

FX Trading Portfolio

Sell EUR/NOK spot outright as strategic 3M trade

- Four headwinds have weighed on NOK this summer; these will become tailwinds.
- Fundamentals, Norges Bank, positioning and technicals support a stronger NOK.
- We recommend selling EUR/NOK spot outright with a soft target of 9.2200.

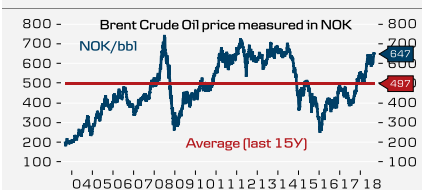
Fundamental predisposition supported by fading headwinds

In *FX Strategy – Sell 3M EUR/NOK seagull on lower spot and volatility 2018*, 11 June, we argued the fundamental picture for a stronger NOK was strengthening but that summer headwinds such as improved structural liquidity were arguments for expressing our spot view via options instead. Our 9.2000-9.5150-9.7500 bearish seagull expires tomorrow (live P&L -0.06%); arguably, this is not the profit we pencilled in when we entered the position. Meanwhile, we think four headwinds have been the main culprits behind the NOK underperformance and we think all four headwinds are about to turn. In other words, NOK weakness has opened up for attractive EUR/NOK selling opportunities.

- **Headwind 1: summer seasonality.** The data calendar is turning very positive again (e.g. Norges Bank [NB] meeting next week), spot and forward liquidity is improving and structural NOK liquidity is set to tighten. This is very different from July/August.
- **Headwind 2: global risk appetite.** Global risk appetite has suffered from weaker global growth, tighter monetary policy, the global trade war, emerging market turmoil and Italian budget concerns. Meanwhile, we think the balance of risk now favours positioning for risky asset performance again and our equity team has turned Overweight equities.
- **Headwind 3: SEK weakness.** The SEK election risk premium is set to fade and our SEK strategist pencils in autumn SEK support as we approach a December Riksbank hike.
- **Headwind 4: tighter NOK FRA/OIS.** Nibor fixings are likely to find renewed support from more expensive offshore USD this autumn (USD FRA/OIS and xCCY basis).

We still think the NOK is undervalued amid the economy's need for a weak currency over the past five years. This said, the tide is turning and with strong mainland growth (we expect a strong Regional Network Survey tomorrow), upside risks for the petroleum industries and a very tight labour market amid a working Phillips curve we think markets underestimate the pace of NB rate hikes. Indeed, NB hiking rates next week and lifting the rate path further are to us important fundamental triggers for the next leg lower in EUR/NOK. Also at the June meeting, NB sent an important signal to markets that a much stronger NOK is now justified. The currency has gone from an argument *against* rate hikes for many years to a situation where *NOK weakness in itself* is an argument for faster rate hikes. **With balanced speculative positioning and supportive technicals, we recommend selling EUR/NOK as a strategic 3M trade.**

Chart 3: Oil price measured in NOK is now close to the 'oil boom' years



Source: Bloomberg, Macrobond, Danske Bank

Chart 4: EUR/NOK has moved to the top of range: expect reversal.

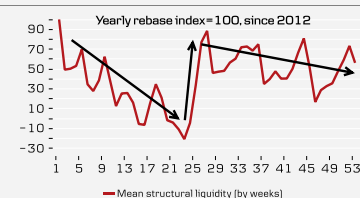


Source: Macrobond, Danske Bank

Sell EUR/NOK spot outright

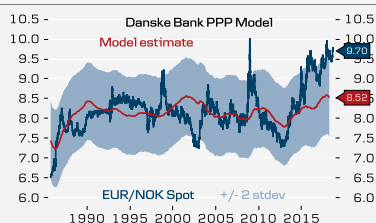
Instrument:	Spot
Entry level:	9.7125 (spot)
Soft target:	9.2200
Hard stop-loss:	10.0000

Chart 1: Structural NOK liquidity set to tighten over the rest of the year



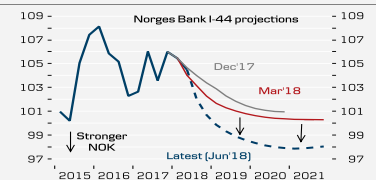
Source: Bloomberg, Macrobond Financial, Danske Bank

Chart 2: NB initiating a hiking cycle constitutes an important fundamental trigger for the overvalued EUR/NOK



Source: Macrobond Financial, Danske Bank

Chart 5: Norges Bank now signals substantial NOK strength is justified



Source: Danske Bank

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FX trading portfolio overview

Table 1: Danske Bank FX Trading Portfolio summary for 2018

	#	Cumulative Return	Average Return
Profitable	5	16.0%	3.2%
Loss-Making	2	-4.6%	-2.3%
All Trades	7	11.4%	1.6%

Source: Bloomberg, Danske Bank Markets

Table 2: Open trades

Trade	Opened	Entry	Closed	Current	PnL
Sell EUR/NOK spot outright	11/09/18	9.7125		9.7125	

Source: Bloomberg, Danske Bank Markets

Table 3: Closed trades

Trade	Opened	Entry	Closed	Close level	PnL
Short USD/RUB spot outright	05/12/17	58.7309	18/01/18	56.4990	4.4%
Long USD/SEK spot outright	22/01/18	8.0190	25/01/18	7.8450	-2.1%
Short EUR/NOK spot outright	05/03/18	9.6541	16/03/18	9.4950	1.7%
Long NOK/SEK spot outright	05/12/17	1.0144	16/04/18	1.0870	8.1%
Sell EUR/USD spot outright	17/04/18	1.2400	24/04/18	1.2203	1.6%
Sell NOK/SEK spot outright	25/05/18	1.0755	13/06/18	1.0739	0.1%
Short EUR/HUF spot outright	05/12/17	314.0400	14/06/18	322.00	-2.5%

Source: Bloomberg, Danske Bank Markets

RtM Norway FX trades overview

Table 4: Portfolio summary

	#	Cumulative Return	Average Return
Profitable	9	16.9%	1.9%
Loss-Making	1	-0.1%	-0.1%
All Trades	10	16.9%	1.7%

Source: Bloomberg, Danske Bank

Table 5: Open trades

Trade	Opened	Entry	Closed	Current	PnL
Short EUR/NOK via 3M 9.2000-9.5150-9.7500 1:1:2 bearish seagull	11/06/18	9.5150		9.7091	-0.1%
Sell EUR/NOK spot outright	11/09/18	9.7125		9.7125	

Source: Bloomberg, Danske Bank

Table 6: Closed trades

Trade	Opened	Entry	Closed	Close level	PnL
Sell EUR/NOK (sell 6M 9.4250-9.7250 risk reversal)	03/07/17	9.5200	17/07/17	9.2921	1.7%
Sell 3M NOK/SEK straddle, strike 1.0300	21/07/17	1.0216	21/10/17	1.0275	2.4%
Sell 2W NOK/SEK straddle, strike 1.0275	16/10/17	1.0280	30/10/17	1.0226	0.4%
Buy 3MEUR/NOK bullish 1:1:2 seagull (9.2000-9.3800-9.6000)	17/10/17	9.3230	29/12/17	9.8185	0.1%
Short EUR/NOK via 3M 9.4500-9.8261-10.1000 1:1:2 bearish seagull	05/12/17	9.8261	05/03/18	9.6541	1.8%
Long NOK/SEK spot outright	05/12/17	1.0144	16/04/18	1.0870	8.2%
Short EUR/NOK spot outright	05/03/18	9.6541	16/03/18	9.4950	1.7%
Sell NOK/SEK spot outright	25/05/18	1.0755	13/06/18	1.0739	0.1%
Sell 2W EUR/NOK straddle, strike 9.4900	16/07/18	9.4852	27/07/18	9.5199	0.5%

Source: Bloomberg, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Kristoffer Kjær Lomholt, Senior Analyst.

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