

# Flash Comment Denmark

## No FX intervention amid Italian political concerns

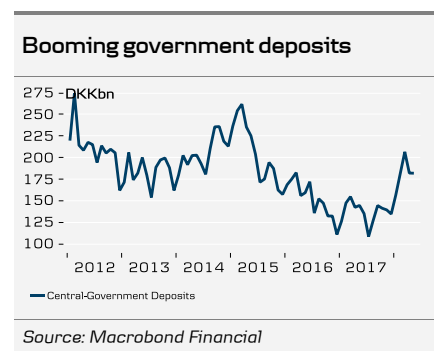
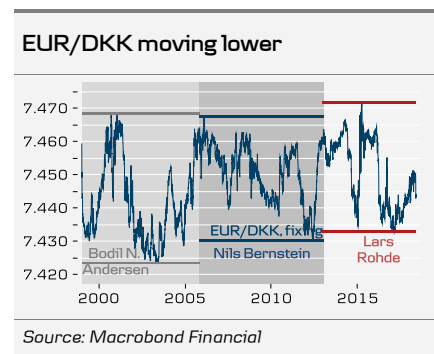
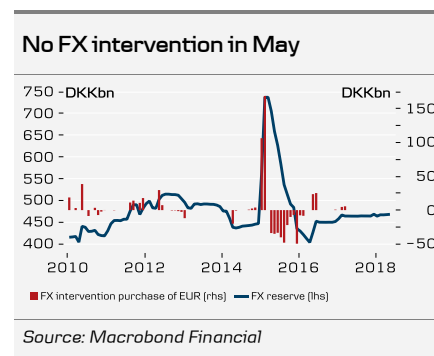
- The Danish FX reserve was DKK468bn in May – DKK1bn higher than in April. Danmarks Nationalbank (DN) did not make FX interventions in May.
- Government deposits were unchanged at DKK182bn in May.
- We forecast EUR/DKK at 7.4450 on 1-6M and 7.4425 on 12M and for DN to keep the key policy rate unchanged at minus 0.65% on 12M.

Danmarks Nationalbank (DN) has just published May's FX reserve data and central bank balance sheet. The FX reserve rose DKK1bn to DKK468bn in May. DN refrained from intervening in the FX market. Government deposits were unchanged at DKK182bn in May.

EUR/DKK dropped in May following increased political uncertainty in Italy. However, it stayed well above the level of 7.4330-40, where DN sold DKK in FX intervention in February and March last year. Hence, DN stayed on the sidelines in May amid the higher demand for DKK.

Strong public finances remain a point of focus in Denmark due to the implications both for the DKK fixed income and money markets. Government deposits were DKK182bn in May – DKK20bn and DKK38bn higher than the respective levels in May 2016 and 2017. This underlines the surprise improvement in government finances which on the one hand supports the outlook for the DKK fixed income market (see *Reading the Markets Denmark: Buybacks of DGBs and Denmark as potential safe haven - we recommend overweighting Danish risk*, 30 May), but on the other hand risks keeping DKK liquidity too tight which tends to push short-term DKK rates and EUR/DKK FX forwards higher.

We forecast EUR/DKK at 7.4450 on 1-6M and 7.4425 on 12M and for DN to keep the key policy rate unchanged at minus 0.65% on 12M.



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