.** According to the first estimate, Russia's economy grew 1.5% y/y in 2017 versus a 0.2% y/y contraction in 2016. While the current number will be revised several times in the future, we were more optimistic on 2017 GDP expansion, expecting it to post 1.9% y/y. Bloomberg's consensus saw a 1.7% y/y growth. Late 2017 turned out to be weaker than expected previously as industrial production growth lost momentum on warm weather while manufacturing shrank on reduction of military expenditures. We keep our GDP growth estimates at 2.0% for 2018 and 2.1% for 2019.
- **Monetary policy.** Russia's central bank (CBR) cut the key rate by 25bp in February as we expected together with Bloomberg consensus. Inflation fell to the lowest post-Soviet level of 2.2% y/y in January, while the decline in inflation expectations remained sticky. We expect the CBR to cut to 7.25% in March 2018, lowering the key rate to 6.50% by end-2018 and to 6.00% by end-2019. However, we expect the CBR's monetary easing path to be very gradual throughout 2018.
- **Flows.** Flows into the RUB have resumed on improved sentiment after the US Treasury Department released 'Russia-friendly' assessment refusing to sanction government debt or other financial instruments. USD weakness supports further flows, while Russia's Ministry of Finance is absorbing increased FX flows from oil revenues.
- **Valuation.** Crude and the RUB's correlation is back in January-February. While the Brent 30-day average has climbed 1.2% over the past 30 days, as of 15 February 2018, RUB/USD climbed 1.4% over the same period. We see the RUB/USD as strongly undervalued at current oil prices.

Forecast: 56.50 (1M), 56.20 (3M), 55.50 (6M), 53.50 (12M)



Source: Danske Bank

- **Conclusion.** Given the change in emerging market sentiment, weaker USD and the RUB rise on improved sentiment, we roll our USD/RUB levels short and medium term. As we remain positive about the crude price and Russia's macro fundamentals in the long term, we keep our long-term forecast unchanged.
- **Risks.** Macro fundamentals remain favourable for the RUB's outlook and oil-price risk points more to RUB upside but other external risks are present: the RUB is closely following the emerging market mood and the anti-Russia sanctions sentiment could return to the picture anytime.

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Danske Bank

USD/RUB – important issues to watch

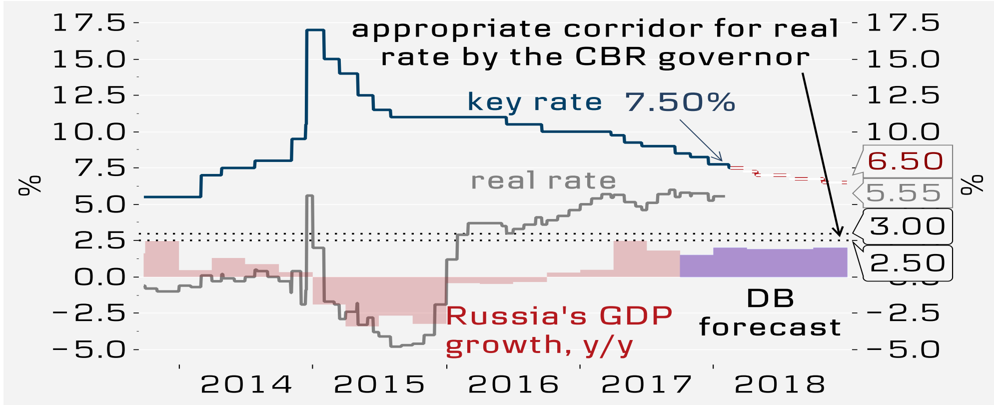
Possible new anti-Russian sanctions against selected Russian businessmen, government officials and corporations

- Although the US Treasury assessment on Russian assets was a positive and sentiment improving factor for the RUB market, geopolitical deterioration on new anti-Russian sanctions by the US and Russia's response to them should be not excluded.

Russia's rating is on the way to being upgraded to investment grade

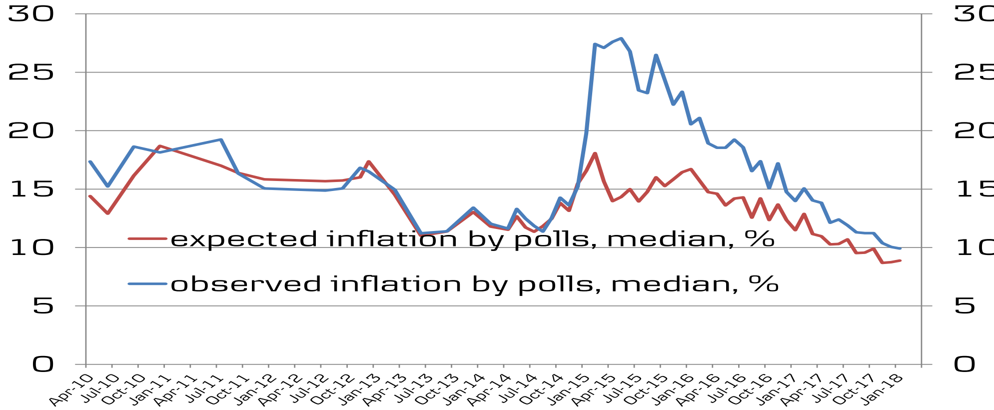
- Despite a tense geopolitical environment, Russia's fiscal discipline remains solid and local political stability is set to continue after the presidential election on 18 March 2018. A possible upgrade will keep RUB positive sentiment on, while Minfin's increasing FX purchases are set to put the brakes on RUB's excessive strengthening.

Central bank gets more room for monetary easing as headline inflation falls to all-time low



Source: CBR, Bloomberg, Macrobond Financial, Danske Bank

Inflation expectations remain sticky supporting more cautious stance by the CBR, though not impeding rate cuts



Source: CBR, Danske Bank

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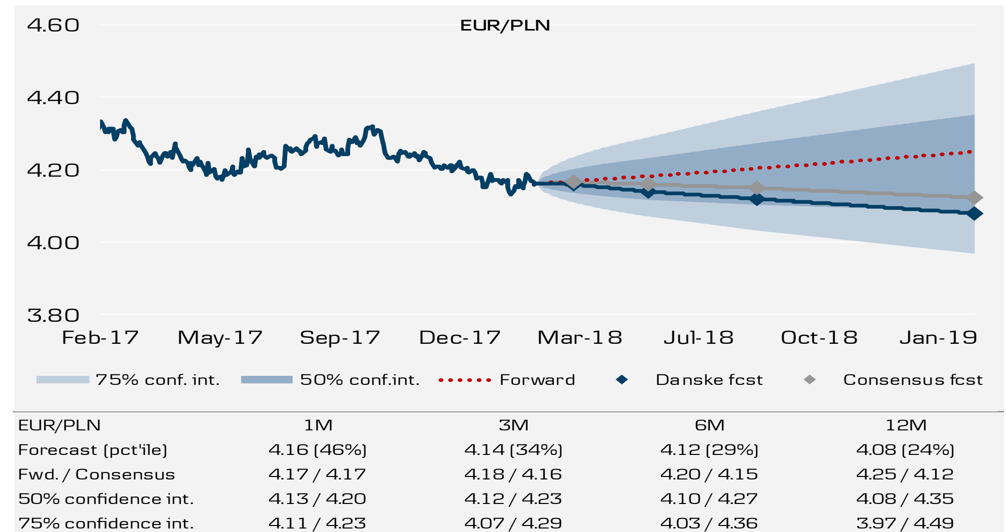
EUR/PLN – PLN hit by global sell-off

- **Economic and political developments.** The Polish economy continues to grow strongly. In Q4, real GDP expanded by 5.1% y/y (or 1.0% q/q s.a), which is the fastest growth since 2011. The growth is quite broad based as domestic demand is supported by private consumption amid low unemployment and fast wage growth and investment (due primarily to absorption of EU funds—construction output expanded by almost 13% in December). External demand is also strong, boosting polish exports given the momentum in the world economy. However, looking forward, the Polish economy is increasingly facing capacity constraints, which may hurt production in the year to come. As a result, we see the Polish economy slowing from 4.6% last year to 4.0% this year.
- **Monetary policy.** The National Bank of Poland (NBP) continues to be in no hurry to raise policy rates given its modest inflation projection outlook. At the 7 February meeting, Governor Adam Glapiński appeared in no hurry to raise rates in 2018. Admittedly, inflation pressures continue to be surprisingly weak in view of the strong wage growth in the economy (7.3% y/y in December) with headline inflation falling back to 1.9% y/y in January, while core inflation remained modest at 0.9% in December. Financial markets have scaled back their rate-hike expectations, expecting the first hike by Q1 19—a bit too dovish in our view, as we expect a hike at end-Q4 18
- **Risks.** The risk to the EUR/PLN forecast is fairly balanced. Among upside risks are further rise in global volatility and signals of further monetary policy tightening in advanced economies. Among the downside risks are continuing strong Polish economic momentum.

Forecast: 4.16 (1M), 4.14 (3M), 4.12 (6M), 4.08 (12M)



EUR/PLN	1M	3M	6M	12M
Forecast (pct'ile)	4.16 (46%)	4.14 (34%)	4.12 (29%)	4.08 (24%)
Fwd. / Consensus	4.17 / 4.17	4.18 / 4.16	4.20 / 4.15	4.25 / 4.12
50% confidence int.	4.13 / 4.20	4.12 / 4.23	4.10 / 4.27	4.08 / 4.35
75% confidence int.	4.11 / 4.23	4.07 / 4.29	4.03 / 4.36	3.97 / 4.49

Source: Danske Bank

- **Conclusion.** After a strong start to the year, the zloty has been hit by the deterioration in global risk sentiment as well as a few muted macroeconomic data releases. However, we still expect the strong growth and rise in inflation to lead to an earlier-than-expected hike in NBP rates, which would give support to the zloty. Therefore, we target the EUR/PLN at 4.16 in 1M, 4.14 in 3M (4.13 previously), 4.12 in 6M and 4.08 in 12M.

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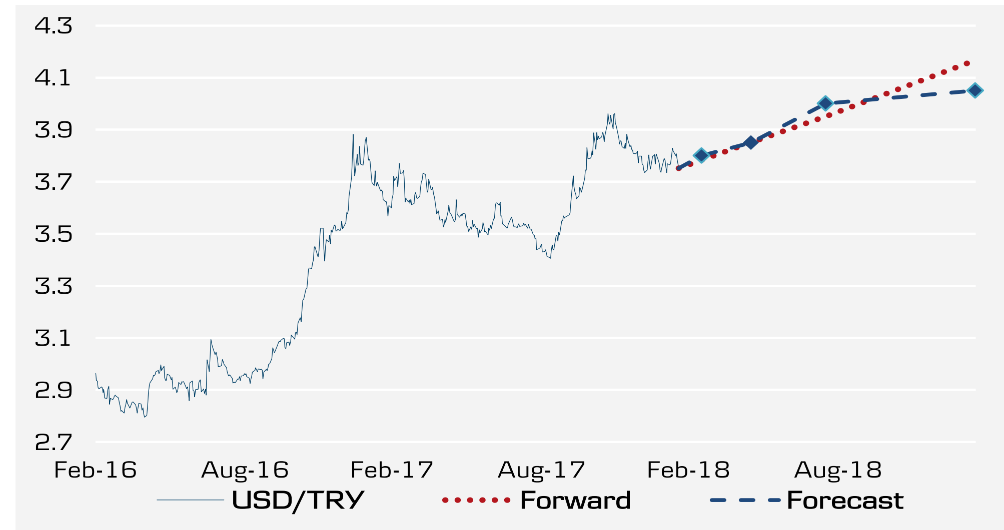
USD/TRY – fearing hawkish Fed

- **Growth.** Turkey's economic growth surprised positively, with GDP expanding 11.1% y/y in Q3 17, the strongest growth since 2011. The best performers on an annual basis were construction and industrial sectors. Seasonally-adjusted quarterly data indicates that quarterly growth came from private consumption and fixed investments. Exports also saw double-digit growth in Q3 17. The most recent industrial production data and PMIs support solid economic growth in early 2018. We expect 2018 GDP to grow 3.5% y/y, as export growth has good prospects of remaining in double-digit territory and tourist arrivals are expanding rapidly.
- **Monetary policy.** Inflation started to slow down. Yet, high inflation has postponed hopes of near-term monetary easing and is keeping the central bank hawkish despite pressure from President Recep Tayyip Erdoğan. In January 2018, the Turkish central bank kept all rates unchanged. We expect the benchmark repo rate to remain unchanged in H1 18, given the current inflation outlook and the TRY's turbulence. Inflation pressure remains high on EUR/TRY.
- **Valuation.** Net flows into Turkish bonds and stocks were negative as of 9 February on a looming hike by the Fed. According to technical analysis (Relative Strength Index), the USD/TRY remains also in 'fair value' territory getting support from stabilised EM sentiment. Yet, we see the TRY being slightly overbought at current levels and the emerging market catch-up could continue in the short term.
- **Risks.** Major downside risks to our TRY forecasts include a mass exodus from long carry positions and a more hawkish Fed after the expected rate hike in March 2018. While we exclude a surprise easing by the TCMB in H1 18, a weak USD and improving macro are further downside risks for the USD/TRY.

Forecast: 3.80 (1M), 3.85 (3M), 4.00 (6M) and 4.05 (12M)



Source: Danske Bank

- **Conclusion.** We see more volatility in the TRY in the short term as the Fed is likely to hike in March 2018, becoming more hawkish for the rest of 2018. We remain cautious in the medium to long term on pressure from a high oil price and widening current account deficit. We keep our USD/TRY forecast unchanged.

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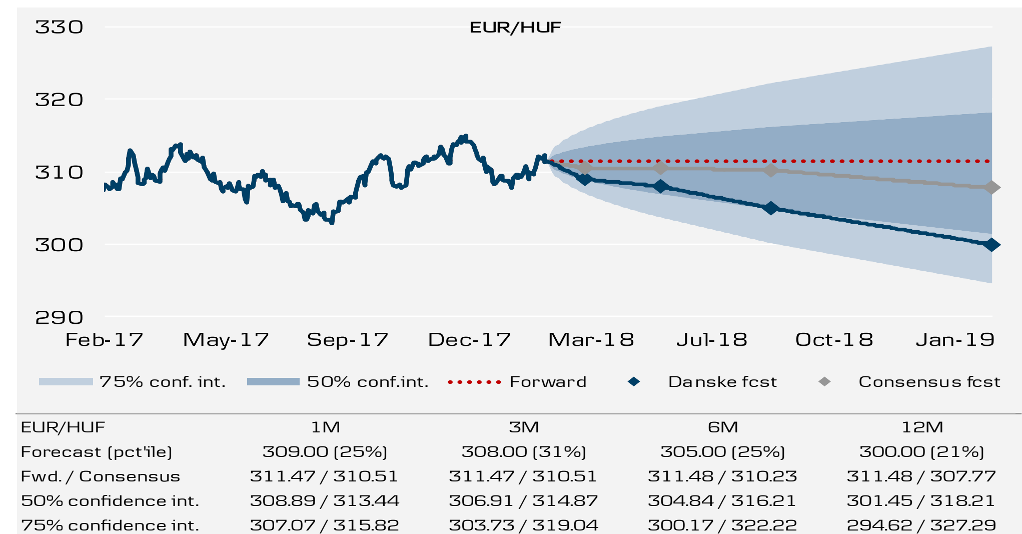
EUR/HUF – heading lower on strong economic growth

- **Growth.** The preliminary figure for economic growth in Q4 17 was 4.4% y/y. That was stronger than in Q3 17 or than Bloomberg consensus (4.3% y/y). This is confirmation of the strong signals coming out of Hungary throughout 2017 and could eventually raise concerns about a potential overheating of the economy. In December, retail sales and industrial production grew at 5.9% y/y and 4.5% y/y, respectively, which more or less reaffirms the strong numbers for late 2017. Accelerating economic growth would in our view increase concern about overheating, should the Hungarian central bank maintain its dovish stance through H1 18.

- **Monetary policy.** The Hungarian central bank kept rates unchanged at its January meeting and seems to be on hold for now. In January, CPI inflation stayed at 2.1% y/y. With headline inflation still remaining below the central bank's 3.0% target, we do not see any imminent changes in its dovish stance but we believe the strong economic growth will drive up inflation eventually, leading to a change in policy by the central bank at some point in 2018. However, if inflation continues to struggle to reach 3.0%, this change in policy could well be a long way off. A strong HUF could also see the central bank remaining dovish for a prolonged period.

- **Risks.** A clear upside risk to our EUR/HUF forecast is a deterioration in global risk sentiment. However, there are also downside risks from stronger-than-expected economic and inflation developments in Hungary.

Forecast: 309 (1M), 308 (3M), 305 (6M) and 300 (12M)



EUR/HUF	1M	3M	6M	12M
Forecast (pct'ile)	309.00 (25%)	308.00 (31%)	305.00 (25%)	300.00 (21%)
Fwd. / Consensus	311.47 / 310.51	311.47 / 310.51	311.48 / 310.23	311.48 / 307.77
50% confidence int.	308.89 / 313.44	306.91 / 314.87	304.84 / 316.21	301.45 / 318.21
75% confidence int.	307.07 / 315.82	303.73 / 319.04	300.17 / 322.22	294.62 / 327.29

Source: Danske Bank

- **Conclusion.** Given the strong support by macroeconomic indicators in Hungary and remaining chance for more hawkish central bank in the long run, we keep our HUF hawkish stance unchanged seeing EUR/HUF at 309 in 1M, at 308 in 3M, 305 in 6M and 300 in 12M.

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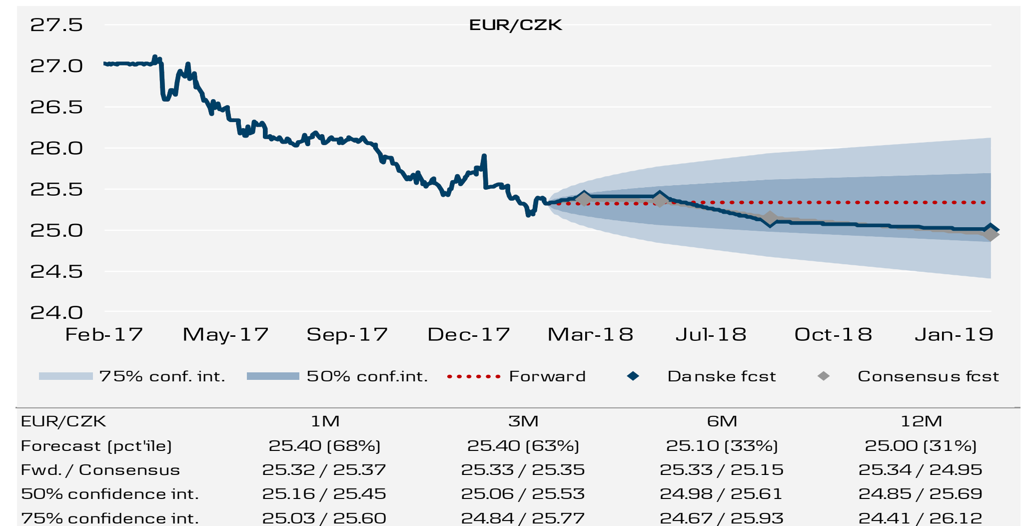
EUR/CZK – CNB hiking cycle on pause for now

- **Growth.** GDP growth remained strong in Q4 17 at 5.1% y/y with all demand components contributing positively, leaving annual growth at 4.5% in 2017. The strength of the economy continues to show in the labour market, with unemployment at 3.9% in January, although wage growth has moderated somewhat to 6.8% in Q3. We expect the Czech economy to continue to run on all engines throughout 2018 – driven by strong private consumption and robust export growth – but at a somewhat lower pace due to increasing capacity constraints and signs of peaking in business sentiment indicators.

- **Monetary policy.** Inflation decreased by 0.2pp to 2.2% y/y in January, and we expect it to remain close to but above the 2% target throughout 2018 due to solid domestic demand and a tight labour market. In light of this, the Czech National Bank (CNB) raised the two-week repo rate by 25bp to 0.75% at the February meeting. This was highly anticipated by markets, and after a temporary drop below 25.20, EUR/CZK has moved back towards 25.40 in recent weeks. The CNB's forecast suggests unchanged rates throughout 2018, but foresees a continued steep EUR/CZK depreciation to 24.60 by the end of 2018. In line with signs of abating inflation pressures, we expect CNB to be on hold in H1 18, but as we expect CZK to strengthen more moderately, we see potential for a further 25bp hike in H2 18, especially if growth continues to surprise on the upside.

- **Risks.** Given the sizable amount of long CZK positions accumulated in the market prior to the floor exit, EUR/CZK is still vulnerable to sudden moves. In our view, a risk for the Czech economy is whether the CNB gets the timing of the hiking cycle right in order to avoid on the one hand an overheating of the economy and on the other a too sudden slowdown.

Forecast: 25.40 (1M), 25.40 (3M), 25.10 (6M), 25.00 (12M)



EUR/CZK	1M	3M	6M	12M
Forecast (pct'ile)	25.40 (68%)	25.40 (63%)	25.10 (33%)	25.00 (31%)
Fwd. / Consensus	25.32 / 25.37	25.33 / 25.35	25.33 / 25.15	25.34 / 24.95
50% confidence int.	25.16 / 25.45	25.06 / 25.53	24.98 / 25.61	24.85 / 25.69
75% confidence int.	25.03 / 25.60	24.84 / 25.77	24.67 / 25.93	24.41 / 26.12

Source: Danske Bank

- **Conclusion.** We project that EUR/CZK will trade around current levels in the short term, as the CNB enters wait-and-see mode. We expect CZK to continue with its gradual appreciation path over the medium term based on robust Czech economic fundamentals and relative monetary policy divergence. But with the CNB on hold, and the ECB moving towards normalisation by year end, there will be less support from the latter factor going forward, which is also why we expect a more gradual EUR/CZK depreciation pace compared to the CNB forecasts. But given the possibility of another CNB hike in H2 18, we stress that the risk to our long-term forecasts lie to the downside. In light of the move lower following the February CNB meeting, we adjust our forecasts to 25.40 in 1M (previously 25.50) 25.40 in 3M (25.50), 25.10 in 6M (25.30) and 25.00 in 12M (25.30).

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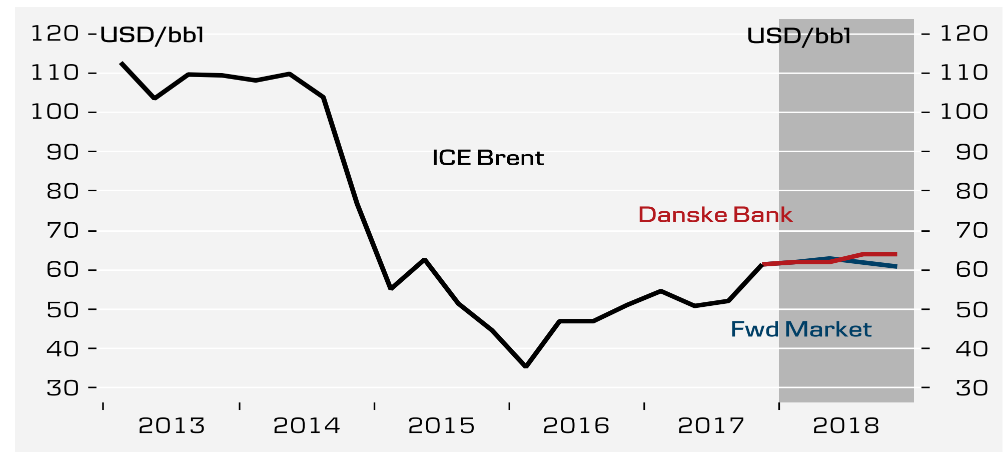
Oil – back down on shale oil and risk sentiment

- **Macro.** The US oil rig count has increased sharply over the past couple of weeks, indicating that US shale oil producers are increasing capacity following the rally in oil prices last year. That has led official institutions to revise up the outlook for US oil production further. At the same time, the risk sell-off in equity markets has raised some concerns over the outlook for oil demand. On balance, this has shifted fundamentals in a more bearish direction compared to the second half of last year. While we see this development as fair, we do not expect it to extend further. We are neither headed for a new period of global oil glut nor a recession in the global economy, in our view.
- **Forward curve.** The Brent crude oil market forward curve remains in a relatively steep backwardation as the front-end of the curve remains supported by a geopolitical risk premium and strong supply fundamentals are keeping the back end in check. Following the recent sell-off, we have seen a parallel shift lower in the Brent crude oil market forward curve.
- **Positioning.** Speculative positioning in the oil market remains in stretched long territory.
- **Risks.** There are a number of risks to keep an eye out for in 2018. We highlight the looming tensions between the US and Iran with regards to Iran's nuclear programme, where US President Trump has made a push for reinstating sanctions on Iran. That would be negative for supply from Iran and positive for oil prices. The planned June review of the OPEC, non-OPEC output cut deal creates downside risk to oil prices if the group decides to scale back production cuts before the end of the year.

Forecast: USD62/bbl (Q1), USD62/bbl (Q2), USD64/bbl (Q3), USD64/bbl (Q4)



Source: Danske Bank

- **Conclusion.** We maintain our view that oil prices will stay broadly stable this year. We forecast the price on Brent crude to average USD62/bbl in Q1 and Q2 and USD64/bbl in Q3 and Q4. In 2019, we forecast the price on Brent crude to average USD65/bbl. We see asymmetric risks to our forecasts from risk of negative supply shock, e.g. if the US reinstates nuclear-related sanctions on Iran and the risk of a positive supply shock if OPEC and non-OPEC end production cuts early.

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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	1.240	1.22	1.23	1.25	1.28	-2.5	-2.1	-1.2	-0.4
JPY	131.9	127	128	135	141	-4.7	-3.9	1.4	5.7
GBP	0.885	0.88	0.87	0.86	0.84	-1.0	-2.3	-3.7	-6.6
CHF	1.151	1.16	1.17	1.20	1.23	0.4	1.4	4.1	6.9
DKK	7.4482	7.4450	7.4450	7.4450	7.4475	0.0	0.0	0.0	0.1
NOK	9.65	9.50	9.40	9.20	9.10	-2.4	-3.7	-6.0	-7.8
SEK	9.89	9.90	10.00	9.90	9.80	0.0	1.0	0.0	-1.1
Exchange rates vs USD									
JPY	106.4	104	104	108	110	-2.3	-1.8	2.6	6.1
GBP	1.40	1.39	1.41	1.45	1.52	-1.5	0.2	2.6	6.6
CHF	0.93	0.95	0.95	0.96	0.96	2.9	3.5	5.3	7.3
DKK	6.01	6.10	6.05	5.96	5.82	2.5	2.1	1.2	0.5
NOK	7.78	7.79	7.64	7.36	7.11	0.0	-1.6	-4.9	-7.4
SEK	7.97	8.11	8.13	7.92	7.66	2.5	3.2	1.2	-0.7
CAD	1.26	1.26	1.27	1.25	1.23	1.0	1.9	0.4	-1.0
AUD	0.79	0.78	0.78	0.78	0.79	-1.8	-1.8	-1.8	-0.8
NZD	0.74	0.72	0.72	0.72	0.74	-2.6	-2.6	-2.6	0.0
RUB	56.42	56.50	56.20	55.50	53.50	-0.8	-2.0	-4.1	-9.1
CNY	6.34	6.40	6.40	6.30	6.20	0.8	0.4	-1.6	-3.9

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

Source: 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	7.4482	7.4450	7.4450	7.4450	7.4475	0.0	0.0	0.0	0.1
USD	6.01	6.10	6.05	5.96	5.82	2.5	2.1	1.2	0.5
JPY	5.65	5.87	5.82	5.51	5.29	4.8	4.0	-1.4	-5.3
GBP	8.42	8.46	8.56	8.66	8.87	0.9	2.3	3.8	7.2
CHF	6.47	6.42	6.36	6.20	6.05	-0.5	-1.4	-3.9	-6.3
NOK	0.77	0.78	0.79	0.81	0.82	2.4	3.8	6.4	8.5
SEK	0.75	0.75	0.74	0.75	0.76	0.0	-1.0	0.0	1.2
CAD	4.78	4.84	4.77	4.76	4.73	1.5	0.3	0.8	1.5
AUD	4.75	4.76	4.72	4.65	4.60	0.6	0.3	-0.6	-0.3
NZD	4.43	4.39	4.36	4.29	4.31	-0.2	-0.5	-1.4	0.6
PLN	1.79	1.79	1.80	1.81	1.83	0.0	0.9	1.9	4.1
CZK	0.29	0.29	0.29	0.30	0.30	-0.1	0.0	1.4	2.2
HUF	2.39	2.41	2.42	2.44	2.48	0.8	1.2	2.4	4.3
RUB	0.11	0.11	0.11	0.11	0.11	3.3	4.2	5.5	10.5
CNY	0.94	0.95	0.95	0.95	0.94	1.7	1.7	2.9	4.6

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	9.89	9.90	10.00	9.90	9.80	0.0	1.0	0.0	-1.1
USD	7.97	8.11	8.13	7.92	7.66	2.5	3.2	1.2	-0.7
JPY	7.49	7.80	7.82	7.33	6.96	4.9	5.1	-1.4	-6.4
GBP	11.18	11.25	11.49	11.51	11.67	0.9	3.3	3.8	5.9
CHF	8.59	8.53	8.55	8.25	7.97	-0.4	-0.3	-3.9	-7.4
NOK	1.02	1.04	1.06	1.08	1.08	2.4	4.9	6.4	7.3
DKK	1.33	1.33	1.34	1.33	1.32	0.0	1.0	0.0	-1.2
CAD	6.34	6.44	6.40	6.34	6.22	1.5	1.3	0.8	0.3
AUD	6.30	6.33	6.34	6.18	6.05	0.7	1.3	-0.7	-1.4
NZD	5.88	5.84	5.85	5.70	5.67	-0.2	0.5	-1.4	-0.6
PLN	2.38	2.38	2.42	2.40	2.40	0.0	1.9	1.9	2.9
CZK	0.39	0.39	0.39	0.39	0.39	-0.1	1.0	1.4	1.0
HUF	3.17	3.20	3.25	3.25	3.27	0.8	2.2	2.3	3.1
RUB	0.14	0.14	0.14	0.14	0.14	3.3	5.3	5.5	9.2
CNY	1.25	1.27	1.27	1.26	1.23	1.7	2.7	2.8	3.4

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	9.65	9.50	9.40	9.20	9.10	-2.4	-3.7	-6.0	-7.8
USD	7.79	7.79	7.64	7.36	7.11	0.0	-1.6	-4.9	-7.4
JPY	7.32	7.49	7.35	6.81	6.46	2.4	0.2	-7.3	-12.7
GBP	10.92	10.80	10.80	10.70	10.83	-1.5	-1.4	-2.4	-1.3
CHF	8.39	8.19	8.03	7.67	7.40	-2.8	-5.0	-9.7	-13.7
SEK	0.98	0.96	0.94	0.93	0.93	-2.4	-4.6	-6.0	-6.8
DKK	1.30	1.28	1.26	1.24	1.22	-2.4	-3.7	-6.1	-7.9
CAD	6.20	6.18	6.02	5.89	5.78	-0.9	-3.4	-5.3	-6.5
AUD	6.16	6.07	5.96	5.74	5.62	-1.7	-3.4	-6.7	-8.1
NZD	5.75	5.61	5.50	5.30	5.26	-2.6	-4.1	-7.4	-7.4
PLN	2.32	2.28	2.27	2.23	2.23	-2.4	-2.8	-4.3	-4.1
CZK	0.38	0.37	0.37	0.37	0.36	-2.5	-3.7	-4.7	-5.8
HUF	3.10	3.07	3.05	3.02	3.03	-1.6	-2.5	-3.8	-3.9
RUB	0.14	0.14	0.14	0.13	0.13	0.8	0.4	-0.8	1.8
CNY	1.22	1.22	1.19	1.17	1.15	-0.7	-2.0	-3.4	-3.6

Source: Danske Bank

Danske Bank EMEA FX forecasts

		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PLN	**18-Feb-18**	**4.16**		**3.35**		**179**		**238**		**232**	
	+1M	4.16	4.16	3.41	3.33	179	179	238	238	228	234
	+3M	4.14	4.18	3.37	3.32	180	178	242	237	227	234
	+6M	4.12	4.20	3.30	3.32	181	177	240	236	223	233
	+12M	4.08	4.24	3.19	3.30	183	175	240	233	223	232
HUF	**18-Feb-18**	**312**		**251**		**2.39**		**3.17**		**3.10**	
	+1M	309	312	251	249	2.41	2.39	3.20	3.18	3.07	3.12
	+3M	308	312	250	248	2.42	2.39	3.25	3.18	3.05	3.13
	+6M	305	312	244	247	2.44	2.38	3.25	3.17	3.02	3.14
	+12M	300	313	234	243	2.48	2.38	3.27	3.17	3.03	3.16
CZK	**18-Feb-18**	**25.3**		**20.4**		**29.4**		**39.0**		**38.1**	
	+1M	25.4	25.4	20.8	20.3	29.3	29.3	39.0	39.0	37.4	38.3
	+3M	25.4	25.4	20.7	20.2	29.3	29.3	39.4	39.0	37.0	38.4
	+6M	25.1	25.5	20.1	20.1	29.7	29.2	39.4	38.9	36.7	38.5
	+12M	25.0	25.5	19.5	19.9	29.8	29.1	39.2	38.8	36.4	38.7
RUB	**18-Feb-18**	**70.0**		**56.4**		**10.6**		**14.1**		**13.8**	
	+1M	68.9	71.2	56.5	57.0	10.8	10.5	14.4	13.9	13.8	13.7
	+3M	69.1	72.0	56.2	57.4	10.8	10.3	14.5	13.7	13.6	13.5
	+6M	69.4	73.2	55.5	57.9	10.7	10.2	14.3	13.5	13.3	13.4
	+12M	68.5	75.6	53.5	58.8	10.9	9.8	14.3	13.1	13.3	13.1
TRY	**18-Feb-18**	**4.65**		**3.75**		**160**		**213**		**208**	
	+1M	4.64	4.76	3.80	3.80	161	156	214	208	205	204
	+3M	4.74	4.87	3.85	3.87	157	153	211	203	199	200
	+6M	5.00	5.04	4.00	3.98	149	148	198	197	184	194
	+12M	5.18	5.40	4.05	4.20	144	138	189	183	176	183
CNY	**18-Feb-18**	**7.90**		**6.34**		**94**		**125**		**122**	
	+1M	7.81	7.94	6.40	6.35	95	94	127	125	122	123
	+3M	7.87	8.01	6.40	6.37	95	93	127	124	119	122
	+6M	7.88	8.10	6.30	6.40	95	92	126	122	117	121
	+12M	7.94	8.29	6.20	6.45	94	90	123	119	115	119
ZAR	**18-Feb-18**	**14.4**		**11.6**		**51.8**		**68.7**		**67.1**	
	+1M	14.3	14.6	11.75	11.7	51.9	50.9	69.1	67.7	66.3	66.5
	+3M	14.1	14.8	11.50	11.8	52.6	50.2	70.7	66.8	66.5	65.8
	+6M	14.1	15.1	11.25	11.9	52.9	49.2	70.4	65.5	65.4	64.8
	+12M	14.4	15.7	11.25	12.2	51.7	47.3	68.1	63.1	63.2	62.8

Source: Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Thomas Harr (Global Head of FICC Research), Christin Tuxen (Chief Analyst), Morten Helt (Senior Analyst), Jens Naervig Pedersen (Senior Analyst), Kristoffer Kjær Lomholt (Senior Analyst), Jakob Ekholdt Christensen (Chief Analyst), Stefan Mellin (Senior Analyst), Vladimir Miklashevsky (Senior Analyst), Allan von Mehren (Chief Analyst) and Nicolai Pertou Ringkøbing (Assistant Analyst).

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Date of first publication

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